CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Methodology for calculation, updates to, and evaluation of compliance with public expenditure ceilings

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Pursuant to §30aa(20) of Act No. 523/2004 Coll. on the general government budgetary rules, as amended, the methodology for the calculation of public expenditure ceilings, updates to public expenditure ceilings, and evaluation of compliance with public expenditure ceilings is prepared and published by the Council upon agreement with the Ministry of Finance. When calculating and/or updating the public expenditure ceilings, the Council follows the methodology in effect as of 1st January of the year in which the public expenditure ceilings are calculated and/or updated. In accordance with §37m(4) of Act No. 523/2004 Coll., the Council calculates and submits to the National Council (the parliament) for discussion, within 75 days after the publication of a long-term sustainability report, the public expenditure ceilings for 2023-2025 using the procedure pursuant to §30aa(3), (4), (6) and (7) on the basis of the methodology prepared and published by the Council upon agreement with the Ministry of Finance.

The aim of the methodology is to define more precisely and in advance how the legislative provisions will be applied, thus enhancing the transparency and predictability of the overall process of calculating, updating and evaluating the expenditure ceilings.

This methodology guideline presents the methodology for calculation, updates to, and evaluation of compliance with public expenditure ceilings. This obligation arises for the Council under §30aa(20) in conjunction with §37m(4) of Act No. 523/2004 Coll. on the general government budgetary rules, as amended.

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

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

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1 Introduction

An amendment to the Act on the General Government Budgetary Rules introduced the public expenditure ceilings as a key budgetary tool to achieve long-term sustainability of public finances with effect from 1st April 2022.

The Act defines the tasks for the Council for Budget Responsibility (CBR) involving the calculation, updates to, and evaluation of the compliance with the public expenditure ceilings. For this purpose, the CBR has an obligation to prepare the methodology, upon agreement with the Ministry of Finance of the Slovak Republic (Ministry of Finance), and publish it. When calculating and/or updating the public expenditure ceilings, the CBR follows the methodology in effect as of 1st January of the year in which the public expenditure ceilings are calculated and/or updated.

The goal of this document is to describe in detail the methodology regarding the expenditure ceilings and its structure corresponds to individual areas for which the CBR is responsible. Chapter 2 contains the definition of public expenditure ceilings, including reasons for exclusion of some expenditure groups. Chapter 3 describes individual steps necessary to calculate the public expenditure ceilings, including the sources of input data, as well as the exact identification of individual items. Chapter 4 contains the procedure to update the public expenditure ceilings, with the law distinguishing between a regular ceiling update and updates in extraordinary situations. Chapter 5 contains the procedure to evaluate compliance with public expenditure ceilings, including a detailed description of the factors to be considered in the assessment. Chapter 6 describes the procedures for the publication of all data used by the CBR to calculate, update, and evaluate the compliance with public expenditure ceilings in order to ensure the highest level of transparency in the area of expenditure ceilings. The last chapter, chapter 7, describes the procedure applied to the first calculation of the public expenditure ceilings in those areas where the calculation by the CBR differs from the standard procedure described in the previous chapters.

This methodology can be amended at any time upon the CBR's and/or the Ministry of Finance's proposal, following their mutual agreement.

2 Public expenditure ceilings

The public expenditure ceilings are a key operative budgetary tool to ensure long-term sustainability of public finances in accordance with the provisions of the constitutional Fiscal Responsibility Act[1]. The description of the methodology for calculation, updates to, and evaluation of compliance with public expenditure ceilings is based on the applicable wording of the Act on the General Government Budgetary Rules, in particular the provisions of its §30aa (its full wording is included in Annex 1).

2.1 Definition of public expenditure ceilings

Public expenditure ceilings are expressed using the ESA 2010 methodology, a standard accounting system used in the preparation of general government budgets in Slovakia and other European Union countries.

Ceilings are usually calculated at the beginning of a government's term, once its manifesto has been approved (Box 1, description of the calculation is included in chapter 3). Their objective is to define the basic limits for the new government, taking into account the existing condition (health) of the public finances that the new government is taking over.

The ceilings are set as an amount of money expressed in euros for each year of the government's term in office (§30aa(2)) which represents the **maximum level of expenditures**[2] which the government should not exceed in any given year[3]. The legislation also provides an option to adjust the ceilings (both upward and downward), but it can only be done in certain firmly defined situations in connection with, for example, adopted measures or extraordinary situations the effects of which are then considered in subsequent updates (see chapter 4 for details).

Box 1: Time limits for public expenditure ceilings set by law

The process of calculating the public expenditure ceilings begins at the start of a government's term when the CBR prepares, within 30 days from the approval of the government's manifesto and the vote of confidence in the government by the parliament, a baseline scenario of the development of public

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1 According to Article 2(a) of constitutional Act No. 493/2011 Coll. on fiscal responsibility, the long-term sustainability means "such a fiscal performance of the Slovak Republic under which the general government balance and the general government debt ensure that the projected changes in the general government revenues/expenditures under the baseline scenario will not bring the general government debt above the upper limit in the nearest 50 years".

2 The government may propose a general government budget with more stringent budgetary objectives, i.e., with expenditures that are below the applicable ceiling, but compliance with the ceiling is always measured against the applicable ceiling.

3 The purpose of this rule is to make sure that the fiscal policy moves within the limits set by the expenditure ceilings and that these ceilings are not exceeded. Nevertheless, a situation may occur where the spending is higher than as foreseen by the ceiling even after the exceptions permitted by law have been taken into account, in which case the sanctions provided for by law (decreasing the ceiling, explanation by the government, a vote of confidence in the government) will be applied.

finances and calculates the value of the long-term sustainability indicator (this is considered the publication of a long-term sustainability report in accordance with Article 4(1)(a) of constitutional Act No. 493/2011 Coll. on fiscal responsibility).

The baseline scenario then serves as the starting point for the CBR to calculate the public expenditure ceilings and submit them to the National Council of the Slovak Republic (the parliament) for discussion within 60 days from the approval of the government's manifesto and the vote of confidence[4] (pursuant to the first sentence of §30aa(3) of Act No. 523/2004 Coll. on the general government budgetary rules). The parliament approves the public expenditure ceilings by a generally binding resolution which is published in the Collection of Laws.

After the public expenditure ceilings for the next four years are approved, they are subject to updates. The Act specifies several situations that trigger updates and, in most cases, also provides a deadline by which the ceilings should be updated:

- The CBR updates the public expenditure ceilings each year, always by 30th June;
- If requested by the government, the ceilings are updated within 30 days from the receipt of the government's request;
- The CBR may also update the public expenditure ceilings of its own initiative without a specified time limit; such updates are triggered by an approval of a change in legislation by the parliament that affects the long-term sustainability of public finances;
- The CBR updates the public expenditure ceilings within 30 days from the publication of a forecast by the Tax Revenue Forecasting Committee if a statutory condition has been met (i.e., if the difference ascertained between the most recent revenue forecasts prepared by the committee and the assumptions used in the calculation of the ceilings is at least 3% of GDP in absolute terms);
- There are also timeframes for ceiling updates set in the event of declaration and discontinuation of an exceptional circumstance (associated with an economic downturn). If the government declares an exceptional circumstance event, the CBR updates the ceilings within 15 days from its declaration; once the exceptional circumstance event ends, the CBR updates the ceilings within 30 days from its end.

Updated public expenditure ceilings are submitted by the CBR to the parliamentary committee for finances and budget and the parliamentary committee for economic affairs which approve the updated ceilings by a generally binding resolution which is published in the Collection of Laws.

The evaluation of compliance with public expenditure ceilings for each year must be published by the CBR by 15th June of the following year.

Public expenditure ceilings apply to selected general government expenditures which should be under the government's direct control and are relevant in terms of achieving a planned general government's balance, debt development, and, hence, the long-term sustainability of public finances, as well.

4 The law also reckons with situations where the government's manifesto is not approved and no vote of confidence is taken by 30th September following the general election. To make sure that the process of preparing the general government budget is not put at risk, the CBR will calculate and publish the four-year public expenditure ceilings after this date, but the ceilings are not subject to approval by the parliament and are, therefore, not binding.

The following expenditures are excluded from the total general government expenditures, with their common denominator being that the government has no direct control over them or they have been triggered by exceptional circumstances (§30aa (1)):

- **Expenditures of local government** – local government authorities are independent in managing public finances, their fiscal management and debt generation are governed by specific budgetary rules. Since a portion of local government expenditures is funded by the central government, especially from the state budget (mainly the funding of devolved powers from the central government), this portion of expenditures is included in the ceiling.

- **Funding from the budget of the European Union, including the funding from the Recovery and Resilience Facility,** are funds with a neutral impact on the general government's balance while, at the same time, they represent an important source of funding for investments and some current expenditures in Slovakia.

- **Funds from the state budget for the funding of joint Slovakia-EU programmes** – these are funds spent on co-financing the use of EU funds. If they were limited by the expenditure ceilings, the uptake of EU funds could slow down and negatively affect Slovakia's economy. Under the law, the state budget's expenditures on the value-added tax (VAT) related to the use of the funds from the Recovery and Resilience Facility are also excluded from ceiling calculations. These funds have a neutral impact on the general government's balance since, once they are paid, they become the state's revenues from VAT.

- **Transfers to the European Union** – the amount of these funds depends on the size of the EU budget and the necessary transfers from the EU Member States for its financing and is not under the government's direct control.

- **Expenditures on general government's debt service** – are influenced by the accumulated size of the general government debt and the conditions on financial markets, and the government has no direct control over them.

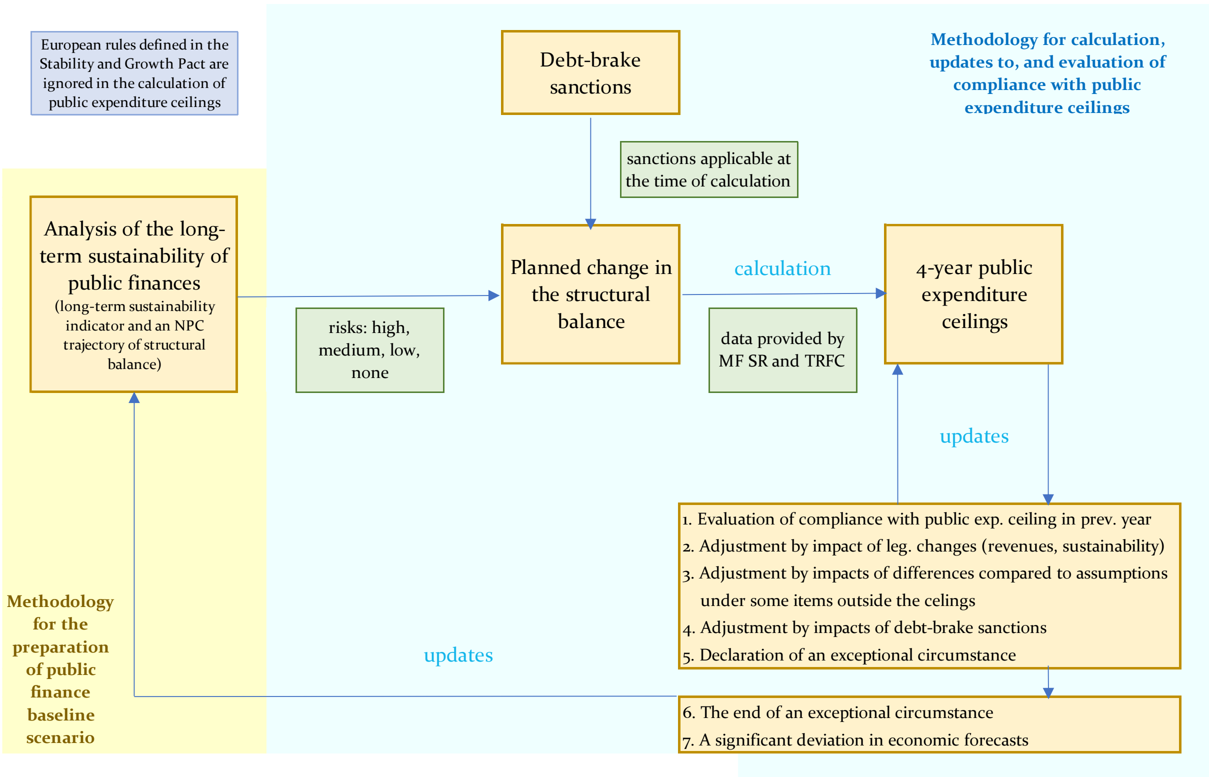
- **One-off expenditures** – expenditures with a limited duration; they may be triggered by government's measures, as well as by circumstances beyond its control. In general, these should be unforeseeable and/or exceptional expenditures. They are not included in the public expenditure ceilings due to their time-limited nature with a restricted impact on the long-term sustainability of public finances.

- **Impact of economic cycle on general government expenditures** – the public expenditure ceilings are supposed to support the government's counter-cyclical fiscal policy. Therefore, the portions of expenditures that are subject to economic cycles and serve as automatic stabilisers are excluded from the ceilings. A typical example is a cyclical component of unemployment benefit expenditures[5].

Even though the aforementioned expenditure groups are exempt from the calculation of public expenditure ceilings, their development differing from the assumptions used in the ceiling calculations will affect the resulting ceiling with a certain delay. This applies to those items that have a direct, non-negligible impact on the management of public finances, including local government expenditures, expenditures on the co-financing of EU funds, and transfers to the European Union. The reason for inclusion of their differing development is that the assumptions concerning such items used in the ceiling calculation are not forecast by independent institutions and/or committees pursuant to Article 8 of the constitutional Fiscal Responsibility Act. At the same time, their development may be influenced by factors beyond the government's control and the government should respond to it in reasonable time.

2.2 Calculating and updating public expenditure ceilings

The entire process of calculating public expenditure ceilings, including their updates, is summarised in the following scheme:



5 Looking forward, the cyclical component of expenditure could also involve support for so-called *kurzarbeit* which has been introduced since March 2022, as well as other revenue and expenditure-side items if a relevant correlation is established. The exact list of items affected by economic cycles is included in the methodology of compiling the baseline scenario for the development of public finances and determining the long-term sustainability indicator.

The entire procedure is governed by two methodologies which must be mutually consistent. The starting point is an analysis of the long-term sustainability of public finances which mainly[6] consists of preparing a baseline scenario of public finance development and a calculation of the long-term sustainability indicator. The CBR calculates the long-term sustainability indicator using the mandatory published calculation methodology[7] and assumptions in accordance with Article 7(1) of the Fiscal Responsibility Act. The calculation of the long-term sustainability indicator includes the description of how the revenue and expenditure balance of the baseline year is prepared, the rules of indexation of the development of revenue and expenditure items in the medium and long-term (assumed development under a NPC scenario), expert estimates and long-term projections of selected items mainly related to population ageing, and adjusting the general government balance for economic cycle and one-off effects.

The structural balance estimated under the baseline scenario for the years for which the ceilings are calculated and the value of the long-term sustainability indicator are used to calculate the public expenditure ceilings.

The calculation of public expenditure ceilings, their updates and evaluation of their compliance are governed by the methodology prepared pursuant to §30aa(20) of the Act on the General Government Budgetary Rules, prepared by the CBR upon agreement with the Ministry of Finance. The methodology is described in detail in the following chapters (chapter 3 to 5).

6 A long-term sustainability analysis from the point of view of solvency is used for the purposes of calculating the public expenditure ceilings. In addition, the CBR's long-term sustainability reports also discuss the stability, growth and equity dimensions.

7 The CBR published the methodology for the construction of the baseline scenario in 2015 (discussion paper No. 2/2015), with its subsequent modifications described in individual sustainability reports. The methodology for estimating the output gap and structural balance was published by the CBR in 2014 (discussion papers No. 2/2014 and No. 3/2014).

3 Calculating public expenditure ceilings

The CBR calculates the public expenditure ceilings using the items specified in the Act on General Government Budgetary Rules (§30aa(3) and (4))[8]:

- negative value of the planned structural balance of general government;
- consolidated expenditures on general government debt service;
- transfer to the budget of the European Union;
- state budget expenditures earmarked for the financing of joint Slovakia-EU programmes;
- expected fiscal performance of local governments;
- expected consolidated tax revenues, including social security contributions, adjusted for the economic cycle and one-off effects, less the corresponding revenues of local governments;
- expected consolidated non-tax revenues, grants and transfers adjusted for one-off effects, except for the funds from the budget of the European Union, less the corresponding revenues of local governments.

3.1 Value of the planned structural balance

The planned change in the structural balance links the expenditure ceilings to the long-term sustainability of public finances.

The basis for calculating the value of the planned structural balance is the baseline public finance scenario prepared by the CBR. The estimated values of the structural balance for individual years are adopted from the medium-term part of the baseline scenario which covers the same number of years for which the ceilings are calculated. They are then adjusted as required by law, i.e., by taking into account the level of risk to long-term sustainability and debt-brake sanctions specified in constitutional Act No. 493/2011 Coll. on fiscal responsibility, in order to establish the value of the planned structural balance that serves as the basis for the calculation of the public expenditure ceilings.

3.1.1 Description of baseline year estimate

The baseline scenario is based on the general government balance estimated for the baseline year which is, in the case of the public expenditure ceilings, the year of general election. Given that it is the year in which the government is replaced, it is important that it will be an independent estimate made by the CBR using clearly defined input data, principles and the procedure of its preparation. A realistic balance estimate is prerequisite to calculating realistic

[8] The procedure for calculating the public expenditure ceilings described in chapter 3 also applies in the case of calculating the public expenditure ceilings pursuant to §30aa(16), i.e., if, in a year of general election, the government manifesto is not approved and no vote of confidence is taken by 30th September following the general election. The only difference is that the ceilings are not submitted by the CBR to the parliament for approval and are only indicative for the budgeting process.

levels of public expenditure ceilings based on the rules established by law for consolidation of public finances.

Sources of data

The underlying source of data are always the most recent forecasts published by the Macroeconomic Forecasting Committee (MFC) and the Tax Revenue Forecasting Committee (TRFC) which currently prepares the forecasts for a majority of tax revenues and social security contributions of the general government, selected non-tax revenues and selected social security expenditures.

Another source of data is the public expenditure ceiling valid for a given year, with the CBR evaluating the extent of compliance and/or exceeding the given ceiling by assessing the feasibility of the general government budget approved for the given year and the current fiscal performance (based on the available reports and notifications from the State Treasury, budgetary adjustments through budgetary measures and other auxiliary sources of data, such as debt development for selected hospitals, economic performance of health insurance companies, monthly reports by the Debt and Liquidity Management Agency (ARDAL), the approved EU budget). The same source of data will also be used by the CBR when preparing an estimate of expenditure items that are not included in the public expenditure ceilings, as well as revenues not forecast by the TRFC.

