CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2023-2025

(based on the changes that have occurred since the approval of the General Government Budget Proposal for 2023-2025 by the Government of the Slovak Republic)

March 2023

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

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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Summary

The Council for Budget Responsibility (the Council, CBR) has updated its evaluation of the general government budget for 2023-2025. The addendum evaluates the differences between the government's budget proposal and the version adopted by the National Council of the Slovak Republic (the parliament). The evaluation also takes into account additional documents provided by the Ministry of Finance of Slovak Republic (the Ministry and/or the Ministry of Finance).

Compared to the government's proposal, the budget adopted by the parliament underwent only formal changes in terms of structure, while the expected levels of the general government budget balance in individual years have remained unchanged. The changes were related to the structure of expenditures under the chapters of the 2023 state budget, which reflected, to the same degree, an increase in the level of total general government revenue and expenditure. For 2023, the approved budget envisages a general government deficit of 6.4% of GDP, and in 2024 the deficit is expected to stand at 4.3% of GDP and in 2025 at 4.1% of GDP.

Taking into account the changes compared to the government's proposal, even the budget approved by the parliament is assessed by the Council as realistic in 2023. However, after considering the most recent developments, the positive risks for 2023 have been reduced from 0.8% to 0.5% (i.e. EUR 562 million), and the Council has updated its deficit estimate to 6.0% of GDP, mainly due to the impact of higher projected costs of schemes addressing higher energy prices.

The fact remains that, **for 2024 and 2025, there are no concrete and credible measures that would contribute to meeting the targets set by the government.** Based on the Council's estimate, the specified measures would reduce the deficit only down to 4.2% of GDP in 2024 and to 4.5% of GDP v in 2025. In particular, the estimate for 2025 is 0.6% higher (EUR 842 million) than the budgetary balance envisaged by the Ministry of Finance; therefore, the **budget prepared in those years cannot be considered realistic**. Furthermore, when considering the targets declared by the government, specific measures in the amount of 0.9% of GDP in 2024 and 1.9% of GDP in 2025 are lacking.

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

		Addendum to GGB Evaluation 2023-25 (February 2023)				Evaluation of the GG Budget Proposal (November 2022)			
	2021	2022	2023	2024	2025	2022	2023	2024	2025
General government balance	-5.5	-3.4	-6.0	-4.2	-4.5	-3.5	-5.6	-4.6	-4.8
Structural balance	-1.4	-2.2	-3.2	-3.7	-3.6	-2.4	-3.3	-3.8	-3.7
Government's consolidation effort*		0.4**	-1.5	0.4	0.1	0.3	-1.6	0.5	0.2
General government gross debt	62.2	58.3	55.5	55.8	55.3	58.1	56.3	57.0	56.7
General government net debt	50.6	47.4	49.1	50.4	51.1	48.0	49.2	50.9	51.8
Fiscal impulse***	0.3	1.4	-5.2	4.3	0.8	0.3	-2.8	2.8	0.9
p.m. output gap	*-0.2*	*0.1*	*-0.6*	*-0.9*	*-0.4*	*-0.1*	*-1.5*	*-1.5*	*-0.8*

Source: CBR

**Consolidation effort is defined as a year-on-year change in the structural balance beyond the scope of development under the no-policy-change scenario.*

*** An estimate derived by comparing the development in structural balance under the NPC scenario based on the situation in 2021 according to the CBR's most recent macroeconomic forecast (structural deficit of 2.6% of GDP in 2022) with the CBR's current estimate (structural deficit of 2.2% of GDP in 2022).*
**** (+ means restriction, - expansion)*

The CBR slightly decreased the 2022 deficit estimate to 3.4% of GDP based on updated assumptions concerning the development of public finances (slower spending of state budget expenditure at year-end[1]). This positive impact on the budget was partly mitigated by the **effect of additionally adopted measures** (contribution to the SPP gas company's equity fund and the stabilisation contribution (retention bonus) for health care professionals). **For 2022, we are therefore estimating the consolidation effort at 0.4% of GDP.** The higher deficit expected in 2023 as compared to the forecast in the evaluation of the budget proposal[2] is mainly due to the higher projected spending of one-off expenditure to compensate for high energy prices, as well as the negative impact of newly adopted measures (an additional wage increase for health care professionals and changes in taxes and social contributions).