Principles

The estimate prepared by the CBR will be fully consistent with the legislative framework valid at the time of approval of the government's manifesto and the vote of confidence in the government following the general parliamentary election. The reason is to make sure that the measures adopted by the new government will only be reflected in an update to the ceilings, if any, and not in the baseline scenario serving as the basis for their calculation.

The state budget act approved for a relevant year is also part of the valid legislative framework; in this case, the CBR distinguishes whether it contains legislative or non-legislative measures and whether the funds are allocated for a specific purpose or are part of a reserve and/or other expenditure group with an unspecified purpose of use.

If the state budget contains legislative measures but the relevant legislation has not been approved by the time of the general election[9], the CBR will not include such measures in its estimate. The CBR will include the approved legislative measures in its estimate in the amount of their impact[10].

9 Such a situation should not occur because an approved budget should contain the impacts of the valid legislation. In the case of tax revenues and social contributions, this requirement stems directly from the fact that the public expenditure ceilings only include those legislative revenue-side measures that have been published in the Collection of Laws and/or have pass the third reading in the parliament (see section 4.1 for details). The same approach will also be applied to other revenue and expenditure items, even though law does not directly require so.

10 The CBR wants to include a realistic estimate of the impact of a particular measure. The primary source of data will be the estimated impacts of the measures from the impact clauses after consultations with the Ministry of Finance and from the approved TRFC forecast. If an impact clause has not been updated to reflect the wording of

If the approved state budget act (prepared in compliance with the valid public expenditure ceilings) contains non-legislative measures, the CBR will consider their impact based on the current performance and any additional relevant information from the Ministry of Finance.

Since the Act on the General Government Budgetary Rules also allows for the use of expenditures (mainly capital ones) carried over from previous years in the state budget, the CBR will estimate their use based on their average rate of spending in the past.

The estimate of revenues and expenditures connected with the use of EU funds and state budget expenditures earmarked for co-financing (this also applies to the funding from the Recovery and Resilience Facility) will be consistent with the assumptions used in the MFC´s macroeconomic forecast[11]. The CBR's estimate will be based on the current development in their uptake, taking into account an average uptake rate in individual years of the past programming periods.

As far as other general government entities are concerned, the CBR's estimate will reflect their budgets that are part of the approved general government budget, factor in any identified risks and the impact of the in-year revenue and expenditure development of individual entities, as well as any additional relevant information from the Ministry of Finance.

Procedure
The CBR is obliged to discuss its baseline year balance estimate with the Ministry of Finance; the CBR will provide its estimate to the Ministry of Finance in an agreed structure to allow comparing the estimates of the two institutions. The agreed structure namely means presenting the general government revenue and expenditure balance by items of ESA 2010 classification, and the balance by items of economic classification, organisational and source classification. The Ministry of Finance will provide its estimate in the same structure, too. The purpose of consultations with the Ministry of Finance is to preserve the independence of the estimation process, on the one hand, and to take into account objective facts that have an impact on the assessment of the current budgetary situation, on the other.

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the legislation passed in the third reading in the parliament (for example, due to the adoption of amending proposals), the CBR will consult an update to the estimate with the Ministry of Finance. In the event of material differences (between the data included in the impact clause and the CBR's estimate) or a missing estimate in the impact clause, the CBR will use its own estimate (in particular for measures in the areas the CBR considers when preparing long-term sustainability reports).

[11] The full adoption of MFC assumptions into a CBR's estimate is currently impossible due to the fact that the MFC forecast is based on the actual uptake of EU funding that is not consistent with that reported in the final state budgetary account and are part of the general government revenue and expenditure balance under ESA 2010. At the same time, the MFC does not publish estimates of co-financing expenditures (only the uptake of EU funding). The consistency of the estimates will be ensured by applying identical assumptions on the rate of uptake (non-uptake) of EU funds over a programming period.

3.1.2 Baseline scenario of the public finance development

The baseline scenario of the public finance development[12] describes how the public finances would develop if they were not affected by government's interventions and their development was only subject to the applicable legislation, existing policy frameworks, economic and demographic assumptions (a so-called no-policy-change/NPC scenario). The baseline scenario for the calculation of the long-term sustainability indicator is prepared for a period of 50 years[13].

The baseline scenario for the purpose of calculating the public expenditure ceilings is prepared by defining the rules based on macroeconomic, demographic and other assumptions separately for the medium-term and the long-term part and for each correlated group of general government revenues and expenditure. The scenario is based on the estimated general government balance described in section 3.1.1 above. **The medium-term part of the baseline scenario** covers a period of four years for which the public expenditure ceilings are calculated and contains more detailed rules for the indexation of individual balance items compared to the long-term part of the scenario. **The long-term part of the baseline scenario** covers the remaining years of the 50-year period (i.e., years 5 to 50 of the balance) and its development is influenced by items linked to population ageing (universal pension system, pension system of the armed forces, health sector, long-term care, education, social benefits and benefits paid by the Social Insurance Agency) and other implicit liabilities (payments for PPP projects, nuclear installation decommissioning scheme). Remaining balance items in the long-term part are indexed by an estimated GDP growth rate, therefore, they do not contribute to changes in the long-term sustainability of public finances.

Medium-term part of baseline scenario

The sources of input data for the medium-term part of the baseline scenario are always the most recent forecasts published by the Macroeconomic Forecasting Committee and the forecast by the Tax Revenue Forecasting Committee.

All of the TRFC forecasts are adopted in the medium-term part, i.e., a majority of tax revenues and social contributions of the general government, selected non-tax revenues and selected social security expenditures. Given the definition of the baseline scenario specified by law[14], only those measures are adopted from a TRFC forecast that have been published in the Collection of Laws, measures that have been approved by the parliament and signed by the president (i.e., pending publication in the Collection of Laws), and measures that have passed the third reading

[12] Article 2(b) of Act No. 493/2011 Coll. on fiscal responsibility defines the baseline scenario as "a long-term forecast of general government revenues and expenditures which takes into account future economic and demographic developments and the current legislative framework in the Slovak Republic; liabilities of the general government also include implicit liabilities of the general government and contingent liabilities of the general government."

[13] According to Article 2(a) of the Fiscal Responsibility Act, the long-term sustainability means "such a fiscal performance of the Slovak Republic under which the general government balance and the general government debt ensure that the projected changes in the general government revenue/expenditure under the baseline scenario will not bring the general government debt above the upper limit in the nearest 50 years."

[14] The baseline scenario is defined in Article 2(b) of Act No. 463/2011 Coll. on fiscal responsibility, according to which it should reflect the current legislative framework in the Slovak Republic.

in the parliament provided that there are no doubts that the legislative change will take force and effect.

Selected macroeconomic indicators from the MFC forecasts are used to index the items of the general government revenue and expenditure balance that are affected by macroeconomic development[15].

The expenditures paid under the valid legislation (for example, social benefits) are indexed according to the rules specified in the relevant legislation. In the case of the items affected by population ageing that are not forecast by the TRFC and other implicit liabilities, the CBR's estimate is used in the medium term[16].

A medium-term forecast of debt interest payments and gross debt takes into account the latest ARDAL bond issue plan which is based on a MCF interest rate forecast and reflects the development in cash on state's accounts under this plan. A different level of the general government primary balance in the baseline scenario compared to the assumption used in the preparation of the ARDAL bond issue plan will fully reflect in an increase in both gross and net debt, as well as in an additional change in debt interest payments (using the forecast interest rate for a 10-year bond according to the MFC).

The baseline scenario does not include planned legislative and non-legislative measures as the scenario should reflect the valid legislative framework and the measures adopted by the set date.

If the baseline year estimate includes the impact of an approved measure that does not take full effect until after the end of the baseline year, its impact will be taken into account over and above the standard indexation.

The baseline scenario will also include clearly demonstrable and enforced commitments of the Slovak Republic (Slovak government) which it had made before the baseline scenario was prepared. An example of one such commitment is to increase defence sector expenditures to 2% of GDP[17].

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15 Indexation is usually done at the level of subitems of the economic classification, and the specific indicators used for individual subitems are published along with an updated methodology for the construction of the baseline scenario. In general, revenues and expenditures on goods and services are indexed by an estimated rate of inflation, wage expenditures by estimated development in nominal wages in the private sector, investments by an estimated growth rate of nominal GDP, and expenditures on subsidies and current transfers by a combination of an estimated wage growth rate and inflation, both having the same weight.

16 The procedure is described in detail in the methodology for the construction of the baseline scenario. An example is the estimate of health insurance companies' expenditures on health care which the CBR estimates, in the medium term, using the same approach as is currently used for general government budget. Based on the objectively determined expenditures, an expenditure development estimate under no change in policies (in particular taking into account automatic wage increases for health sector employees, inflationary impacts on goods and services, impacts of population ageing) is prepared and adjusted for planned measures, with the CBR assessing their feasibility.

17 The Slovak Republic is bound by numerous international commitments under bilateral or multilateral agreements the performance of which should affect the budgetary expenditures. However, their temporary or long-term non-performance is not necessarily linked to enforcement (unlike regular national laws), therefore, the way such

The baseline scenario may also include the impacts of extraordinary situations which the standard indexation procedure cannot capture and, if justified, the CBR may derogate from this procedure. An example is an estimated increase in energy prices for general government entities which may considerably exceed the estimated rate of inflation (for which the energy expenditure item would standardly be adjusted) in some period.

Calculating the long-term sustainability indicator

In order to calculate the long-term sustainability indicator, the general government balance in the baseline scenario needs to be adjusted for the impact of economic cycle and one-off effects.

An important part in estimating the cyclical component of the general government balance is an estimate of the output gap, which is calculated, for the purposes of computing the public expenditure ceilings, as an average value from the TRFC forecast, and CBR's and the National Bank of Slovakia's estimates[18]. The reason for using the average value is to enhance the objectivity of the forecast, because the output gap is not a mandatory indicator for the TRFC and is not subject to approval by its individual members.

The link between the economic cycle and the budget is ensured by a budgetary elasticity which determines the size of the impact of macroeconomic development on individual revenue and expenditure items through a so-called cyclical component. The computation of the cyclical component is based on a disaggregated method where the revenue and expenditure items sensitive to the economic cycle are linked directly to the corresponding gaps in respective macroeconomic bases through elasticity[19]. This approach allows to factor in potential changes in the structure of GDP which are especially relevant in the case of small open economies.

The Act on the General Government Budgetary Rules[20] defines **one-off effects** as revenues or expenditures of no permanent or recurrent nature that have only a temporary (limited in time) impact on the balance of the general government budget. This definition, however, is not unambiguous and does not provide a clear guidance on how to approach identification of specific one-off effects. For this reason, the CBR's methodology for the preparation of the baseline scenario of public finance development and determination of the long-term sustainability indicator defines the principles for their identification; both the government's measures and the impacts beyond its control meeting these principles (their indicative list is included in Box 2) will be considered one-off effects.

Even with these principles in place, ambiguous cases may occur in practice, which the CBR will assess on a case-by-case basis. It is therefore crucial that **individual measures be assessed by the CBR in a transparent and consistent manner over time.**

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agreements affect the budget depends on the government's decision. Including the budgetary impacts of such international commitments into the baseline scenario, for example, in the case of the defence sector, means that the fluctuation of the expenditures around the set target level (for example, due to planned large-scale purchases) directly affects the compliance with the public expenditure ceilings.

[18] The necessary condition for including the forecasts of said institutions in the average is that they must be prepared approximately in the same period, using the same data base.

[19] In general, there are two approaches to estimating the cyclical component, aggregated and disaggregated. The aggregated approach is expressed as a product of the estimated output gap and the total budgetary elasticity.

[20] §30a(1) of Act No. 523/2004 on the general government budgetary rules.

Box 2: Indicative list of principles to identify one-off effects

1. **Limited time interval of the one-off effect**

An example are financial corrections to EU funds which were considered one-off effects at the time of their first occurrence. Their one-off nature was reviewed after they had started to have regular annual impact on the general government balance of significant size.

2. **Significant size (0.05% of GDP) of the effect at least in one year**

If a particular one-off measure affects the general government balance in two successive years but exceeds the level of 0.05% of GDP in one of those years only, it is considered to have a one-off effect in both years (for example, retroactive disbursement of pensions in the armed forces from the Social Insurance Agency in 2013 and 2014, when the negative impact on the balance represented 8 million EUR and 58 million EUR, respectively).

3. **Effects should not recur, or may recur over longer time intervals only – recurring transactions are only taken into account in exceptional justified cases**

An example of recurring effects are extraordinary expenditures to address the consequences of natural disasters, such as floods, droughts (they had a significant impact in 2000 and 2010). In view of the advancing climate change, such situations may become more frequent, which could lead to reassessment of their one-off nature.

4. **Including effects beyond government's control**

For example, effects of court decisions (a fine imposed by the antimonopoly authority upheld by courts), decisions of the European Commission (recalculation of the amount of transfers to the EU budget), a sudden change in security situation abroad (migration, emergency assistance), as well as unforeseen changes in contracts for reasons outside the government's control (objective reasons for purchasing military equipment beyond the standard plan, if the shift in delivery dates of military material could result in the concentration of a significant impact on the balance in a single year).

5. **Ordinary volatile development in revenue and expenditure items is not considered a one-off effect**

Year-on-year fluctuations in the development of capital expenditures (for example, caused by postponing their drawdown to later years) are not considered a one-off effect.

6. **More stringent assessment of one-off government measures compared to other one-off effects** – assessment of one-off government measures will take into account their legal force (the Slovak Constitution and constitutional act vs other regulations), extension of the impact of a temporary measure, as well as the exceptionality of the causes to which the measure responds.

An example are the measures adopted in response to the COVID pandemic – an exceptional external circumstance, and even though the measures were adopted by regulations of a lesser legal force and repeatedly extended (First Aid), the CBR considered them one-off measures.

7. **Considering one-off methodological impacts**

An example is the payment of VAT for road infrastructure PPP projects which leads to a one-off increase in the general government revenues at the time of handover of the works, and then its pro rata share is recorded as expenditure evenly spread over the repayment period of the project, so its cumulative impact on the general government balance is zero.

3.1.3 Considering the risks of long-term sustainability of public finances

The risks of long-term sustainability of public finances are reflected in a requirement to improve the structural balance against the baseline scenario. The risk bands (§30aa(6)) are defined based on the value of the long-term sustainability indicator[21] (Tab 1). At high and medium risk, the value of the planned structural balance is set to improve the long-term sustainability indicator by 0.5% of GDP per year, at low risk by 0.25% of GDP.

If the long-term sustainability target is met at the time of the calculation of public expenditure ceilings (the long-term sustainability indicator has a negative value), the planned values of the structural balance are set in a way to maintain the long-term sustainability and keep the long-term sustainability indicator at zero in the next four years.

Tab 1: Required improvement in structural balance (% of GDP)

Long-term sustainability risk	Indicator values	Required change in indicator
high	above 5% of GDP	improvement by 0.5% of GDP a year
medium	above 1% of GDP up to 5% of GDP, inclusive	improvement by 0.5% of GDP a year
low	between 0% of GDP and 1% of GDP, inclusive	improvement by 0.25% of GDP a year
none	negative value	decreasing the indicator to zero

Source: CBR

The required improvement in the long-term sustainability indicator in the first year of the application of the ceiling is determined according to the calculated value of the long-term sustainability indicator and the level of risk. For example, if the calculated indicator value is at 1.7% of GDP (Tab 2), it means it is in the medium risk band and the value of the planned structural balance will be set so as to result in a 0.5% of GDP improvement in the long-term sustainability indicator on the given macroeconomic assumptions.

In the second year and each next year of the ceiling application, the calculated indicator is presumed to improve by the value of the required improvement in the previous year (i.e., the previous year's expenditure ceiling is expected to be met). After meeting the ceiling in the first

[21] The value of the indicator shows the amount by which public revenues need be increased and/or public expenditures need be decreased (the structural primary balance), immediately and permanently, in order to ensure that the public gross debt does not exceed 50% of GDP over the horizon of fifty years, i.e., the upper limit set by the constitutional Fiscal Responsibility Act.

two years, the long-term sustainability indicator would be at 0.7% of GDP[22], i.e., low risk, and the planned value of the structural balance for year three and four will be set so as to improve the long-term sustainability indicator by 0.25% of GDP per year.

The required improvement in the indicator is determined at the beginning of the computation of public expenditure ceilings and is not subject to review during standard updates to the ceiling (section 4.1) within the election term.

Tab 2: Calculation of the planned change in structural balance (% of GDP) – example

	T	T+1	T+2	T+3	T+4
1. Structural balance under baseline scenario	**-2.3**	**-2.2**	**-2.1**	**-1.8**	**-1.9**
2. Long-term sustainability indicator	1.7				
3. Required indicator improvement		0.5	0.5	0.25	0.25
4. Indicator if the expenditure ceiling for a given year is met		1.2	0.7	0.45	0.2
5. Planned value of structural balance		**-1.7**	**-1.1**	**-0.55**	**-0.4**

medium sustainability risk

low sustainability risk

Source: CBR

3.1.4 Considering debt ceiling sanctions (so-called debt brake)

The calculation of public expenditure ceilings also factors in any applicable sanctions triggered by overrunning a certain level of the general government gross debt to GDP ratio. Specific measures (sanctions) are listed in constitutional Act No. 493/2011 Coll. on fiscal responsibility; only those are included in the calculation of expenditure ceilings that are referred to in the budgetary rules act (Tab 3)[23]. The reason is that these sanctions include a numerical rule that can be applied when calculating the expenditure ceiling. Other debt-brake sanctions are not specified in numerical terms and/or only apply to a narrow group of expenditures and/or expenditures not covered by the ceiling[24].

Tab 3: Debt-brake sanctions factored in the calculation of public expenditure ceilings

Sanction	Reference
The government must not submit to the parliament any general government budget proposal that would entail a year-on-year nominal increase in consolidated expenditures of general government compared to the general government budget for the previous fiscal year, except for expenditures on the government debt service, EU funds, state budget funds earmarked for the financing of joint Slovakia-EU programmes, transfers to the EU budget and expenditures to remedy damages caused by natural disasters	Article 5(6)(c); Article 12(5)(c)

22 This is a simplified computation which does not consider the costs of consolidation postponement (in the first year, the size of consolidation does not equal to the whole amount required under the indicator) nor with the extension of the projection horizon.

23 This section only defines that the expenditure ceilings must reflect the requirements arising from the debt-brake sanctions, i.e., if the sanction requires that the expenditures be lower, such lower expenditures must be reflected in the ceilings in their update.

24 For example, presenting a proposal of measures to reduce debt, freezing salaries of cabinet members, not using cabinet's and prime minister's reserves, an obligation to block 3% of selected state budget expenditures. Complying with these sanctions has no impact on the overall expenditure ceilings at the general government level but affects the internal structure of expenditures.

The government must not submit to the parliament any general government budget proposal with a deficit	Article 5(7)(a); Article 12(6)(a)

Source: CBR

Reflecting these sanctions means that the calculated public expenditure ceilings must meet said conditions (either a no increase in expenditure, or a no increase in expenditure and a balanced general government budget because the sanctions are cumulative as the debt level increases). The debt-brake sanctions always apply to the next fiscal year and are determined on the basis of the debt to GDP ratio published in the current year for the previous year. It means **that the CBR only takes into account the currently applicable sanctions in its calculations.**

Anticipating the sanctions based on a debt forecast may not be accurate, especially where the forecast debt level is close to the thresholds of relevant sanction brackets. In addition, the sanctions are also affected by other factors than the size of debt alone; for example, a date of approval of the government's manifesto and vote of confidence in the government, a sudden economic downturn, the level of expenditures approved in a general government budget. **For these reasons, the CBR calculates the public expenditure ceiling that reflects the debt-brake sanctions only in year one, but not in the following years[25].**

Since these debt-brake sanctions apply to the general government budget proposal approved by the government and submitted to the parliament, they must be included in the ceiling by 15th October at the latest. If the public expenditure ceilings are calculated at an earlier date and macroeconomic and tax forecasts on which the budget proposal is based are later updated by 15th October, the calculated ceilings may not fully reflect the applicable debt-brake sanctions. Two situations may arise: 1/ **the ceiling** is more stringent than the debt-brake sanctions, or 2/ **the ceiling is insufficient** to meet the debt-brake sanctions. From this point of view, the fact that the ceilings are not up to date would only be an issue if they would permit spending more than as allowed under the debt-brake sanctions. The government would have two options in that case:

1) ask the CBR to update the ceilings[26] (more in chapter 4);
2) draw up a budget proposal containing lower expenditures than as permitted by the ceiling to satisfy the sanctions required by the debt brake (the expenditure ceiling will be updated at a later date)

[25] The CBR may indicate potential impacts of sanctions in the subsequent years of the ceiling application, but they will not be included in the approved public expenditure ceilings until they take effect (for example, when publishing the public expenditure ceiling calculated in 2022, the CBR may also indicate the impact of an obligation to prepare a balanced general government budget in 2024, but it would only become part of the binding expenditure ceiling under its update in 2023).

[26] This option is little likely to occur given the existing procedure for approving ceiling updates by two parliamentary committees, the customary deadline for publication of tax forecasts that serve as the basis for the preparation of the budget (second half of September), and the time required to finalise the general government draft budget before its adoption by the government (a draft budget approved by the government must be submitted to the parliament by 15th October at the latest, as required by law).

Final value of planned structural balance
The final value of the planned structural balance is a combination of the required improvement in the long-term sustainability indicator and the debt-brake sanctions in force. The requirement under both rules can be converted into the value of the structural balance. **The planned structural balance is then calculated each year so that it includes the more stringent value of the two requirements. The requirements under the Stability and Growth Pact are ignored from the calculation of expenditure ceilings** (Box 3)**.** The CBR indicates whether the calculated/updated ceiling complies with the Pact requirements. If the Pact includes more stringent requirements, the CBR will indicatively quantify by how much the expenditures envisaged in the draft budget should be lower than the applicable expenditure ceiling. The CBR will use the most recent fiscal data available[27] and quantified requirements under the Stability and Growth Pact[28].

Box 3: Public expenditure ceilings and the Stability and Growth Pact rules

The public expenditure ceilings represent a national rule the compliance with which should ensure long-term sustainability of Slovakia's public finances. European rules defined in the Stability and Growth Pact are also designed to ensure that Member States have sustainable public finances. Despite pursuing similar objectives, the European rules are based on different approaches to defining the long-term sustainability[29] and to quantifying numerical recommendations[30] for Member States' fiscal policies. At the same time, their enforceability, including the evaluation of their compliance, is based on the European Commission's judgment (and approval of its recommendation by the European Council).

In view of these differences, including the Stability and Growth Pact requirements in the calculation of public expenditure ceilings would lead to methodological inconsistencies and create room for unambiguous interpretation of their compliance during the preparation of the budget (European

[27] The Ministry of Finance will fully cooperate with the CBR in this calculation by sharing the most recent data on all revenues and those expenditures that are outside the public expenditure ceilings in a time limit set by law for calculating/updating the expenditure ceilings. If the government asks the CBR to update the public expenditure ceilings due to preparation of a stability programme or the budget, the most recent fiscal data may not yet be available in the 30-day limit set by law. In that case, the CBR will assess the compliance of the expenditure ceilings with the Pact rules based on available data (for example, in the case of preparation of a stability programme, some fiscal data from the general government budget approved in the previous year may be available at the time of updating the expenditure ceilings).

[28] These are requirements recommended by the European Commission under the European Semester. If these recommendations are not yet known at the time of calculating/updating the expenditure ceilings (the European Commission used to publish its fiscal policy recommendations for the next year at the end of May in the past), the CBR will indicatively specify this requirement based on the available information on the interpretation of the Pact rules.

[29] The medium-term budgetary objective under the Stability and Growth Pact reckons with one-third of future costs of population aging over an infinite horizon, while the definition of the long-term sustainability included in the constitutional Fiscal Responsibility Act says the expenditure ceilings shall reflect all estimated costs over the horizon of the next 50 years.

[30] Specifically, the structural balance and the expenditure benchmark. Both the structural balance and the requirement for its adjustment are quantified differently (the EU rules focus on its year-on-year change, the public expenditure ceilings on the change against an NPC scenario with a direct link to the long-term sustainability). The expenditure benchmark under the Stability and Growth Pact covers a different group of expenditures (including expenditures of local government and averaging investment expenditures) than the expenditure ceilings.

Commission's ex-ante perspective on compliance with the rules may differ from how the CBR would reflect those requirements in the calculation of expenditure ceilings). Since the EU rules are legally binding for Slovakia, the government should take into consideration any requirements more stringent than the applicable public expenditure ceilings when drafting a general government budget. In this case, the budget would include expenditures below the applicable expenditure ceiling. If the EU rules were more relaxed than the applicable public expenditure ceilings, the government would have to comply with the more stringent rule, i.e., the public expenditure ceilings.

If only the requirement to improve long-term sustainability indicator applies at the time of calculating the expenditure ceilings, the calculation is based on the **structural primary balance**. The calculation takes no account of the current forecast of debt interest payments[31], since the change in the long-term sustainability indicator is directly influenced by the structural primary balance (i.e., the structural balance net of interest payments) and, in addition, debt interest payments are not included in the public expenditure ceilings.

If a debt-brake sanction that requires that a balanced budget is prepared is applied, such simplification is not possible, as it also includes debt interest payments.

3.2 Other items necessary to calculate expenditure ceilings

The value of the planned structural balance computed as per section 3.1 determines by how much the expenditures may exceed the forecast level of revenues (in the case of a deficit) and, vice versa, by how much they should be lower than revenues (in the case of a surplus).

Revenues specified by law are added to a negative[32] value of the planned structural balance, divided into tax (including social security contributions) and non-tax revenues[33]. **Total consolidated general government revenues** are adjusted for the impact of economic cycle and one-off effects (which gives us the structural level of general government revenues). These adjusted revenues are then decreased by corresponding revenues of local government (subsector S.1313 under ESA 2010) since they are exempt from the expenditure ceilings, as well as revenues from the EU budget (EU funds and funds from the Recovery and Resilience Facility) because they have a neutral impact on the general government balance.

Excluded from tax revenues are shared taxes transferred to local governments (a part of revenues from the personal and corporate income tax) in the amount of the transfer to local governments. The reason is that even though they represent a central government tax revenue under ESA 2010,

31 Technically, this simplification can be done by having the CBR compute the value of the planned structural balance using the estimate of debt interest payments from the baseline scenario, and subtracting the same estimate in the next step (that is, the calculation of the expenditure ceilings). This approach will also be in line with the procedure for the calculation of public expenditure ceilings specified by law.

32 Mathematically speaking, if a deficit is planned, the expenditure ceilings increase above the forecast of adjusted revenues and where a surplus is planned, the calculated expenditure ceilings are lower compared to the forecast of adjusted revenues.

33 The division reflects the ESA 2010 methodology which is also used for the computation of the expenditure ceilings. Tax revenues are those with codes D.2, D.5, D.61 and D.91, non-tax revenues are those with codes D.3, D.4, P.11, P.12, P.131, D.7, D.92 and D.99.

they are provided to the local government in full amount to cover its expenditures. This revenue is not included in the expenditure ceilings (does not increase it) because local government expenditures are exempt from the expenditure ceilings[34]. At the same time, the size of those revenues is affected by macroeconomic development if there is no change in legislation.

Another item that is added to the calculation of expenditure ceilings is the **expected fiscal performance of local government.** The local government is defined in ESA 2010 to include all institutional units in subsector S.1313. For Slovakia, they include municipalities, higher territorial units, organisations fully or partly funded by municipalities and higher territorial units, non-profit organisations and municipal corporations, including public transport companies and healthcare facilities operated by local government.

The calculation will factor in an anticipated difference between total non-consolidated revenues and non-consolidated primary expenditures (total revenues less debt interest payments because they are exempt from the entire expenditure ceiling) reported under ESA 2010 for aforementioned institutional units of subsector S.1313.

This method of calculating the fiscal performance combined with exempting consolidated local government revenues from total revenues ensures that the public expenditures ceilings also include current and capital transfers from the central government (subsector S.1311) and social security funds (subsector S.1314) provided to local government. The only exemption are transfers for the financing of EU projects (funds from the EU budget, including the Recovery and Resilience Facility, and state budget funds for their co-financing) and the transfer of revenues from participatory taxes. **The most significant groups of transfers that are included in the expenditure ceilings are transfers to cover the costs of devolved powers from the central government and transfers from health insurance companies to healthcare facilities operated by local government.**

The public expenditure ceilings do not apply to **consolidated expenditures for general government debt service, transfers to the budget of the European Union and state budget funds earmarked for the financing of joint Slovakia-EU programmes (including VAT expenditures related to the use of funds from the Recovery and Resilience Facility),** which are, therefore, deducted from the expenditure ceilings. Their common denominator is that they are beyond the government's direct control and, in the case of co-financing, they are means to enable using EU funds, bringing an external impulse to the economy. Restricting them through expenditure ceilings could have unwanted effects on the Slovak economy.

3.3 Identifying items and sources of data

Some items that are necessary for the computation of public expenditure ceilings are of analytical nature, which requires using a transparent method and defining the principles used in their estimate. It involves calculating the structural balance in the baseline scenario (and, on

34 If a legislative change is adopted which will have an impact on the revenue from the personal income tax or on the size of its share transferred to local governments, the change will show in the expenditure ceiling update (through including the impacts of legislative changes on general government revenues).

its basis, computing the long-term sustainability indicator), including an estimate of the cyclical component of the balance and identifying one-off effects. **The CBR calculates such data based on the methodology for estimating the cyclical component of the budget and identifying one-off effects.**

A specific item are **debt interest payments of the general government** where, if **only the requirement to improve the long-term sustainability indicator is applied at the time of the expenditure ceiling calculation**, it is sufficient to **take into consideration the debt interest payments estimated by the CBR in the baseline scenario**[35]. The reason is that the long-term sustainability indicator is directly affected by the structural primary balance (i.e., the structural balance net of interest costs) and, at the same time, the debt interest payments are not included in the public expenditure ceilings. This is a simplified calculation procedure that does not change the accuracy of calculated ceilings.

If **the debt-brake sanction that requires that a balanced budget be prepared** is applied, such simplification is not possible because the budget also includes interest payments, and **the data will be sourced from the most recent Ministry of Finance's estimate based on the planned issue of debt instruments from ARDAL.**

Other items are a standard part of the general government budget which should be, for the purposes of calculating the expenditure ceilings, clearly recognizable based on the existing classifications consistently used in the budget and in reporting. Tab 4 contains a detailed description of individual items, as well as the source of data which the CBR will use when calculating the ceilings.

Tax and non-tax revenue items need be broken down according to whether they are forecast by the Tax Revenue Forecasting Committee or whether their estimate is provided directly by the Ministry of Finance. Such a breakdown is important for updating the public expenditure ceilings. At the same time, the data should be as recent as possible for the calculated ceiling to reflect the economic situation prevailing at that time. For those revenues whose estimate is provided by the Ministry of Finance, the data provided also include reasons for anticipated year-on-year development of such items.

Projections concerning **the transfer to the EU budget** are provided by the Ministry of Finance based on the most recent inputs from the European Commission, which the ministry provides to the CBR upon its request.

Projections concerning the uptake of **funds from the EU budget, state budget funds earmarked for financing joint Slovakia-EU programmes, and funds from the Recovery and Resiliency Facility**, are provided by the Ministry of Finance. These projections should be consistent with the projections contained in the most recent macroeconomic forecast by the MFC. The reason is that the drawdown of EU funds also affects macroeconomic development and, therefore, the tax revenue and social contribution forecast used for the calculation of

35 Technically, this simplification can be done by having the CBR compute the value of the planned structural balance using the estimate of debt interest payments from the baseline scenario, and subtracting the same estimate of interest payments in the next step (that is, the calculation of the expenditure ceilings).

expenditure ceilings. If the Ministry of Finance's projections deviate from those of the MFC, the ministry will provide reasons for the deviation.

Projections concerning the **fiscal performance of local government** are provided by the Ministry of Finance upon consultations with the CBR. In order to ensure objectivity of the estimate of local government fiscal performance, the Ministry of Finance, in cooperation with the CBR, will draw up a methodology for preparing this estimate, including setting a quantitative benchmark to assess how realistic the estimate is, by the end of 2023. Pending the preparation of the methodology, the same procedure as specified for the first calculation of expenditure ceilings in chapter 7 applies (i.e., a Ministry of Finance estimate explained and agreed with the CBR will be used).

If any of the data necessary for the calculation of expenditure ceilings is not provided to the CBR or if the data provided are not calculated in line with their reporting by the Slovak Statistical Office under ESA 2010, the CBR will, in such exceptional cases, substitute and/or adjust those data using its own qualified estimate[36]. This principle also applies to updating and evaluating the compliance with public expenditure ceilings if, for whatever reasons, the necessary data to be provided by another institution (e.g., the Ministry of Finance, TRFC) are not made available to the CBR[37].

Tab 4: Identification of individual items necessary for the calculation of public expenditure ceilings

Name	Identification	Source of data
1. Negative values of planned structural balance - (a+b)		
a. Structural balance under baseline scenario	pursuant to Article 2(b) of constitutional Act No. 493/2011 Coll. on fiscal responsibility	CBR
- general government balance	sector: S.13; TR-TE	CBR
- one-off effects	as per uniform principles	CBR
- cyclical component	analytical estimate	CBR
b. Change in structural balance against baseline scenario	as per rules defined by law	CBR
2. Consolidated expenditures on GG debt service	sector: S.13; ESA: D.41PAY; consolidated	CBR/MF SR**
3. Transfer to the budget of the European Union	OC: state budget; ECBC: 649005; nonconsolidated	MF SR
4. State budget funds earmarked for the financing of joint Slovakia-EU programmes (a+b)		
a. Expenditures on the co-financing of EU funds	OC: state budget; SC: "Co-financing from state budget"*; nonconsolidated	MF SR

36 GIBA, M., BUJŇÁK, V.: A constitutional analysis of public expenditure ceilings provided to the Council for Budget Responsibility in response to its request of 18th May 2022: "Calculating public expenditure ceilings (and their subsequent submission to the parliament for discussion) as a key tool to ensure the long-term sustainability cannot be inhibited by an action or inaction of other public authorities. Any approach to the contrary, i.e., no calculation made or no ceilings submitted to the parliament for discussion, would contradict the constitutional principle of protection to long-term sustainability of the state's economic performance, in support of which the Council for Budget Responsibility operates within the existing legislative framework."

37 The option for the CBR to use its own estimate of missing data does not apply in a situation where the Ministry of Finance has provided the data for a different (smaller) number of general government entities falling under the public expenditure ceilings than their number on a current list of entities according to the Statistical Register of Organisations published by the Statistical Office.

b. Expenditures on Recovery and Resilience Facility – VAT payment	OC: state budget; SC: "VAT for RRF"*; nonconsolidated	MF SR
5. Expected fiscal performance of local government (a-b)		
a. Local government balance	subsector: S.1313; ESA: TR-TE; nonconsolidated	MF SR
b. Local government debt interest payments	subsector: S.1313; ESA: D.41 PAY; nonconsolidated	MF SR
6. Expected consolidated tax revenues adjusted for one-off effects, cycle and corresponding revenues of local government (a+b-c-d-e-f)		
a. Tax revenues and social contributions of general government subject to approval by the TRFC	sector: S.13; ESA: D.2, D.5, D.61 and D.91; consolidated	TRFC
b. Other tax revenues and social contributions of general government	sector: S.13; ESA: D.2, D.5, D.61 and D.91; consolidated	MF SR
c. One-off effects	as per uniform principles	CBR
d. Impact of economic cycle	analytical estimate	CBR
e. PIT transferred to local government	OC: state budget; ECBC: 111003; nonconsolidated	TRFC
f. Corresponding revenues of local government	subsector: S.1313; ESA: D.2, D.5, D.61 and D.91; consolidated	MF SR and TRFC
7. Expected consolidated non-tax revenues adjusted for one-off effects, EU funds and corresponding revenues of local government (a+b-c-d-e)		
a. Non-tax revenues, grants and transfers of general government subject to approval by the TRFC	sector: S.13; ESA: P.11, P.12, P.131, D.3, D.4, D.7, D.92, D.99; consolidated	TRFC
b. Non-tax revenues, grants and transfers of general government	sector: S.13; ESA: P.11, P.12, P.131, D.3, D.4, D.7, D.92, D.99; consolidated	MF SR
c. One-off effects	as per uniform principles	CBR
d. Funds from the EU budget	OC: state budget; ECBC: 341; SC: "EU funds" and "RRF funds"*; nonconsolidated; spent by GG	MF SR
e. Corresponding revenues of local government	subsector: S.1313; ESA: P.11, P.12, P.131, D.3, D.4, D.7, D.92, D.99; consolidated	MF SR and TRFC
Public expenditure ceilings (1-2-3-4+5+6+7)		CBR

Note: TR – total revenues; TE – total expenditures; OC – classification by organisation; SC: classification by source; ESA: classification according to ESA2010; ECBC: economic classification of budget classification; RRF- Recovery and Resilience Facility; TRFC – Tax Revenue Forecasting Committee; PIT – personal income tax; MFC – Macroeconomic Forecasting Committee

Source: CBR

** The codes under the classification by source are annually published in the Guideline for Preparation of General Government Budget Proposal and reflected in the Ministry of Finance's Budget Information System. Particular codes falling under said groups will be provided by the Ministry of Finance and the CBR will publish them along with the calculation of public expenditure ceilings.*
*** If the debt-brake sanctions require a balanced budget, the estimates by the Ministry of Finance will be used. A CBR estimate is used in any other situation.*

The computation of public expenditure ceilings also requires additional data that are later used in the evaluation of its compliance. Namely:

- a list of entities in the S.1311 and S.1314 subsectors, for which the Ministry of Finance has provided data for the calculation of public expenditure ceilings (included in Tab 4);
- expected amounts of methodological impacts included in Tab 8[38];
- expected impacts of using unspent funds from past years;

38 These are amounts for all items included in Tab 8, except for item "Reclassification of entity to/from general government sector" broken down by items of ESA 2010 classification for the entire period for which the ceilings are calculated.