The reduction in the estimated level of the balance is also reflected in a further decline of the general government debt level, with the gross debt expected to reach 55.3% of GDP[3] at the end of 2025. Considering the gradual decrease in the thresholds of sanction brackets, this would mean that the **2025 debt will remain more than 3 p.p. above the upper limit of the debt brake over the entire forecast horizon**. **The budget does not include measures conducive to meeting the debt brake sanctions after 5 May 2023**, which is the date of expiry of the escape clause allowing exemption from sanctions triggered as a consequence of surpassing the third, fourth and fifth sanction bracket of the constitutional law. After this deadline, the government would be required to **block 3% of selected state budget expenditures.** At the same time, **it should draw up a proposal for a balanced general government budget for 2024, containing no increase in public expenditures.**

The **net debt** would stand at **47.4% of GDP** at the end of 2022. Due to the absence of consolidation measures at the end of the medium-term horizon (the end of 2025), the CBR expects the **net debt to gradually rise to 51.1% of GDP**.

An updated evaluation of the general government budget for 2023-2025 **has not resulted in a change in the long-term sustainability risk**, which is still estimated to remain within the **high-risk zone**. In order to achieve the long-term sustainability, revenues would need to increase and/or expenditure decrease by more than EUR 6.4 billion (5.2% of GDP). Compared to the initial evaluation of the budget proposal, the additional negative impact of higher wages for health care professionals and of new measures adopted by the parliament was offset by lower investment expenditures. **Adjusted[4] for these factors, the long-term sustainability**

[1] Lower-than-expected spending was seen in personnel expenditure and expenditure on goods and services, as well as in expenditure incurred with regard to the financing of temporary measures related to the war in Ukraine and the compensation for higher energy prices.

[2] In the evaluation of the budget proposal, the CBR estimated the general government deficit at 3.5% of GDP in 2022, 5.6% of GDP in 2023 and, subsequently, at 4.6% of GDP in 2024 and 4.8% of GDP in 2025.

[3] In its evaluation of the budget proposal in November 2022, the CBR estimated the general government gross debt level at 56,7% of GDP at the end of 2025.

[4] The deterioration of the long-term sustainability in 2022 is partially driven by external factors, namely Russia's aggression against Ukraine and the energy crisis (deterioration of 0.7% of GDP), and by the introduction of the

of public finances for 2022 will improve by 0.1% of GDP year-on-year. The major contribution to this improvement comes from the pension system reform (1% of GDP) and expected savings of local governments (0.3% of GDP). By contrast, the remaining government measures worsen the sustainability by 1.2% of GDP. The Council therefore points out that, without the pension system reform, the **approved general government budget has a negative impact on the long-term sustainability** because the pension reform savings will only be felt after the budget period.

In the approved budget, there were no significant changes in the assumed consolidation effort; according to the Council's estimate, the **cumulative contribution of permanent measures to the widening of the deficit between 2022 and 2025 will be 0.6% of GDP. The 2023 budget itself implies loosening of the consolidation effort by 1.5% of GDP in particular due to the adopted legislation[5].** The Council expects that this expansion will be partly offset by the developments in the upcoming years (improvement of 0.4% and 0.1% of GDP, respectively), but this improvement is mostly associated with the assumption that local authorities will be forced to offset the shortage in revenues caused by legislative changes and the increased spending on compensations and intermediate consumption not covered by revenues by permanent cuts in operating expenditure (contribution of 0.3 p.p.). If this assumption did not materialise, the government measures would contribute cumulatively 0.9% of GDP to the deterioration of the balance between 2022 and 2025.