- information on whether the Ministry of Finance has, at the time of ceiling calculation, knowledge of one-off effects in the period for which the ceilings are computed and what the size of such expected one-off effects is;
- expected amounts of earmarked revenues.

For the proper evaluation of the compliance with expenditures ceilings, projections for these items that were included in the data used to calculate the ceilings need be known. **The data will be provided by the Ministry of Finance**.

3.4 Calculating expenditure ceilings beyond government's term

The law requires the CBR to also calculate the public expenditures ceilings for the years covered by the multi-annual general government budget, even where a particular year is beyond the government's current term (the second sentence of §30aa(2)). The expenditure ceiling is calculated at the date of updating the public expenditure ceilings (the second sentence of §30aa(3)).

Since the public expenditure ceilings for these years will be calculated anew at the beginning of the term of a new government, it is rather an indicative calculation that may be subject to a relatively considerable revision.

The CBR will not draw up a new baseline scenario to estimate the value of the planned structural balance for the years beyond the government's term. The calculation will be based on the then available, most recent baseline scenario prepared for the purposes of calculating the public expenditure ceilings (including the calculation of the long-term sustainability indicator). A year-on-year change in the structural primary balance in a given year under the baseline scenario will be adjusted for the required change in the structural (primary) balance in line with the level of sustainability risk and debt-brake sanctions. The value of the planned structural balance in the given year will then be calculated as a sum of the estimated level of structural balance of the current year on the assumption of meeting the valid (updated) public expenditure ceiling and its required year-on-year change. The most recent values of the items necessary to calculate the expenditure ceilings referred to in section 3.3 are added to/subtracted from the negative value of the planned structural balance.

4 Updating public expenditure ceilings

Expenditure ceilings are updated:

a) each year, by 30th June;
b) at the government's request (§30aa(9)); and
c) at the CBR's own initiative under exactly specified conditions (§30aa(11)).

The deadline for regular updates (by 30th June) has been chosen because the first results of the general government's fiscal performance for the previous year are already available at that time[39]. If more accurate data on the fiscal performance become available in October, having an impact on the expenditure ceilings, the CBR will incorporate such data in the next evaluation of compliance with the expenditure ceilings (i.e., by 30th June of the following year).

The public expenditure ceilings are also updated in extraordinary situations, such as the beginning and the end of exceptional circumstances in connection with a recorded economic downturn (§30aa(12) and (15)) and a significantly different development in tax revenues and social contributions compared to the assumptions used in the calculation of the ceilings (§30aa(10)). The updating procedure follows different rules in these cases than those applied to standard regular updates.

4.1 Standard update procedure

The law defines which items the CBR must incorporate in an annual ceiling update by 30th June, and within 30 days at the government's request[40]:

a) impacts of changes in long-term sustainability caused by legislative changes approved by the parliament;
b) impacts on the compliance with public expenditure ceilings in the previous fiscal years based on the CBR's evaluation;
c) impacts of legislative changes on general government revenue;
d) a difference between the reported amount of grants and transfers received, adjusted for one-off effects, except for the funds from the budget of the European Union, and their amount projected at the time of expenditure ceiling calculation;
e) a difference between the reported amount of tax revenues, including social contributions and non-tax revenues, adjusted for one-off effects not assessed by the committees, and their amount projected at the time of expenditure ceiling calculation;
f) a difference between the reported amount of the transfer to the budget of the European Union and its amount projected at the time of expenditure ceiling calculation;

[39] The Statistical Office publishes the first data on the general government's fiscal performance in the previous year in April (a so-called spring notification). Updated figures are published by the Statistical Office in October (a so-called autumn notification).

[40] The CBR may only initiate updates on the impacts of changes in the long-term sustainability caused by legislative changes approved by the parliament (letter a)).

g) a difference between the reported state budget funds earmarked for the financing of joint Slovakia-EU programmes and their amount projected at the time of expenditure ceiling calculation;
h) a difference between the reported fiscal performance of local government and the performance projected at the time of expenditure ceiling calculation;
i) impacts of debt-brake sanctions.

Impacts of changes in long-term sustainability (point a)
The impacts of changes in long-term sustainability are reflected in regular updates of expenditure ceilings; the CBR may also incorporate them in an update prepared of its own initiative and, upon consultations with the Ministry of Finance, in an extraordinary update any time during a year. Specifically, these are the impacts of **new legislative measures approved by the parliament with a quantifiable impact on the long-term sustainability of public finances**[41]; changes in methodology that affect the computation of the long-term sustainability indicator are ignored when updating the ceilings[42].

In general, such legislative measures include measures whose long-term impact on public finances differs from the impact in the medium term, based on the rules applicable to the preparation of a baseline scenario of public finance development.

The CBR takes into account only the measures that have been published in the Collection of Laws and the measures that have been approved by the parliament and signed by the president (i.e., pending publication in the Collection of Laws)[43]. For the sake of greater promptness, the CBR will also incorporate those measures in the ceiling update that have passed the third reading in the parliament provided that there are no doubts that the legislative change will take force and effect[44].

The reason for incorporating the impact of such measures in the ceiling update is the fact that the long-term sustainability of public finances may be improved (or worsened) by changes that will not be felt in the public finances during the government's term.

41 The CBR evaluates the overall impact of the measures on the long-term sustainability of public finances. For example, for changes in the pension system (e.g., the retirement age) not only the impact on the fiscal performance of the pension system per se is evaluated but, by assessing potential impacts on macroeconomic development, account is taken of the impacts of the measures in other areas of public finances, as well.

42 The impacts of changes in long-term sustainability on an expenditure ceiling update made in response to the approval of new legislative measures are quantified using the existing methodology and the assumptions and projections used in the latest long-term sustainability report. However, for the sake of preserving the comparability, the actual change in the methodology or in the assumptions used in the calculation of long-term sustainability is not directly reflected in the expenditure ceiling update.

43 A change is necessary in the statutes of the Tax Revenue Forecasting Committee to have uniform inputs for the preparation of the budget and calculation/update of public expenditure ceilings. According to its current statutes, a TRFC forecast include a legislative measure that has been approved by the Slovak government or that has passed into the second reading in the parliament, where it is not approved by the government.

44 A ruling by the Slovak Constitutional Court that a valid piece of legislation is unconstitutional is also considered a legislative change. At that moment, the legislation loses effect, but not validity. If the parliament fails to remedy the situation, it also becomes invalid after six months.

If the debt-to-GDP ratio is below the sanction thresholds (i.e., no debt-brake sanctions apply), the quantified impacts on the change in sustainability are reflected in the updated ceilings without restrictions. This could encourage the government to approve unrealistic changes with impacts extending beyond its term, thus creating room for additional expenditures within the public expenditure ceilings.

For this reason, a restriction was included in this provision for a situation when Slovakia's public finances face a high debt level (debt-brake sanctions are applied). In that case, the update of public expenditure ceilings will incorporate legislative measures improving the long-term sustainability indicator by not more than 0.5% of GDP (impact on the structural balance). This restriction cumulatively applies to the entire election term[45], but only covers a period of that term when the debt stays above the debt-brake sanction brackets. If the debt leaves the sanction brackets in the course of the election term, the impact of the measures approved while the debt-brake sanctions were in place on the public expenditure ceilings is not reviewed[46]. Therefore, the impacts of given measures need be monitored throughout the entire election term in order to evaluate them. If multiple measures are adopted (including those with opposing impacts on the sustainability), their cumulative impact is taken into consideration. Where a change worsens the long-term sustainability, its impacts will be reflected in a more stringent ceiling without restriction.

The impacts of legislative changes affecting the long-term sustainability are quantified by the CBR. Even though not all situations and/or legislative changes affecting the long-term sustainability can be anticipated in advance, **the CBR set the criteria to apply when assessing each change** (**Box 4**).

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45 In the case of the first expenditure ceilings calculated during the election terms for the years 2023 and 2024, account is taken of the legislative changes approved by the parliament after the Act on the General Government Budgetary Rules implementing the expenditure ceilings became effective (i.e., after 1st April 2022). If a change occurs after the public expenditure ceilings have been calculated and approved, a relief is reflected in the next ceiling update.

46 For example, if a measure is adopted that improves the long-term sustainability of public finances by 1.2% of GDP during the period for which the debt-brake sanctions apply, the updated ceilings will reflect a maximum improvement of 0.5% of GDP. If the debt falls below the debt-brake sanction brackets next year (of the same election term), the ceiling will not be updated based on that measure; i.e., the ceiling will not be relaxed for additional 0.7% of GDP.

Box 4: Methodology to consider legislative changes affecting the long-term sustainability for the purposes of calculating and updating public expenditure ceilings

The basic condition for considering the measures affecting the long-term sustainability[47] is that legislative changes have been approved by the parliament[48]. The measures adopted **through an amendment to the Constitution or by a constitutional act**[49] are only included after the relevant implementing regulations have been published in the Collection of Laws.

a) Calculating expenditure ceilings at the start of the term of a new government

During the calculation of the long-term sustainability indicator **at the start of the term of a new government**, which serves as the basis to determine the planned change in the structural balance for the calculation of public expenditure ceilings, the baseline scenario of public finance development is **always fully prepared on the basis of the valid legislative framework at the time of publication of the government manifesto and the vote of confidence in the government following the parliamentary election**[50].

b) Updating expenditure ceilings during the government's term

The impact of the measures affecting the long-term sustainability is not included in the update to expenditure ceilings **during the government's term automatically in the full extent and immediately after the publication of relevant implementing regulations in the Collection of Laws**. If multiple measures affecting the long-term sustainability are approved within a single law or regulation, **the impacts are assessed separately for individual measures based on the following criteria, depending on the legal force of the respective legislation and the moment from which they start to apply.**

[47] Any legislative measures approved by the parliament whose impact on the long-term sustainability of public finances can be quantified. These are measures having an impact on the size of general government structural revenues, general government structural expenditures, or on the long-term economic growth potential.

[48] Namely the measures that have been published in the Collection of Laws, the measures that have been approved by the parliament and signed by the president (i.e., pending their publication in the Collection of Laws), and the measures that have passed the third reading in the parliament provided that there are no doubts that the legislative change will take force and effect.

[49] The measures adopted under the Constitution or constitutional acts are usually framework ones (more generally formulated) and their impacts cannot be correctly quantified without their additional specification in an implementing regulation. In other words, where a constitutional act defines a measure that can be implemented in multiple ways, the measure cannot be included in the expenditure ceilings because it is impossible to quantify its impact.

[50] It means the baseline scenario for a new government always includes any legislation that is set to become effective in future, too.

Measures embedded in the constitutional framework and with sufficient protection of their parameters[51]	Measures not embedded in the constitutional framework
• **100%** of the negative impact or of that part of the positive impact[52] which is unquestionably protected by the Constitution is included **immediately**. If the measure (specified in an implementing regulation) has a higher positive impact[53] than as set under the Constitution: • **50%** of the constitutionally unprotected (remaining) part of the measure is included **immediately**; • **50%** of the constitutionally unprotected (remaining) part of the measure is included at the moment when the measure, in its unchanged form, starts to be **actually applied within the government's term in which it was adopted.**	• **50%** of the negative or positive impact of the measure is included **immediately**; • **50%** of the negative or positive impact of the measure is included at the moment when the measure, in its unchanged form, starts to be **actually applied within the government's term in which it was adopted.**

If a measure is **also constitutionally embedded** (directly in the Constitution or under a constitutional act), which enhances its legal force and provides sufficient protection of its parameters, the CBR immediately and fully (at 100%) **includes its impact in the updated expenditure ceilings in the extent that is clearly defined and/or protected by the Constitution** (for example, if a minimum requirement is defined, only this part is included). **Immediate inclusion** means adjusting the ceilings for the current year and the subsequent years of the government's terms regardless of whether the impact on the sustainability is positive or negative, even if the measure is set to apply after the end of the government's term.

If a measure (or its part) **is not constitutionally embedded**, that is, it has a weaker legal force, the CBR will **immediately** include the measure affecting the long-term sustainability in the updated expenditure ceiling **at 50%**; i.e., by adjusting the expenditure ceilings for the current year and the subsequent year of the government's term. **The remaining 50% of the impact can be included in the ceiling update from that year when the measure, in its unchanged form, starts to be actually applied within the government's term in which it was adopted.**

The different approach applied to the measures that are not constitutionally embedded stems from Article 55a of the Slovak Constitution which says that the Slovak Republic shall protect the long-term sustainability of its fiscal performance. This approach responds to the past experience of postponing the application of measures with positive impact on the long-term sustainability for several years into

51 The insufficient protection refers to situations where a constitutional act specifies the parameters too generally so there is too much room for their adjustment in implementing regulations in future, thus failing to ensure the real protection and permanent effective operation of the measure as (and within the limits) intended by the authors of the constitutional act.

52 For example, if a constitutional act defines the minimum requirement for the linking of the retirement age to average life expectancy (e.g., by a 70% of change in life expectancy).

53 For example, if a constitutional act defines the minimum requirement for the linking of the retirement age to average life expectancy (e.g., by 70% of change in life expectancy), but the implementing regulation goes over this minimum requirement (e.g., by 100% of change in life expectancy).

future and their subsequent cancellation or further delays. An example is the 2012 pension system reform which had postponed the linking of the retirement age to average life expectancy until 2017 and the shift from a so-called Swiss indexation of pensions to their indexation by retiree inflation until 2018. While the former measure was cancelled after three years into functioning, the latter was postponed for additional four years just before the start of its application.

In computing the impacts on the long-term sustainability indicator, the CBR does not have to take into consideration a measure that changes future requirements in a given area in an unrealistic manner compared to the current social standard[54] (for example, decreasing the old-age pension benefits by half in future) without being clearly incorporated in major system-level changes in the setting of the tax-benefit system.

Reducing the need for consolidation in the medium term linked to the adoption of measures with a long-term positive impact on public finances (by not more than 0.5% of GDP during the election term if the debt has reached the debt-brake sanction brackets) is only applied to the final impacts of the measures calculated by the CBR using the aforementioned method.

The impact of each legislative change is quantified in the units that are applied in the quantification of the long-term sustainability indicator, i.e. the percentage of GDP by which a particular legislative change contributes to the improvement or deterioration of the long-term sustainability of public finances. **This impact will be reflected in the ceiling update every year** (starting with the current year up to the last year for which the ceilings are calculated, and starting with the year when the measure becomes operational and starts having an impact on public finances within the horizon of the government's term, see more details in Box 3). The update is carried out by multiplying the amount expressed as a percentage of GDP by the current estimate of nominal GDP for the year in question[55]. If long-term sustainability has improved, the expenditure ceiling will be increased and, in case of deterioration, it will be reduced.

The quantified impact on the long-term sustainability indicator represents the value of the average annual impact of the measure, while its effects are assessed over a 50-year horizon. Illustrative examples of how the long-term effects of measures can be included in the public expenditure ceiling are provided in Annex 2).

[54] A social standard will be assessed for a group of individuals or households and with respect to all available income or entitlements arising from a given life event (for example, in the case of old-age pension this would cover the value of old-age pension entitlements for the entire period of receiving the old-age pension benefits). Account is taken not only of changes in benefit payments, but also of possible changes in taxation, especially where specifically relevant for the given group of individuals/households. Depending on the nature of the changes, the current level of social standard will usually refer to an average level over the past five years; in exceptional and justifiable cases, a shorter (if the standard was firmly set) or a longer (in the case of ambiguous/volatile level) period may be considered.

[55] The CBR will take into account the impacts of the measure in question with the most up-to-date assumptions. Although this approach is not fully consistent with the original calculation of the ceiling (based on the assumed GDP level which may differ from the reported GDP level), this inaccuracy should be relatively small. Another possible inaccuracy is that, when calculating the long-term sustainability indicator, the impacts of measures on the structural primary balance are quantified relative to potential GDP. In this situation, for an accurate calculation of the impact in current prices, potential GDP would have to be multiplied by a deflator of the potential GDP, which is a parameter that is neither forecast under normal circumstances nor observable. In order to remove this uncertainty, the most-recent estimate of nominal GDP is used in the calculation of the impact on the public expenditure ceiling.

Legislative changes affecting the long-term sustainability of public finances may also lead to changes in risk bands (and the related changes in the requirements for improving the long-term sustainability indicator). However, these changes are not reflected in the updates of the public expenditure ceiling, as the level of the long-term sustainability indicator may also be affected by other factors (updated macroeconomic and demographic projections, methodological impacts); moreover, this procedure is not even foreseen by the law. **Changes in risk bands will only be reflected in the calculation of the public expenditure ceiling at the beginning of the government's term** and in the **ceiling updates during extraordinary situations** (section 4.2)**.**

Box 5: Reflecting the legislative changes in the fully funded pillar of the pension system for the purposes of calculating and updating the public expenditure ceiling

Legislative changes in the fully funded pension pillar (second pillar) will not be taken into account when **updating the public expenditure ceiling**. These include, for example, adjusted rate of contributions, changes in the obligation for new entrants in the labour market to enter the second pillar (compulsory vs. voluntary), the opening of the second pillar to allow for a one-off extraordinary exit or entry, or possibly the abolition of the second pillar altogether.

In economic terms, the way these legislative changes affect long-term sustainability[56] is roughly neutral in the long run. **However, the 50-year horizon for evaluating long-term sustainability may be too short to properly evaluate the impacts of changes in the second pillar;** therefore, these changes will not be taken into account by the CBR when updating the expenditure ceilings. **In applying this horizon, strict evaluation may, in addition to economically inaccurate results, also suggest wrong incentives** for governments (adopting changes in the second pillar to improve the perspective for long-term sustainability in accounting terms or, on the contrary, discouraging the necessary reforms because of their negative impact on sustainability in accounting terms). For the same reasons, a similar approach is partly applied under the ESA2010 methodology where the revenue from the opening of the second pillar (transfer of savings to the Social Insurance Agency) is not treated as general government revenue (not affecting the deficit) because, simultaneously, the future liabilities of the Social Insurance Agency for the payment of pensions will increase.

However, the impact of adoption of these measures on sustainability **cannot be considered neutral on a permanent basis**, as the CBR would have to be **permanently preparing a fictitious baseline scenario for the development of public finances without these changes.** Along with the simple netting of general government revenue (even retrospectively), this could actually imply the need for (difficult) back-calculation of the amount of pensions already paid (and, therefore, recalculation of the general government expenditure). Following these revisions, it would be necessary to back calculate the amount of past deficits and the current amount of debt. Over time, these legislative changes will have to be incorporated into the baseline scenario for the development of public finances and the calculation of the long-term sustainability indicator. **These changes are always taken into account at the beginning of the new government's term in the baseline scenario during the initial calculation of the indicator, based on which the public expenditure ceilings are calculated (see Box 4 point a).**

[56] From the perspective of public finances, the principle of the second pillar (in addition to diversifying the sources of income for people in old age) is mainly to spread the costs of population ageing. In other words, an immediate and permanent decline in the Social Insurance Agency's revenues due to redirecting part of contributions to the private accounts of savers in the fully funded pension scheme (during good demographic times) is offset by a future permanent decline in the agency's expenditure for pensions paid out at a correspondingly reduced rate (during bad demographic times).

Impacts of compliance with the ceiling in previous years (point b)
In the update, the CBR will consider whether the previous year's ceiling has been complied with based on the published fiscal performance of the general government following the spring notification. The CBR will also consider whether any revisions have been made in terms of fiscal performance with an impact on compliance with the ceiling in the years preceding the previous year (only compliance with the ceilings for the years relating to the current government's term will be updated).

If the CBR finds that the **ceiling for the previous year was not complied with**, the **ceiling for the current year** (in the year of the evaluation/update) **will be reduced by the difference by which the ceiling has been exceeded.** On the other hand, if the **previous year's ceiling has been complied with** and the actual expenditure was below the level allowed by the ceiling, the **current year's expenditure ceiling will be increased by that difference.**

During a transitional period of two years from the first calculation of the ceiling at the beginning of the next election term, any difference identified in year t (based on fiscal performance in year t-1) **will only be taken into account in the ceiling update in year t+1**[57]**,** thus making room to adapt the budgeting process to a more flexible consideration of evaluation of compliance with the ceiling during its update.

The update will not be carried out if the evaluation of compliance with the ceiling (calculated for the previous government) should lead to a revision of the ceiling for the new government that was formed after the general elections. The reason is that the ceilings have already been calculated for the new government on the basis of updated assumptions.

Impacts of legislative changes on revenue (point c)
The main source of data covers the impact of revenue-side legislative measures incorporated in the approved forecast by the Tax Revenue Forecasting Committee (TRFC); however, in terms of prudency and timeliness of the ceiling, the CBR will take into account those measures incorporated in the TRFC's forecast that have been published in the Collection of Laws, as well as those approved by the parliament and signed by the president (i.e., pending publication in the Collection of Laws)[58]. For the sake of greater promptness, the CBR will also incorporate in the ceiling update also those measures from the TRFC's forecast that have passed the third

57 Assuming that the general election takes place at the beginning of 2024, the CBR will calculate, for the first time, the ceilings covering the entire election term for the years 2025 to 2028. The transitional period of two years means that the evaluation of compliance with the ceilings for the years 2025 (prepared by 15th June 2026) and 2026 (prepared by 15th June 2027) will be reflected in the ceiling update for 2027 or 2028. After the end of the transitional period, any evaluation of compliance with the ceiling for the previous year (during the election term in question and during the subsequent election terms) will be reflected already in the current year's ceiling update, e.g. compliance with the ceiling for 2027 will be reflected in the ceiling update for 2028.

58 A change is necessary in the statutes of the Tax Revenue Forecasting Committee to have uniform inputs for the preparation of the budget and calculation/update of public expenditure ceilings. According to its current statutes, a TRFC forecast includes a legislative measure that has been approved by the Slovak government or that has passed into the second reading in the parliament, where it has not been approved by the government.

reading in the parliament, provided that there are no doubts whether the legislative change[59] will take force and effect.

The impacts of those legislative measures affecting items not projected by the Committee are not incorporated in the TRFC's forecast. These include, for example, administrative fees recorded under non-tax revenues. Should the Ministry of Finance systematically monitor these legislative measures and provide their list to the CBR, while at the same time ensuring an expert assessment of their impact (at a level comparable to that of TRFC), the CBR will include the impacts of these legislative changes in the ceiling update. For the purposes of evaluating compliance with the ceiling, the Ministry of Finance will also provide an updated estimate of the impact of the measure in question. In terms of at what stage in the legislative process the measures are included in the ceiling update, the same provisions as in the previous paragraph apply.

These **changes will be reflected in the ceiling update in all years for which the measure in question had an impact**. If a measure increases tax revenue, the expenditure ceiling will also be increased and, conversely, a decline in tax revenue will translate into a lower expenditure ceiling.

Where a legislative change remains in effect for a period of time limited by law, but does not meet the principles applicable to one-off effects (e.g., the time horizon of the impact), it will be reflected by the CBR in the public expenditure ceiling up to the size of its estimated impact on the long-term sustainability indicator (based on how the impact of the measure is quantified by the TRFC). If a legislative change affects the revenues of the second pension pillar, the impacts will not be included in the ceiling update (Box 5).

Impacts of differences compared to assumptions under some items (points d to h)
These include assumptions applied in the calculation of the ceiling based on the Ministry's estimates without their feasibility having been assessed by independent institutions, while their development may be affected by factors beyond the government's control. For this reason, the actual developments in these items, as compared to the assumptions in the calculation of the ceiling, will be taken into account in the ceiling update and will be reflected in the expenditure ceiling with a time lag:

- As regards revenue from grants and transfers, the transfer to the EU budget, co-financing expenditures and the fiscal performance of local government (points (d), (f), (g), (h)), the actual development in year t-1, i.e. the reporting data, is taken into account in a manner that, **in year t, only the expenditure ceiling for the following year t+1 will be updated by the CBR.** While different developments in the relevant items in the previous year may suggest a similar trend even in the subsequent years, this may not necessarily be the case given the uneven development of these items and impacts that are beyond the government's control.

59 A ruling by the Slovak Constitutional Court that a valid piece of legislation is unconstitutional is also considered a legislative change. At that moment, the legislation loses effect, but not validity. If the parliament fails to remedy the situation, it also becomes invalid after six months.

The amount of **Slovakia's transfer to the EU budget** is affected by the decisions of the European institutions concerning the EU budget and its changes. Assuming that these decisions will permanently change the transfer paid by Slovakia, this change will be reflected by the CBR in the update of the ceilings over the entire horizon of the years for which the ceiling is calculated. The update will be carried out on the basis of data reported for year t-1 and additional information from the Ministry of Finance demonstrating a permanent change in the transfer.

- In the case of **tax and non-tax revenue not projected by the TRFC** (point (e)), in which the actual development, if it does not involve entities not included in the assumptions used in the calculation of the ceiling, will be **included in the update of the ceiling over the entire period** (year t+1 and all subsequent years)[60]. The difference between the actual development and the assumption used in the calculation is included in each year in the same amount expressed in EUR.

  At the same time, this approach requires that, in each subsequent update which is to reflect the actual development of the items, the difference from the values updated in the previous year be considered, rather than the difference from assumptions used in the calculation of the ceiling,

Taking into account the differences in the actual development of items compared to the assumptions used in the calculation of the ceiling, the key is to clearly identify the items based on data in Tab 4, while the items quantified in the update should be defined in the same way as in the calculation of the ceiling.

Should any changes occur in the items forecast by the committees during the election term, the CBR will follow the list of items forecast by the committees at the time of calculating the ceiling. The reason is that substantive comparisons should be made between the same groups of revenue/expenditure which are used as inputs in the ceiling update.

Impacts of debt-brake sanctions (point i)
If selected debt-brake sanctions defined by law are applied, their impact will be reflected in the ceiling update (Tab 3). If a situation should arise where the government would be required, under the debt-brake sanctions, to prepare a balanced general government budget proposal and, at the same time, a legislative change has been approved, improving the long-term sustainability by, for example, 0.5% of GDP, it would not be possible to include the relief from the legislative change in the ceiling update, because the requirement for a balanced budget is more stringent (and is expressed in the balance in absolute terms).

In order to include the impact of the debt-brake sanctions in the update of the public expenditure ceiling, it is necessary that the Ministry of Finance provides the most up-to-date budgetary data on all revenues and those expenditures that are outside the public expenditure

[60] This is because these items may be affected by non-legislative measures permanently increasing or decreasing revenue (e.g. changes in revenue due to an increase in ticket prices).

ceilings at the time when the ceiling update is prepared (i.e. sufficiently in advance of the publication of the updated ceiling as required by statutory deadlines).

Tab 5: Updating the public expenditure ceiling

	current year (t)	t+1	t+2	t+3	note
a) impacts of changes in long-term sustainability	✓	✓	✓	✓	a distinction is made as to whether the measure is enshrined in the constitution
b) impacts of compliance with the ceiling in previous years	✓	-	-	-	during the first two years of the next new election term, this impact will be reflected in the update for year t+1
c) impacts of legislative changes on revenue	✓	✓	✓	✓	the update is carried out for years affected by the measure
d) impacts of differences in the grants and transfers received	-	✓	-	-	
e) impacts of differences in tax and non-tax revenues not forecast by the TRFC	-	✓	✓	✓	the update in years t+1 to t+3 does not include revenue for entities not covered by assumptions during the calculation of the ceiling
f) impacts of differences in the transfer to the EU budget	✓	✓	✓	✓	if this involves a change with a permanent impact on the transfer, it is reflected as from the year of permanent impact (in other situations, the difference is reflected in year t+1)
g) impacts of differences in the co-financing expenditures	-	✓	-	-	
h) impacts of differences in the fiscal performance of local governments	-	✓	-	-	
i) impacts of debt-brake sanctions	-	✓	-	-	sanctions apply to the budget for year t+1

Source: CBR

4.2 Updating the ceiling in extraordinary situations

Extraordinary situations where the ceiling update is foreseen by law include:

a) a significant deviation in the forecasts of tax and non-tax revenues
b) the declaration and end of an exceptional circumstance

Procedure for calculating the deviation in the forecasts of tax and non-tax revenues
Significant deviations in tax and non-tax revenue forecasts from the original assumptions (by 3% of GDP) in the calculation of the public expenditure ceiling at the beginning of the election period constitute a reason for a compulsory update of the ceiling due to the significantly changed economic conditions.

Whenever a forecast is published by the TRFC, the deviations are assessed by the CBR, covering each year for which the ceiling is calculated. The deviations are adjusted for the effects of adopted legislative changes having an impact on respective revenues (based on TRFC's data) in comparison with the legislation in force when the ceiling is calculated. If the deviation reaches 3% of GDP in at least one year (which applies symmetrically, i.e. if the current estimate of tax revenues is 3% of GDP higher or lower compared to the assumption made in the calculation of the ceiling), the CBR will update the public expenditure ceiling as required by law, i.e. within 30 days of the publication of the TRFC's forecast.

The update of the public expenditure ceiling will be carried out by the CBR as specified by law in accordance with the procedure described in chapter 3. In addition to the new revenue and expenditure forecasts not included in the ceiling, the update will also reflect the current level of the long-term sustainability indicator and its corresponding baseline scenario. This is the baseline scenario compiled on the nearest date before the ceiling update, published by the CBR in accordance with the deadlines set by the Fiscal Responsibility Act[61]. However, given the exceptional nature of the situation, the CBR may prepare an extraordinary update of the baseline scenario with a view to reflecting the most recent macroeconomic assumptions[62]. The need to include the most up-to-date baseline scenario is based on the intention to capture the effects of changed economic conditions on general government revenue and expenditure as objectively as possible[63].

Procedure for updating the ceiling following the declaration of an exceptional circumstance

An exceptional circumstance is declared by the government after the Statistical Office of the Slovak Republic publishes that the gross domestic product for the previous quarter, expressed in constant prices, has declined year-on-year and, based on a MFC's forecast which follows immediately afterwards, the corresponding annual gross domestic product, expressed in constant prices, is projected to fall year-on-year. The fulfilment of this condition implies that Slovakia's economy is affected by an economic crisis.

The public expenditure ceilings are preserved even in times of crisis. Within 15 days, the CBR recalculates the ceilings by adjusting the planned change in the structural balance so that they do not cause a change in the long-term sustainability indicator. For example, if the ceilings were calculated at the beginning of the election term in a way that the structural balance would improve, when considering the medium-term risks related to the long-term sustainability, by 0.5% of GDP each year relative to the baseline scenario, no change in the structural balance relative to the baseline scenario is required during the years in which an exceptional circumstance is projected to persist based on the MFC's forecast[64] (which can be up to three fiscal years if the exceptional circumstance lasts 24 months and is not declared exactly as from

[61] The CBR publishes a long-term sustainability report (which includes a baseline scenario and a calculation of the long-term sustainability indicator) by 30th April each year and within 30 days of the approval of the government's manifesto.

[62] This procedure is not in contrast with the current wording of the constitutional act prescribing the timeframe for the CBR to publish the long-term sustainability report. The CBR may prepare an extraordinary update even outside the timeframe set by law due to changed macroeconomic conditions. This would follow the same procedure as with the first calculation of the public expenditure ceilings for 2023-2025.

[63] For example, higher revenue from taxes and social contributions may be a result of faster wage growth in the economy which translates into a stronger wage growth pressure in the general government sector, while the updated baseline scenario would also capture these effects on the expenditure side.

[64] If, according to the MFC's forecast serving as the basis for declaring an exceptional circumstance, GDP is expected to decline by at least three percentage points, the duration of the exceptional circumstance is 24 months. If the economy is projected to shrink by up to three percentage points, the exceptional circumstance will last for 12 months.

1st January). Moreover, the government has the option to surpass the calculated ceilings if this is transparently justified before the parliament with specific measures and if such an increase is approved by the parliament.

Procedure for updating the ceiling after the end of an exceptional circumstance

The end of an exceptional circumstance occurs automatically once the conditions set out in the law have been met (expiry of the 12- or 24-month period, or the date on which the Statistical Office of the Slovak Republic publishes data on the economic downturn/growth).

Once the exceptional circumstance has ended, the CBR updates the public expenditure ceilings within 30 days as specified by law in accordance with the procedure described in chapter 3. The only difference is that in the first year after the exceptional circumstance has ended, the requirement for improving the condition of public finances is half[65] that of regular economic times, thus allowing the government to react appropriately to post-crisis developments in the economy.

In addition to the new revenue and expenditure projections not included in the ceiling, the update will also reflect the current level of the long-term sustainability indicator and its corresponding baseline scenario. This is the baseline scenario compiled on the nearest date before the ceiling update, published by the CBR in accordance with the deadlines set by the Fiscal Responsibility Act[66]. However, given the exceptional nature of the situation, the CBR may prepare an extraordinary update of the baseline scenario with a view to reflecting the most recent macroeconomic assumptions[67]. The need to include the most up-to-date baseline scenario is based on the intention to capture the effects of changed economic conditions on general government revenue and expenditure as objectively as possible[68].

[65] In the case of high and medium long-term sustainability risk, the requirement to improve the long-term sustainability indicator amounts to 0.25% of GDP, and in the case of low risk, 0.125% of GDP.

[66] The CBR publishes a long-term sustainability report (which includes a baseline scenario and a calculation of the long-term sustainability indicator) by 30th April each year and within 30 days of the approval of the government's manifesto.

[67] This procedure is not in contrast with the current wording of the constitutional act prescribing the timeframe for the CBR to publish the long-term sustainability report. The CBR may prepare an extraordinary update even outside the timeframe set by law due to changed macroeconomic conditions. This would follow the same procedure as with the first calculation of the public expenditure ceilings for 2023-2025.

[68] For example, higher revenue from taxes and social contributions may be a result of faster wage growth in the economy which translates into a stronger wage growth pressure in the general government sector, while the updated baseline scenario would also capture these effects on the expenditure side.

5 Evaluation of compliance with the public expenditure ceiling

The evaluation of compliance with the public expenditure ceiling is published by the CBR by 15th June every year (§30aa(17) and (18)), which allows to take into account the fiscal performance of the general government in the spring notification published by the Statistical Office of the Slovak Republic. The time limit for the evaluation of compliance with the ceiling has been set in a way to precede the deadline for the regular ceiling update (by 30th June), because the outcome from the evaluation of compliance with the ceiling is reflected in the update.

5.1 Items taken into account in the evaluation of compliance with the ceiling

The law enumerates the items considered by the CBR when evaluating compliance with the ceiling:

a) impacts of approved legislative changes on the general government budget revenue or long-term sustainability;
b) impacts of changes in including/removing individual entities into/from the general government sector, and other effects based on the uniform methodology applicable to the European Union;
c) impacts of using unspent funds from past years;
d) one-off effects on public expenditure;
e) earmarked revenues.

Impacts of approved legislative changes (point a)
At the time of the calculation of the public expenditure ceiling (i.e. within 60 days after the approval of the government's manifesto), it is unlikely that the parliament will approve measures in this area. In case this would happen, it is necessary to compare the expected impacts of these measures with the updated impacts in the evaluation of the ceiling. When legislative changes have an impact on budget revenues, TRFC’s estimates are used as the source of data. In the case of changes affecting the long-term sustainability of public finances, the data source is based on CBR’s estimates.

Impacts of changes in including/removing individual entities into/from the general government sector, and other methodological impacts (point b)
In order to assess changes in sectoral classification, it is necessary to have available, when calculating the ceiling, a list of general government entities for which the data necessary for calculating the public expenditure ceiling have been provided, as well as a list of general government entities whose expenditures fall under the ceiling, but are not included in the data provided.

The data provided by the Ministry of Finance in the calculation of the ceiling (typically through the Ministry of Finance's Budget Information System) also includes a list of those entities for which the revenues and expenditures are included in the data. By comparing this list with the list of general government entities regularly published by the Statistical Office of the Slovak Republic (the list applicable as of the date on which the Ministry of Finance provides the data necessary for calculating the ceiling), it is possible to identify which institutional units falling under the S.1311 and S.1314 subsectors are not included in the data. When evaluating compliance with the ceiling, these are not considered within the impacts of changes in the sectoral classification, as their classification was known at the time the data were provided.

By comparing the institutional units falling under the S. 1311 and S. 1314 subsectors at the end of the year for which the ceiling is evaluated with the list used in the calculation of the ceiling, it is possible to identify changes in the sectoral classification (inclusion/removal into/from the sector) between the calculation and the evaluation of the ceiling[69]. Based on information from the Statistical Office of the Slovak Republic, the CBR will subsequently verify the reasons for changes in the sectoral classification and, when evaluating the ceiling, only those changes will be taken into account that were due to reasons beyond the government's control. For example, if a new entity has been established for the purpose of implementing the government policies (i. e. since its establishment, it has been classified in the S.1311 or S.1314 subsector) or if an entity has been reclassified into the general government sector as a result of implementing the government policies (there is a demonstrable link between the change in classification and a specific government measure), such changes will not be taken into account in the evaluation of compliance with the ceiling. The impact of changes in the sectoral classification on the public expenditure ceiling will be determined by the CBR based on the amounts of such expenditure of the entities concerned that falls under the public expenditure ceiling.

On the basis of the usual recurrent revisions made by the Statistical Office of the Slovak Republic in the general government sector, the CBR has identified a list of methodological adjustments that are affecting the level of expenditure falling under the ceiling, are outside the direct control of the government and will be taken into account in the evaluation of compliance with the ceilings. For their correct assessment, the Ministry of Finance should provide an estimated impact of these adjustments on revenue and expenditure at the time when the ceilings are calculated. In the evaluation, the assumptions will be compared with the adjustments made by the Statistical Office of the Slovak Republic as part of the deficit and debt notification. These adjustments are listed in Tab 6, including their identification in the data provided from the Ministry of Finance's Budget Information System.

[69] This also applies to transfers within the general government between subsectors falling under the ceiling (S. 1311 and S. 1314) and those outside the ceiling (S.1313).

Tab 6: Data necessary for evaluating compliance with the ceiling (EUR, impact on the level of revenue or expenditure, subsectors: S.1311 and S.1314)

Items	Identification
FISIM	
- ESA: D.41REC	ECBC: 242; OC: SB; value: accrual – cash
- ESA: D.41PAY	ECBC: 651002; OC: SB; value: accrual – cash
- ESA: P.2	ECBC: 637004; OC: SB; value: accrual - cash
Imputed social security contributions	ESA: D.6122 REC and D.1222PAY; value: consolidated
Salaries in kind	ESA: P.131 and D.11PAY; ECBC: 223002/637013; OC: SB; value: accrual - cash
Imputation of research & development	ESA: P.12 and P.5111; ECBC: 223001/711005; OC: SB; value: accrual – cash
Software	ESA: P.12 and P.5111; ECBC: 223001/711003; OC: SB; value: accrual – cash
Originals	ESA: P.12 and P.5111; ECBC: 223001/719200; OC: SB; value: accrual – cash
Estimate of the P.12 transaction	ESA: P.12 and P.5111
Nuclear decommissioning	ESA: P.12 and P.5111; ECBC: 223001/713004; OC: Javys; value: accrual – cash
VAT one-stop-shop	ESA: D.211REC, D.74REC and D.74PAY
Health insurance contributions paid by the state, recorded under health insurers' revenue	ECBC 154005; OC: health insurance companies; value: consolidated
Transfer to cover the deficit of the pension system of armed forces	ECBC 642008; OC: SB; value: consolidated
Social insurance contributions paid by the state, recorded under the Social Insurance Agency's revenue	ECBC 152005, 157005, 158005; OC: Social Insurance Agency; value: consolidated
Social insurance contributions paid by the Social Insurance Agency, recorded under the agency's revenue	ECBC 152006; OC: Social Insurance Agency; value: consolidated
Interest revenues related to the issue of state bonds	ECBC: 240, 250; OC: SB; EBA: 15 (state debt)
Green energy subsidies	
- revenue	ECBC: 132011; OC: SB; value: accrual (reduced by revenue from TRFC)
- expenditure	ECBC: 644000; OC: SB; value: accrual - cash
Earmarked revenues (point (e))	
- grants and transfers received	ECBC: 311, 315, 321, 325, 331001, 331002, 332001, 332002; value: consolidated
- revenues from the sale of products, goods and services	ECBC 223001, value: consolidated
- revenue under §17(4) of the Act on the General Government Budgetary Rules	OC: SB; SC: 72d, 72e, 72g, 72i, 72k, value: consolidated

Note: FISIM - financial intermediation services indirectly measured, ECBC- economic classification of budget classification, OC – organisational classification, SC – classification by source, SB - state budget, EBA – extra budgetary account, value - data from the Ministry of Finance's Budget Information System
Source: CBR

Methodological impacts can be broken down into several groups. The first group covers adjustments having a neutral impact on the general government balance and consist of transfers between the individual revenue and expenditure items (e.g., FISIM[70]). Because the changes affect both expenditure items that are part of the ceiling (P.2 intermediate consumption) and expenditures that are outside the ceiling (D.41PAY interest costs), this methodological impact will be reflected in the amount of adjustment when evaluating the ceiling.

The second group involves adjustments increasing the general government revenue and expenditure by the same amount, such as capitalisation of expenditure on research and development, software, originals and decommissioning of nuclear installations. It also includes imputed social security contributions (e.g., payment of social security benefits by the employer) and salaries in kind. These items affect the level of expenditure twice, firstly in the form of current expenditures which are, at the same time, simultaneously capitalised into investments (while being recorded on the revenue side as sales) or they increase wage costs. For this reason, they will be taken into account in the evaluation of compliance with the ceiling in the amount imputed by the Statistical Office of the Slovak Republic within the expenditure under the S.1311 and S.1314 subsectors.

The third group includes social security contributions paid by the state. Health insurance paid by the state for persons defined by law (e.g., the unemployed) increases both the expenditures of the state budget and the revenues of the health insurance companies. Being treated as a transaction between general government entities, it is not consolidated under the ESA2010 methodology, thus increasing the general government revenue and expenditure by the same amount[71]. The year-on-year changes in the amounts paid by the state also lead to changes in revenues and expenditures without having an impact on the general government balance. In the case of social insurance, the method of their recording under the general government revenue and expenditure is similar, except that the payments have a neutral impact on the balance, because part of the payments are routed to the second pillar of the pension scheme outside the general government sector. Therefore, in terms of methodological impacts, these payments will be taken into account up to the amount of revenue of the Social Insurance Agency.

The fourth group covers interest revenues associated with the issue of state bonds. In the event that the government issues a bond at a premium (which occurs when investors demand an interest rate lower than the bond coupon rate), the premium is recorded under revenue according to the ESA2010 methodology. Conversely, if a bond is issued at a discount (which occurs when investors demand a higher interest rate than the bond coupon rate), the discount is recorded under interest expense. Therefore, the manner in which debt-related transactions are recorded depends on how the issuer sets the coupon rate and what conditions prevail in the financial markets. Since interest expenses are not subject to the public expenditure ceiling, while interest revenues affect their size, no incentives should be created for the issuer of the debt to

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70 FISIM (Financial Intermediation Services Indirectly Measured) is an estimation of the impact of financial intermediation services on the national accounts.

71 Changes in social security contributions paid by the state are used to cover additional funding needs in the healthcare sector through public and private health insurance companies. An alternative method where a public health insurance company is additionally financed by increasing its share capital does not affect the level of general government revenue and expenditure, because the capital transfer provided from state financial assets is consolidated according to the ESA 2010 methodology. From the perspective of expenditure ceilings, both transactions should be neutral, so the changes in social contributions paid by the state will be taken into account within the methodological impacts.

increase the public expenditure ceiling (by preferring to issue bonds at a premium). For this reason, the issue of bonds at a premium will be taken into account as part of methodology impacts.

The fifth group of methodological impacts includes the consideration of the green and brown energy subsidy scheme. Despite being a consequence of the government's policy in this area, its inclusion among methodological impacts is related to the fact that, in addition to the government's subsidy policy, the level of expenditure is also influenced by developments in the market prices of electricity, which is subject to factors outside the government's control. The green and brown energy subsidy scheme is financed by electricity consumers through the system operation tariff[72] set by the Regulatory Office for Network Industries, and this revenue is recorded under tax revenues. In evaluating compliance with the ceiling, the change in expenditure in this area will be adjusted for the change in revenue (compared to the assumptions in the calculation of the ceiling), which means that the expenditure ceiling will only be affected by the balance of this scheme. Assuming that the scheme is balanced in the long term, the impact on the expenditure ceiling over the government's term will be roughly neutral.

The above list of items is not exhaustive and will be adjusted on the basis of changes in the adjustments of general government data carried out by the Statistical Office of the Slovak Republic. In addition to these transactions, a change in the method of recording the existing transactions by the Statistical Office of the Slovak Republic, which could not have been foreseen in advance when calculating the ceiling, will be treated as a methodological impact by the CBR. The reasons why any particular methodological impact has been taken into account or disregarded will be provided by the CBR.

In general, new government policies affecting the level of expenditure are not treated by the CBR as methodological impacts, as long as the level of expenditure is not affected by factors outside the control of the government. The specific cases are described in more detail in Box 6.

Box 6: Government measures and methodological impacts - examples

To clarify how to assess what can be considered a methodological impact, we provide some examples:

- Government measures implemented through entities classified outside the general government sector (most often through companies with equity participation of the state), if their impacts are channelled through general government accounts, will not be treated by the CBR as a methodological impact. This includes, for example, the potential impacts of guaranteed prices and supply of gas and electricity to households through utility companies Slovenský plynárenský priemysel (SPP) and Slovenské elektrárne (SE).
- In case the above government measures are classified outside the general government sector already at the beginning of their implementation and their reclassification would take place after a certain period of time (e.g. as a result of harmonising the approaches to the recording of such transactions across the European Union), the impact attributable to the reclassification would be considered as a methodological impact in that year for the purposes of evaluating compliance with the ceiling. After reclassification, if the public expenditure ceiling is adjusted

[72] This is a tariff per kWh of electricity consumed, paid by each electricity consumer in addition to the price of the electricity consumed.

for the expected impacts of this measure, it would become part of the public expenditure ceiling.

- The reclassification of a non-government entity into the general government sector due to measures adopted by the government (a demonstrable link exists between the change in classification and a specific government measure) is also not considered to be a methodological impact. It could be deemed a methodological impact only in a situation where such reclassification occurred for other reasons.
- The classification of SPP's super-dividends is an example of a methodological impact that would be taken into account. In spite of the risks identified by the CBR (overstatement of ordinary dividends), the Statistical Office of the Slovak Republic has been classifying super-dividends as ordinary dividends for several years. It was only after a thorough review and guidance from Eurostat that the recording of these super-dividends was revised retrospectively and changed. This adjustment would be considered a methodological impact, because the reclassification occurred for reasons on the part of the Statistical Office of the Slovak Republic.

The specific impact of the measures on the ceiling will depend on the nature of the transactions. Where expenditure is offset by an increase in revenue in the same amount, the impact on the expenditure ceiling will be neutral, because the additional expenditure is financed by changes in taxes or other revenue. If the impact of the measure is not neutral, the ceiling will be affected by the difference between recorded expenditure and revenue.

In terms of assessing the Statistical Office's decision, the April deficit and debt notification is considered provisional, i.e., in terms of assessing the methodological impacts, the first record within the October notification is decisive.

Impacts of using unspent funds from past years (point c)

Assumptions concerning the use of unspent state budget funds from past years can affect compliance with the public expenditure ceiling only in its first year. The reason is that the year preceding the first year of the ceiling falls under the previous government's ceilings and the carryovers may affect compliance with the ceiling for reasons outside the government's control[73]. However, in order to assess this factor, the Ministry of Finance needs to provide an estimate of funds carried over from the current year (from the estimate which serves as the basis for the baseline scenario in the calculation of ceilings) to the subsequent years.

In the event of carryovers during the government's term (e.g., between the second and third year of the ceiling), the carryovers will automatically be taken into account in the ceiling update. If funds are not used in one year and are carried over to the next year, the ceiling will be increased in the subsequent year (due to savings and carryovers in the previous year). On the other hand, if the amount of carryovers has decreased year-on-year (due to the fact that, during the year in question, carryovers from the previous year have been used in a greater volume), the ceiling in the following year will be reduced. **However, overrunning of the ceiling in the previous year due to the use of carryovers will not be considered as non-compliance with the ceiling, because it is one of the factors taken into account in the evaluation of compliance with the ceiling.**

[73] Compliance or non-compliance with the public expenditure ceiling in the last year of a government's term will not be reflected in the ceiling update in the first year of the new government's term, as the ceilings for the new government have been calculated under different conditions and with updated assumptions.

In terms of content, these funds represent state budget resources that are committed and released pursuant to §8 of the Act on the General Government Budgetary Rules (mainly capital expenditure). They constitute own funds of the state budget, excluding the funds from the EU budget and co-financing expenditure, as these are not included in the public expenditure ceiling. **The data necessary for the evaluation of compliance with the ceiling will be provided by the Ministry of Finance.**

One-off effects on public expenditure (point d)
This item will be assessed by comparing the initial list of one-off effects, as identified in the calculation of the ceiling, with the actual amount of one-off effects. The one-off effects on the expenditure side are related to entities falling under the ceiling (S. 1311 and S.1314). Given that a comprehensive list of potential one-off effects cannot be defined in advance (in identifying these impacts, the CBR follows the published[74] principles), it is necessary to establish a mechanism for their prior approval within the implementation of the budget (Box 7).

Box 7: One-off effects in the implementation of the budget during the year

As one-off effects do not fall under the expenditure ceiling, it is necessary to establish a mechanism for approving them during the year. This is because the entities implementing such expenditures need to be certain that they will be treated as one-off effects in the evaluation of the public expenditure ceiling. The initiative should come from the relevant entities or the government which will identify, based on the principles published by the CBR, these factors while also estimating the amount of their impacts. A clear method for identifying a particular one-off effect represents a necessary requirement.

In practice, this would involve submitting a formal request of the Ministry of Finance for an assessment of identified transactions by the CBR. As far as possible after taking into account the information provided, the CBR will issue, within a time limit of seven days, a binding reasoned opinion as to whether the transaction in question can be considered as a one-off effect in terms of compliance with the public expenditure ceilings. However, it is essential that the Ministry of Finance or other entities provide cooperation within a reasonable period of time so that the nature of the transaction under review could be clarified, otherwise the time limit would be extended accordingly.

Earmarked revenues (point e)
The law allows for exceeding the approved public expenditure ceiling during the year in the case of earmarked revenues. Where an entity generates (earmarked) revenues during the year in a greater amount than that which was anticipated when calculating the ceiling, it may use the funds which were in excess of the approved ceiling. Conversely, the failure to meet the assumptions concerning earmarked revenues (as is the case with other revenues not forecast by the TRFC) should translate into a reduction in expenditure.

The key to the correct evaluation of this factor in terms of compliance with the ceiling boils down to a clear definition of the concept of earmarked revenues and their precise identification

[74] The principles for identifying one-off effects will be comprehensively described in the methodology of construction the baseline scenario for the development of public finances and determining the long-term sustainability indicator; an indicative list of principles is provided in section 3.1.2, Box 2.

(Tab 6). According to the CBR, earmarked revenues cover **grants and transfers provided to individual entities in the S.1311 and S.1314 subsectors** (excluding EU budget funding and the funds from the Recovery and Resilience Facility)[75].

Earmarked revenues also include **revenues pursuant to §17(4) of the Act on the General Government Budgetary Rules**[76]. These revenues are related to organisations funded from the state budget and are identified based on the classification by source. In the case of transfers received from other entities under S.1311 and S.1314, these revenues are not used as inputs in the calculation of the public expenditure ceiling and are not taken into account in the evaluation of compliance with the ceiling[77].

Earmarked revenues also include **revenues from the sale of products, goods and services**[78]. For example, this is where revenues from the sale of travel tickets, admission to cultural institutions or vignettes are recorded, while a decision on a possible price increase made by an entity concerned (which is not considered a legislative measure that would be taken into account in the ceiling update automatically) would be reflected – when revenues are higher than expected – in the possibility to spend such additional revenue for expenditure in excess of the ceiling.

5.2 Calculation of compliance with the ceiling during its evaluation

In the first step of the evaluation, the CBR calculates the amount of expenditures falling under the ceiling based on officially reported data from the Statistical Office of the Slovak Republic. In the second step, the difference with the valid approved ceiling is ascertained and, in the third step, items listed by law are taken into account. As the outcome of the evaluation, the CBR indicates that the ceiling has either been complied with or exceeded. At the same time, the CBR quantifies by how many euros the actual expenditure was below the applicable ceiling or by how

75 This includes ECBC items 311, 315, 321, 325 (Domestic current and capital grants), 331 and 332 (Foreign current and capital grants), with the exclusion of those marked by the code of the source "EU funds" and "RRF funds" (specific codes falling under these groups will be published by the CBR along with the calculation of the public expenditure ceiling).

76 §17(4) of the Act on the General Government Budgetary Rules: "An organisation funded from the state budget shall also budget the revenue it expects to receive from the difference between the receipts and the costs of business activity after tax, from insurance coverage from contractual insurance or from statutory insurance, from a natural person or a legal person under separate regulations, from the Office of Labour, Social Affairs and Family under a separate regulation, from the parties to the proceedings concerning the renewal of the registration of certain land plots and the legal relations thereto. In addition to the budgeted revenue, it shall also budget the corresponding expenditure which the organisation is entitled to spend up to the amount of the budgeted revenue which it actually received. The organisation is entitled to exceed the expenditure ceiling if its revenues were higher than the budgeted revenues as per the first sentence."

77 Earmarked revenues mean the revenue with the following source codes: 72d, 72e, 72g, 72i, 72k. Revenues from the Office of Labour, Social Affairs and Family (code 72h) are also deemed part of the revenue referred to in §17(4). As this includes revenue from another general government entity, it is not used as an input for the calculation of the ceiling and, therefore, it is not taken into account in the evaluation of compliance with the ceiling.

78 Subitem 223001 of the economic classification.

many euros the ceiling was exceeded. This figure is then used as an input in the ceiling update (by 30th June).

In case the public expenditure ceiling is exceeded for the second year in a row (during a government's term), the resulting deviation in the second year[79] will be presented by the CBR also relative to the current nominal GDP[80] for that year. In accordance with the wording of the Act (§30aa(19)), if the deviation reaches at least 1% of GDP, the government is required, within 30 days of the publication of the evaluation, to ask the parliament for a vote of confidence in the government[81].

For the purposes of evaluating compliance with the ceiling, the definition of the ceiling under §30aa(1) should be followed. The procedure under paragraph 3 cannot be applied as the actual values of the structural balance or general government revenue are not reflected in the ceiling level. The items used as inputs for the calculation and their exact identification are specified in Tab 7 and follow the definition under paragraph 1. Their quantification will be performed by the CBR based on data from the Statistical Office of the Slovak Republic.

Tab 7: Evaluation of compliance with the ceiling (EUR)

Items	Identification
(+) General government expenditures	sector: S.13; ESA: TE; consolidated
(-) Expenditures of local government	subsector: S.1313; ESA: TE; consolidated expenditure less revenue from an EU source, co-financing, revenue from transfers from S.1311 and S.1314 and debt interest payments
(-) Expenditure funded from the EU budget	OC: state budget; ECBC: 600 and 700; SC: "EU funds" and "RRF funds"*; nonconsolidated; spent by GG
(-) State budget expenditures for co-financing	OC: state budget; SC: "Co-financing from state budget " and "VAT for RRF"*; non-consolidated
(-) Transfers to the European Union	OC: state budget; ECBC: 649005
(-) Expenditures on general government's debt service	sector: S.13; ESA: D.41PAY: consolidated
(-) One-off expenditures	identification based on CBR's principles
(-) Expenditures influenced by the economic cycle	cyclical component of expenditure for unemployment, CBR's estimate
1. Public expenditure ceiling – actual	
2. Approved public expenditure ceiling	

79 This is a cumulative deviation for both years, as the deviation in the first year was reflected in the ceiling update in the following year.

80 This approach may lead to inconsistencies between the calculated ceilings (based on assumed GDP) and their evaluation (deviation based on actual GDP). However, the differences should have a relatively small impact on the size of the permitted deviation, because one hundredth of the GDP level is taken into account.

81 This requirement applies to a situation where the ceiling is exceeded for the first and second year of the four-year period for which the ceilings are calculated at the beginning of the government's term. In cases where the election is held in the second half of the year, the sanction could also apply to non-compliance with the ceiling for the second and third year. The ceiling for the third year will be evaluated by the CBR by 15th June in the year in which the general election is held, with the 30-day deadline for the government expiring no later than 15th July. A vote of confidence in the government can be held in the year of general election if the government's term ends after that date.

3. Difference (1-2)	
4. Impacts of approved legislative changes	a comparison of reported figures with assumptions in the ceiling update
5. Methodological impacts	a comparison of reported figures with assumptions in the calculation of the ceiling, items from Tab 8
6. Impacts of using unspent funds from past years	a comparison of reported figures with the assumptions in the calculation of the ceiling
7. Earmarked revenues	a comparison of reported figures with the assumptions in the calculation of the ceiling
8. Differences after taking adjustments into account (3-4-5-6-7)**	

** The codes under the classification by source are annually published in the Guideline for Preparation of General Government Budget Proposal and reflected in the Ministry of Finance's Budget Information System. Particular codes falling under listed groups will be provided by the Ministry of Finance and the CBR will publish them along with the calculation of public expenditure ceilings.*

Source: CBR

*** Positive value means exceeding the ceiling, negative value means lower expenditure compared to the ceiling*

Specific adjustments have to be made in case of excluding local government expenditures. Consolidated expenditures of local government are reduced by transfers received from the state budget for the financing of joint Slovakia-EU projects (EU funds and funding from the Recovery and Resilience Facility) and their co-financing from the state budget (including VAT payment for projects under the Recovery and Resilience Facility). This adjustment implicitly assumes that the funds received have been spent at the same time and in the same amount within the local government expenditures[82]. Exclusion is necessary to avoid duplication, as EU funds and co-financing are not part of the public expenditure ceiling and are excluded altogether separately in further steps.

Another adjustment in local government expenditures consists of their reduction by the current and capital transfers received from entities of the S.1311 and S.1314 subsectors (except for the transfer of the shared tax – personal income tax), as these transfers are part of the public expenditure ceiling. As with the EU funds, these transfers are also assumed to have been spent – at the same time and in the same amount – within the local government expenditures.

The last adjustment covers reducing the expenditures of local government by their consolidated debt interest payments, as they are not part of the public expenditure ceiling and are excluded from the general government as a whole separately in the next step.

After quantifying the difference between the actual amount of expenditure falling under the public expenditure ceiling and the applicable ceiling, the CBR will take into account other factors described in section 5.1. The list of methodological impacts and how they are considered is presented in Tab 8.

[82] In terms of reporting, the principle of budget neutrality of EU funds is not monitored at the local government level (neutrality is ensured at the state budget level).

Tab 8: Methodological impacts considered in the evaluation of compliance with the ceiling

Items	Manner of consideration during evaluation
FISIM Imputed social security contributions	amounting to the difference between the reported expenditure falling under the ceiling and the assumptions when calculating the ceiling
Salaries in kind Imputation of research & development Software Originals Estimate of the P.12 transaction Nuclear decommissioning VAT one-stop-shop Health insurance contributions by the state, recorded under health insurers' revenues Transfer to cover the deficit of the pension system of armed forces	amounting to the difference between the reported expenditure and the assumptions in calculating the ceiling
Social insurance contributions paid by the state, recorded under the Social Insurance Agency's revenue Social insurance contributions paid by the Social Insurance Agency, recorded under the agency's revenue Green energy subsidy Interest revenues related to the issue of state bonds	amounting to the difference between the reported revenues and the assumptions in calculating the ceiling (due to the inclusion of the generated deficit or surplus in the ceiling)
Reclassification of entity to/from general government sector	amounting to the additional impact on consolidated general government revenue (due to the inclusion of the generated deficit/surplus in the ceiling)

Note: FISIM – Financial Intermediation Services Indirectly Measured *Source: CBR*

6 Publication of data

In addition to the final output, detailed underlying data – to be made public by the CBR with a view to ensuring transparency of the whole process – will be part of the calculation, update and evaluation of compliance with the public expenditure ceiling according to the approved methodology. Along with the published methodology, the underlying data will allow to replicate the CBR's calculation.

Calculating the public expenditure ceilings

As the **general government balance estimate in the year of the general election to the National Council of the Slovak Republic** (the parliament) serves the basis for preparing the baseline scenario for the development of public finances, the CBR will publish this estimate in the structure comprising the general government revenues and expenditures, broken down by items of the ESA2010 classification and items of economic classification, type and source classification. The estimate will also include a list of included measures in comparison with the NPC scenario for the development of public finances based on reported data of the previous year.

Another set of published data will contain the **baseline scenario for the development of public finances** over the next 50 years. This comprises the general government revenues and expenditures broken down by items of the ESA 2010 classification, items of economic classification, as well as classification based on substantive areas affected by population ageing[83]. The baseline scenario also includes an estimate of the cyclical component of the balance broken down by individual substantive items under revenues and expenditures, a list of one-off measures broken down by items of the ESA2010 classification and by items of the economic classification, the indicators used for the indexation of the individual items of the baseline scenario, as well as the calculated long-term sustainability indicator.

The **calculation of the expenditure ceilings** will also be published in a format containing active formulas allowing to replicate the calculation. The calculation will also include the source data from the CBR's outputs (from the baseline scenario) as well as source data from the Ministry of Finance and the TRFC[84].

If any of the data necessary for the calculation of expenditure ceilings is not provided to the CBR or if the data provided are not calculated in line with their reporting by the Statistical Office of the Slovak Republic under the ESA 2010 methodology, the CBR will substitute and/or adjust such data using its own qualified estimate. In such a situation, the CBR will also publish the **assumptions and calculations used in its own estimate**.

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83 This includes, for example, revenue and expenditure related to the universal pension system, pension system of the armed forces, health sector, long-term care, education expenditure, state social benefits and benefits paid by the Social Insurance Agency.

84 In this structure, the CBR published data which served as the basis for calculating the indicative public expenditure ceilings for the years 2023 and 2024 for the purposes of the Stability Programme of the Slovak Republic for the years 2022 to 2025.

Updating the public expenditure ceilings
The CBR will publish the calculation of **updated expenditure ceilings** in a format containing active formulas which make it possible to replicate the calculation. The calculation will also include source data from the CBR's outputs (quantification of the impacts of legislative measures on long-term sustainability, evaluation of compliance with the ceiling for the previous year), as well as source data from the Ministry of Finance, TRFC (impacts of revenue-side legislative measures, supporting documents for the quantification of the impact of the debt-brake sanctions) and the Statistical Office of the Slovak Republic (reported amounts of selected revenues and expenditures to be taken into account in the update).

In the case of **quantification of the impacts of legislative changes affecting long-term sustainability**, the CBR will publish a detailed calculation, including the assumptions and a description of the methodology used.

In the event that any of the data necessary for the ceiling update has been calculated by the CBR (due to missing data), the CBR will also publish the **assumptions and calculations used in its own estimate**.

Evaluation of compliance with the public expenditure ceiling
The CBR will publish the calculation, which served as the basis for **evaluating compliance with the public expenditure ceiling**, in a format containing active formulas which make its replication possible. The calculation will include source data from the CBR's outputs (quantification of the impacts of legislative measures on long-term sustainability, a list of one-off impacts), as well as source data from the Ministry of Finance and the TRFC (impacts of the revenue-side legislative measures, data concerning the use of unspent funds from past years) and the Statistical Office of the Slovak Republic (general government revenue and expenditure balance based on the latest Eurostat notification). The published data will also include a comparison of the reported data with the assumptions used in the calculation of the ceiling in terms of methodological impacts and earmarked revenue.

If an entity has been **reclassified to/from general government sector** without the CBR taking this fact into account as part of the methodological impacts, the CBR will publish a justification. In the case of inclusion in methodological impacts, the CBR will publish a calculation of the size of the methodological impact and the underlying data used for the calculation.

In the case of **quantification of the impacts of legislative changes affecting long-term sustainability**, the CBR will publish a detailed calculation, including assumptions and a description of the methodology used.

In the event that any of the data necessary for evaluating compliance with the ceiling has been calculated by the CBR (due to missing data), the CBR will also publish the **assumptions and calculations used in its own estimate**.

7 Specific provisions of the methodology for the first calculation of the ceiling for the years 2023 to 2025

The first calculation of the public expenditure ceilings for the years 2023 to 2025 is also subject to the transitional provisions of the Act on the General Government Budgetary Rules (§37m). The provisions contain specific measures arising from the fact that the ceilings are calculated for the first time in the middle of the election term and that there is an objective need for testing them during the budgeting process. Another specific feature of the first calculation of the ceilings is that they are calculated until 2025, i.e., beyond the horizon of the current election term. The reason is that the ceiling is to be calculated for the entire horizon of the forthcoming general government budget for the years 2023 to 2025.

The CBR is required to calculate the public expenditure ceilings within a time limit of 75 days after the publication of a long-term sustainability report[85]. This time limit was not met due to the fact that no agreement on the methodology has been reached within the deadline. The CBR will calculate the ceilings as soon as an agreement on methodology is reached with the Ministry of Finance. The calculated ceilings are approved by the parliament in a resolution which is not published in the Collection of Laws. The same procedure applies to the update of the ceilings approved by the parliamentary committee for finances and budget and the parliamentary committee for economic affairs.

The only difference from the standard procedure for calculating the ceiling set out in chapter 3 is that legislative changes affecting the long-term sustainability of public finances are to be taken into account already when calculating the ceiling. From the CBR's point of view, these changes are those that have been approved by the parliament and published in the Collection of Laws since the entry into force of the amendment to the Act on the General Government Budgetary Rules implementing the expenditure ceilings (i.e., after 1st April 2022).

Given the above specific aspects, there are certain methodological differences which apply to the calculation and update of the public expenditure ceiling, as described below.

Construction of the baseline scenario and calculation of the long-term sustainability indicator
Pursuant to the constitutional Fiscal Responsibility Act, the CBR published a long-term sustainability report[86] (including the calculation of the long-term sustainability indicator) on 30th April 2022, containing – as the starting point for the calculation of the public expenditure ceiling for the years 2023 to 2025 – a baseline scenario based on the estimate of the general government balance in 2022.

Given that the above report was prepared on the basis of TRFC's forecast of March 2022, which captured only the initial estimates of the impacts of the war in Ukraine on the Slovak economy, while substantial changes in macroeconomic assumptions have occurred since then, the **CBR**

85 As the RRZ published the long-term sustainability report on 30th April 2022, the 75-day period ended on 14th July 2022.

86 CBR, Report on the Long-term Sustainability of Public Finances for 2021, April 2022

will prepare an update of the baseline scenario. Based on the updated baseline scenario, the CBR will subsequently calculate the public expenditure ceiling for the years 2023 to 2025.

For the preparation of the **medium-term part of the baseline scenario (including the estimate of the balance in the base year), the forecasts from the September meeting of the MFC and the TRFC will be used**. The baseline scenario will reflect the **valid legislative framework** as of the date of its preparation, i.e., including the measures published in the Collection of Laws (or approved by the parliament in the third reading, with a high probability of being signed by the President) **by 13th December 2022**. Given the need for calculating the public expenditure ceiling and its approval by the parliament by the end of 2022, the CBR will not take into account – neither in its calculation, nor in its update – any additional measures approved by the parliament by the end of the year.

The baseline scenario will be based on the estimated general government balance for 2022. The importance of a realistic estimate of the 2022 balance is underlined by the fact that its level also affects the development of the structural balance in the medium term. Given that this is the first calculation of the ceilings which are unusually calculated in the middle of the election term, a unique approach to preparing this estimate has been chosen following an agreement with the Ministry of Finance. The estimate will reflect the legislative framework established by the approved state budget act for 2022 and the ensuing up-to-date estimate for the spending of expenditures by the Ministry of Finance, as well as the data on the current progress in the spending of expenditure in the state budget and the relevant general government entities funded from the state budget. If the state budget contains measures that foresee a change in legislation, their impacts will be included in accordance with the valid legislative framework. The estimate will take into account the implementation of revenues and expenditures for the first eight months of 2022 (in the case of local governments, the data for two quarters and, in the case of the state budget, also the preliminary data for September 2022).

If the 2022 estimate includes legislative changes, the impacts of which will become fully apparent only in later years, these developments will be included in the medium-term part of the baseline scenario. In the case of non-legislative measures with this type of assumed impact, the CBR will consider their inclusion in the medium term on the basis of a justification provided by the Ministry of Finance[87].

As the public expenditure ceilings are calculated for the first time in the middle of the election term, the preparation of the **baseline scenario for the calculation of the ceilings for the years 2023 to 2025** assumes that an **agreement between the CBR and the Ministry of Finance be reached in the following three areas**:

- an estimate of the general government balance in 2022 as the base year;
- indexation mechanisms used to estimate the development of public finances under the no-policy-change scenario; and

[87] The decisive fact is the nature of the measure, i.e., to what extent, even based on past experience, the adoption of such a measure will generate likely expenditures even in the future (a typical example is a wage increase supported by a decision only for 2022 only and is not related to one-off effects).

- inclusion of additional measures (approved until 1st July 2022, with carryovers to other years, or impacts (if any) outside the government's control, such as rising energy costs) beyond the assumption under the no-policy-change.

Calculating the public expenditure ceilings
The CBR calculates the public expenditure ceiling in accordance with the procedure specified in chapter 3. The CBR will use the data necessary for calculating the ceiling from the baseline scenario for the development of public finances, from the TRFC's September forecast (forecast of tax and non-tax revenues), whereas other data (tax and non-tax revenues not forecast by the committee, assumptions concerning the spending of EU funds, co-financing expenditure and the transfer to the EU budget, fiscal performance of local government) will be provided by the Ministry of Finance. As regards the estimate of fiscal performance of local government, the estimate by the Ministry of Finance will be used after consultation and agreement with the CBR.

Where a legislative change affecting the long-term sustainability of public finances is approved in the parliament by the closing date for the preparation of the baseline scenario, this change will be included in the baseline scenario. Pursuant to the provisions of the Act (§37m (6)), its impact on the long-term sustainability indicator is to be taken into account during the calculation of the ceiling (positive impact up to a maximum of 0.5% of GDP at the time when the debt brake sanctions are applied)[88]. The method of incorporating the changes is illustrated in Annex 2.

Updating the public expenditure ceilings
Public expenditure ceilings are updated in line with the procedure described in chapter 4. The only difference is the way in which the impacts on compliance with the public expenditure ceilings in the previous fiscal years based on the CBR's evaluation are taken into account. Given the testing phase of ceilings, any difference identified in year t (based on fiscal performance results in year t-1) will be taken into account in the update of the ceiling for year t+1 due to building the implementation capacity during the launch of expenditure ceilings.

[88] When calculating the public expenditure ceilings at the beginning of the government's term, these impacts are not taken into account in accordance with the legislation, as the baseline scenario includes the legislation in force at the date of approval of the new government's manifesto.

Annex 1 – Current wording of the Act

The rules for calculating, updating and evaluating compliance with the public expenditure ceiling are laid down in §30aa and §37m of Act No. 523/2004 Coll. on the General Government Budgetary Rules, as amended.

§30aa
Public expenditure ceiling

(1) Public expenditure ceilings are a key budgetary tool to ensure long-term sustainability.[42aba]) The public expenditure ceilings represent the maximum amount of the total accrued consolidated general government expenditure under uniform methodology applicable to the European Union and are determined in accordance with paragraph 3 and expressed as an amount; the public expenditure ceiling does not apply to local government expenditure, funds from the EU budget and funds from the state budget earmarked for the financing of joint Slovakia-EU programmes, transfers to the European Union, expenditures for general government debt service, one-off expenditures, and the impact of the economic cycle on the general government expenditure. Funds from the Recovery and Resilience Facility are also deemed funds from the budget of the European Union.

(2) The public expenditure ceiling is set for each fiscal year of the relevant election term of the National Council, starting from the year following the year in which the government's manifesto was approved and the vote of confidence in the government was passed following the general election. If the public expenditure ceiling is not determined in accordance with the first sentence for all the years for which the general government budget is prepared, the Council for Budget Responsibility (hereinafter referred to as the "Council") shall calculate the public expenditure ceiling for each year for which the general government budget is prepared.

(3) The public expenditure ceiling under paragraph 1 and the first sentence of paragraph 2 shall be calculated by the Council and submitted to the National Council for discussion within 60 days after the approval of the government's manifesto and vote of confidence in the government following the general election. The Council shall calculate the public expenditure ceiling under the second sentence of paragraph 2 within the time limit for updating the public expenditure ceiling under paragraph 9 and shall submit it to the parliamentary committee for finances and budget and the parliamentary committee for economic affairs. The public expenditure ceiling is calculated from the negative value of the planned general government balance adjusted for the impact of the economic cycle and for one-off effects (hereinafter referred to as the "structural balance"), minus the consolidated expenditures for general government debt service, the transfer to the EU budget and the state budget funds earmarked for the financing of joint Slovakia-EU programmes, and plus

a) the expected fiscal performance of local government;

b) the expected consolidated tax revenues, including social security contributions, adjusted for economic cycle and one-off effects;
c) the expected consolidated non-tax revenues, grants and transfers adjusted for one-off effects, except for the funds from the budget of the European Union.

(4) The revenues referred to in paragraph 3(b) and (c) shall be reduced by the corresponding local government revenues.

(5) As part of the public expenditure ceiling, the reserves which are increasing over time shall be mandatorily budgeted in a manner that ensures the coverage of unforeseen budgetary impacts.

(6) The long-term sustainability indicator[42abb]) shall be the starting point for determining the value of the planned structural balance, taking into account the degree of risk associated with long-term sustainability as per the second and third sentence. For each fiscal year of the relevant election term of the National Council, starting from the year following the year in which the government's manifesto was approved and the vote of confidence in the government was passed following the general election, the Council shall calculate the value of the planned structural balance so that the long-term sustainability indicator improves by 0.5% of gross domestic product at high and medium risk concerning long-term sustainability and by 0.25% of gross domestic product at low risk. If the fiscal performance of the Slovak Republic is sustainable in the long term, the Council shall calculate the value of the planned structural balance so that the long-term sustainability indicator is zero in each fiscal year. The value of the planned structural balance shall be calculated in a way that the measures to be applied under a separate regulation are taken into account.[42abc])

(7) If, as a result of the procedure under paragraph 6, the value of the planned structural balance improves to a structural surplus level of more than 0.5% of gross domestic product, the structural balance improvement shall be determined in a manner that the structural surplus does not exceed 0.5% of gross domestic product.

(8) The public expenditure ceiling is approved by the National Council for the next four years by a generally binding resolution which is published in the Collection of Laws of the Slovak Republic. Throughout the period of application of measures pursuant to a separate regulation[42abd]), an amending or supplementing proposal having the effect of exceeding the public expenditure ceiling can only be submitted during the debate on draft laws in the plenary of the National Council if it had been discussed by parliamentary committees. The government is required to bring the general government budget proposal in line with the applicable public expenditure ceiling. Where the government has submitted to the National Council a general government budget proposal that exceeds the applicable public expenditure ceiling while no amending or supplementing proposal was approved during the parliamentary debate with a view to bringing the general government budget proposal in line with the applicable public expenditure ceiling, the government shall withdraw such proposal and, within 30 days, submit

another general government budget proposal that does not exceed the applicable public expenditure ceiling.

(9) The Council shall calculate the updated public expenditure ceiling by 30th June of the fiscal year and within 30 days of the delivery of the government's request to update the public expenditure ceiling. When updating the public expenditure ceiling, it shall be adjusted for

a) the impacts of changes in long-term sustainability induced by legislative changes approved by the National Council; where measures pursuant to a separate regulation[42abd]) are applied and the overall impacts of these legislative changes improve the long-term sustainability indicator, their impact on the structural balance over the relevant election term shall be taken into account in the public expenditure ceiling update only up to a maximum of 0.5% of gross domestic product; this shall be without prejudice to the provision of the last sentence in paragraph 6;
b) the impacts of compliance with the public expenditure ceiling in the previous fiscal years based on the evaluation as per paragraph 17;
c) the impacts of legislative changes on general government revenue;
d) the difference between the reported amount of grants and transfers received, adjusted for one-off effects, except for the funds from the budget of the European Union, and their projected amount as per paragraphs 3 and 4;
e) the difference between the reported amount of tax revenues, including social security contributions and non-tax revenues, adjusted for one-off effects not assessed by the committees pursuant to a separate regulation[18d]), and their projected amount as per paragraphs 3 and 4;
f) the difference between the reported amount of the transfer to the budget of the European Union and the projected amount as per paragraph 3;
g) the difference between the reported state budget funds earmarked for the financing of joint Slovakia-EU programmes and their projected amount as per paragraph 3;
h) the difference between the reported fiscal performance of local government and the projected fiscal performance of local government as per paragraph 3(a);
i) the effects of measures pursuant to a separate regulation[42abc]).

(10) The Council shall update the public expenditure ceiling within 30 days of the date of publication of the forecasts prepared by the committees pursuant to a separate regulation1[18d]), if the difference between the actual revenue forecasts prepared by the committees pursuant to a separate regulation1[18d]) and the projected amount as per paragraph 3 is found to be at least 3% of gross domestic product in absolute terms in one year, and shall do so by applying the procedure under paragraphs 3, 4, 6 and 7.

(11) The Council may carry out an extraordinary update of the public expenditure ceiling even after legislative changes affecting long-term sustainability have been approved by the National Council; where the measures pursuant to a separate regulation[42abd]) are applied and the overall impacts of these legislative changes improve the long-term sustainability indicator, their impact on the structural balance over the

relevant election term shall be taken into account in updating the public expenditure ceiling up to a maximum of 0.5% of gross domestic product; this shall be without prejudice to the provision of the last sentence in paragraph 6.

(12) If the government declares an exceptional circumstance pursuant to paragraph 13, the Council shall update the public expenditure ceiling within 15 days of the date of the declaration of the exceptional circumstance. The change in the planned structural balance, determined in accordance with paragraph 6, shall be adjusted so that no changes occur in the long-term sustainability indicator during the years of the expected duration of the exceptional circumstance. Throughout the duration of the exceptional circumstance, the government may exceed the public expenditure ceiling determined in this manner only after the approval of the National Council; before the parliamentary vote, the Council shall deliver its opinion on exceeding the public expenditure ceiling.

(13) An exceptional circumstance may be declared by the government after the Statistical Office of the Slovak Republic publishes that gross domestic product for the previous quarter, expressed in constant prices, has declined year-on-year and, based on a forecast of the Tax Revenue Forecasting Committee which follows immediately afterwards, the corresponding annual gross domestic product, expressed in constant prices,

a) has declined year-on-year; the exceptional circumstance shall last for 12 months from the date of its declaration by the government, unless paragraph 14 provides otherwise; or
b) has declined year-on-year by at least three percentage points; the exceptional circumstance shall last for 24 months from the date of its declaration by the government, unless paragraph 14 provides otherwise.

(14) Where the Statistical Office of the Slovak Republic publishes that the gross domestic product, expressed in constant prices, for the year which served as the basis for declaring the exceptional circumstance under paragraph 13, has not declined year-on-year, the period under paragraph 13 shall be terminated as of the date of publication. Where the Statistical Office of the Slovak Republic publishes that the gross domestic product, expressed in constant prices, for the year which served as the basis for declaring the exceptional circumstance under paragraph 13, has declined less than three percentage points year-on-year, the period under paragraph 13(b) shall be reduced to 12 months or terminated on the date of publication, if this period has already lasted for more than 12 months. Where the Statistical Office of the Slovak Republic publishes that the gross domestic product, expressed in constant prices, for the year which served as the basis for declaring the exceptional circumstance under paragraph 13, has declined by at least three percentage points year-on-year, the period under paragraph 13(a) shall be extended to 24 months.

(15) Once the exceptional circumstance referred to in paragraph 13 or 14 has ended, the Council shall update the public expenditure ceiling within 30 days, using the procedure specified in paragraphs 3, 4, 6 and 7. The public expenditure ceiling calculated in accordance with the procedure under paragraph 12 for the year in which the

exceptional circumstance ended shall be used as the starting point for the update. After the end of the exceptional circumstance, the public expenditure ceiling in the nearest fiscal year shall be determined on the basis of half of the levels of improvement in the long-term sustainability indicator referred to in paragraph 6.

(16) If, in the year of the general election, the government's manifesto and the vote of confidence in the government were not approved by 30th September following the general election, the Council shall calculate and publish the public expenditure ceiling in accordance with the procedure specified in paragraphs 3, 4, 6 and 7 for each fiscal year of the election term following the year in which the general election was held; the first sentence in paragraph 3 shall not apply. After the government's manifesto and the vote of confidence in the government have been approved after the general election, the procedure laid down in paragraphs 3, 4, 6 and 7 shall be followed.

(17) Compliance with the public expenditure ceiling for the previous fiscal year shall be evaluated and published by the Council by 15th June each year. The evaluation shall reflect

a) the impacts of approved legislative changes on the general government budget revenue or the long-term sustainability;
b) the impacts of changes in including/removing individual entities into/from the general government sector, and other effects based on the uniform methodology applicable to the European Union;
c) the impacts of using unspent funds from past years;
d) one-off effects on public expenditure.

(18) Expenditure spent by general government entities from earmarked revenues that were in excess of the public expenditure ceiling shall be deemed in compliance with the public expenditure ceiling; the Council shall take this fact into account when evaluating compliance with the public expenditure ceiling.

(19) If the Council ascertains that the public expenditure ceiling for the previous fiscal year has not been complied with, the government shall, within 30 days of the publication of the Council's evaluation, send a written justification of its non-compliance with the expenditure ceiling for the previous fiscal year to the National Council. If the Council ascertains that the public expenditure ceilings for the two preceding fiscal years have not been complied with and the overall deviation has reached at least 1% of gross domestic product, the government shall, within 30 days of the publication of the Council's evaluation, request the National Council to pass a vote of confidence in the government; the government is not required to request the National Council to pass a vote of confidence in the government in the year in which the government's manifesto and the vote of confidence in the government were approved after the general election, as well as in the following year.

(20) The methodology for the calculation of public expenditure ceilings under paragraph 3, updates to public expenditure ceilings under paragraphs 9 to 12 and 15, and evaluation of compliance with public expenditure ceilings under paragraph 17 is prepared and

published by the Council upon agreement with the Ministry of Finance. When calculating and/or updating the public expenditure ceilings, the Council follows the methodology in effect as of 1st January of the year in which the public expenditure ceiling is calculated and/or updated. Updated public expenditure ceilings under paragraphs 9 to 12 and 15 are submitted by the Council to the parliamentary committee for finances and budget and the parliamentary committee for economic affairs which approve the updated ceiling by a generally binding resolution published in the Collection of Laws of the Slovak Republic.

(21) The Council shall have the right to request cooperation of general government entities in providing data for calculating and updating the public expenditure ceilings. A general government entity as per the first sentence shall be obliged to provide the data to the Council free of charge and upon a written reasoned request within a reasonable period of time, through the Office of the Council and under the conditions determined by the Council, including personal data and non-anonymised data on legal persons and shall submit information, give explanations and provide other requested cooperation for the purposes of calculating and updating the public expenditure ceiling.”.

The footnotes to references 42aba through 42abd shall read as follows:
“[42aba]) Article 2(a) of constitutional Act No. 493/2011 Coll.
[42abb]) Article 2(c) of constitutional Act No. 493/2011 Coll.
[42abc]) Article 5(6)(c), Article 5(7)(a), Article 12(5)(c), Article 12(6)(a) and Article 13 of constitutional Act No. 493/2011 Coll.
[42abd]) Article 5(4) to (8), Article 12(3) to (7) and Article 13 of constitutional Act No. 493/2011 Coll.

“§37m
Transitional provisions to amendments effective from 1st April 2022

(1) The public expenditure ceiling shall be applied for the first time within the budgeting process in 2022 for the general government budget for 2023 to 2025.

(2) In 2022, the provisions of §15(1) and §30a(2) shall apply in the wording effective until 31st March 2022.

(3) The public expenditure ceiling shall be determined for the first time using the procedure as per the first sentence of §30aa(2) for the election term of the National Council in which the government’s manifesto and the vote of confidence in the government were approved after 31st March 2022.

(4) In the 8th election term of the National Council, the public expenditure ceiling shall be determined for the years 2023 to 2025; the provisions of the first sentence of §30aa(2),

the first sentence of §30aa(3), the second sentence of §30aa(6) and the first sentence of §30aa(8) and §30aa(19) shall not apply. In 2022, the Council calculates and submits to the National Council for discussion, within 75 days after the publication of a long-term sustainability report, the public expenditure ceilings for 2023-2025 using the procedure pursuant to §30aa(3), (4), (6) and (7) on the basis of the methodology prepared and published by the Council upon agreement with the Ministry of Finance. The public expenditure ceiling for the years 2023 to 2025 is approved by the National Council by a resolution. Updated public expenditure ceilings for the years 2023 to 2025 are approved by the parliamentary committee for finances and budget and the parliamentary committee for economic affairs by a resolution. Resolutions pursuant to the third and fourth sentence and the resolution approving the public expenditure ceiling pursuant to the second sentence of §30aa(2) are not published in the Collection of Laws of the Slovak Republic during the 8th election term of the National Council.

(5) If measures in accordance with a separate regulation[51]) are to be applied by the end of 2027, the measures pursuant to a separate regulation[52]) corresponding to the measures under §30aa(6) and (8) shall be applied in the calculation of the planned structural balance pursuant to §30aa(6) and in the application of the procedure as per the second sentence of §30aa(8).

(6) If measures in accordance with a separate regulation[51]) are to be applied by the end of 2027, the impacts of legislative changes approved by the National Council that improve the long-term sustainability indicator shall be taken into account in the calculation of the public expenditure ceiling and its update up to a maximum of 0.5% of gross domestic product for the relevant election term, while the value of the planned structural balance shall be calculated in a manner that the measures pursuant to a separate regulation[52]) corresponding to the measures under §30aa(6) are taken into account.

(7) Non-compliance with the public expenditure ceiling for the years 2023 and 2024 shall not be subject to the provision of the part of the first sentence of §14(9) which follows after the semicolon.

The footnotes to references 51 and 52 read as follows:
“[51]) Article 12 and 13 of constitutional Act No. 493/2011 Coll.
[52]) Article 12(3) to (7) and Article 13 of constitutional Act No. 493/2011 Coll.”.

Annex 2 – Examples of the long–term impacts included in the public expenditure ceiling

The following table illustrates the examples of including the measures approved in year t+1 with a long-term impact in the update of the public expenditure ceiling. The resulting impact depends on whether the measure in question has an impact on revenue or expenditure falling under the ceiling and whether the medium-term (MT) and long-term (LT) impacts of the measure are different (in terms of the impact on the balance).

Tab 9: Examples of including the measures with a long-term impact in the calculation of the ceiling (EUR million)

	t+1	t+2	t+3	t+4	LT impact*
Measure 1 increasing MT&LT expenditure falling under the ceiling	**100**	**100**	**100**	**100**	**250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	-150	-150	-150	-150	
- updated ceiling	**29,850**	**30,850**	**31,850**	**32,850**	
Need for savings (-)/possible additional expenditures (+)	-250	-250	-250	-250	
Measure 2 reducing MT&LT expenditure falling under the ceiling	**-100**	**-100**	**-100**	**-100**	**-250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	150	150	150	150	
- updated ceiling	**30,150**	**31,150**	**32,150**	**33,150**	
Need for savings (-)/possible additional expenditures (+)	250	250	250	250	
Measure 3 reducing MT&LT revenue	**-100**	**-100**	**-100**	**-100**	**-250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	-250	-250	-250	-250	
- updated ceiling	**29,750**	**30,750**	**31,750**	**32,750**	
Need for savings (-)/possible additional expenditures (+)	-250	-250	-250	-250	
Measure 4 increasing MT&LT revenue	**100**	**100**	**100**	**100**	**250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	250	250	250	250	
- updated ceiling	**30,250**	**31,250**	**32,250**	**33,250**	
Need for savings (-)/possible additional expenditures (+)	250	250	250	250	
Measure 5 increasing MT expenditure falling under the ceiling and reducing LT expenditure	**100**	**100**	**100**	**100**	**-250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	350	350	350	350	
- updated ceiling	**30,350**	**31,350**	**32,350**	**33,350**	

Need for savings (-)/possible additional expenditures (+)	250	250	250	250	
Measure 6 reducing MT expenditure falling under the ceiling and increasing LT expenditure	**-100**	**-100**	**-100**	**-100**	**250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	-350	-350	-350	-350	
- updated ceiling	**29,650**	**30,650**	**31,650**	**32,650**	
Need for savings (-)/possible additional expenditures (+)	-250	-250	-250	-250	
Measure 7 reducing MT revenue and increasing LT revenue	**-100**	**-100**	**-100**	**-100**	**250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	250	250	250	250	
- updated ceiling	**30,250**	**31,250**	**32,250**	**33,250**	
Need for savings (-)/possible additional expenditures (+)	250	250	250	250	
Measure 8 increasing MT revenue and reducing LT revenue	**100**	**100**	**100**	**100**	**-250**
Impact on the ceiling					
- original ceiling	30,000	31,000	32,000	33,000	
- ceiling adjustment	-250	-250	-250	-250	
- updated ceiling	**29,750**	**30,750**	**31,750**	**32,750**	
Need for savings (-)/possible additional expenditures (+)	-250	-250	-250	-250	

Note: Plus (+) denotes an increase and minus (-) denotes a decrease in expenditure, while MT denotes a medium-term impact and LT a long-term impact.

Source: CBR

** Long-term impact is expressed as % of GDP; upon inclusion in the ceiling update, it is multiplied by the most recent GDP forecast. For simplicity, a fixed amount expressed in EUR million is used in these examples.*

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