Expenditure ceilings for the years 2023 to 2025 have been approved but are not implemented in the budget due to the activated general escape clause. After the adoption of the State Budget Act, the public expenditure ceilings for the years 2023 to 2025 were calculated and submitted[6] by the CBR to the parliament on 22 December 2022 (immediately after reaching an agreement on methodology with the Ministry of Finance). The parliament approved the ceilings on 1 February 2023. **While in 2023 the budgeted expenditures are approximately at the level of the calculated ceiling, in 2024 and 2025 the ceilings are exceeded and, in order to meet the ceilings, it will be necessary to adopt additional measures amounting to EUR 360 million in 2024 and EUR 926 million in 2025, which would imply a deficit at 4.0% of GDP in 2024 and 3.4% of GDP in 2025.** At present, due to the newly introduced general escape clause, the government is not required to align the budget with the ceilings after their approval in the parliament. The budget is to be aligned with the applicable ceilings only after the escape clause is deactivated, which the European Commission expects to happen from 2024 onwards.

As also required by the constitutional Fiscal Responsibility Act, the presentation of the medium-term consolidation measures is necessary, because the debt has been above the highest sanction bracket of the debt brake since 2020. **Following the publication of the 2021**

automatic entry to the second pension system pillar (deterioration of 0.7% of GDP) which, however, is regarded positively by the Council.

5 The CBR quantifies the "consolidation effort" by comparing the structural balance development against the NPC scenario. This gives a more accurate picture of the "size of measures" de facto adopted by the government through the budget. The Ministry of Finance, as well as the EC, calculate "consolidation" as a year-on-year change in the structural balance. Even though this approach is an internationally accepted standard, it is simplified in that it assumes no year-on-year changes in the structural balance, as long as the government adopts no additional measures.

6 CBR, Public expenditure ceiling for 2023-2025, 22 December 2022, parliamentary paper No. 1342.

debt in April 2022, the government approved the document as late as in January 2023, while it does not contain any relevant measures aimed at bringing the debt-to-GDP ratio down to safe levels.

In terms of transparency, the fact that the total budgeted level of tax revenue is not in line with the current state of legislation, as adopted at the time of approval of the budget, is regarded negatively by the Council. The forecast of revenues from taxes and social contributions, as well as of selected non-tax revenues and expenditures, was approved by the Tax Revenue Forecasting Committee (TRFC) already in September 2022. Since then, a number of legislative changes with significant impacts on the general government balance have been adopted, but their impacts have not been assessed by the TRFC. So, even though the budget is consistent with the TRFC's conclusions, neither of them reflects the applicable legislation. At the same time, a number of tax-related measures have been adopted using the fast-track procedure, with many of them attached as amendments to unrelated laws. Such conduct is not in line with the Act on the Rules of Procedure of the National Council of the Slovak Republic.

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

1. Changes in the general government budget

On 14 October 2022, the Slovak government approved the General Government Budget Proposal for 2023-2025 to which the CBR published its detailed evaluation[7] on 24 November 2022. Since its approval by government, the budget proposal underwent changes and, therefore, the CBR prepared an update to its position.

The changes regarding the General Government Budget for 2023-2025 have arisen from the approval of an **amending proposal to the 2023 State Budget Act**, as adopted by the parliament on 22 December 2022.

In comparison with the government's budget proposal, there were no changes in the budgeted general government deficit for 2023 which remained at 6.4% of GDP. In 2024, the general government deficit presented in the budget is at 4.3% of GDP and, in 2025, at 4.1% of GDP. The approved general government budget for 2023-2025 has not been published to date[8], but the information about the general government budget revenue and expenditure remaining at the same levels was provided by the Ministry of Finance[9].

The approved amending proposal brought the following changes in the structure of the budget, without changing the budgeted general government deficit:

- **Expenditure of the Ministry of Health has increased by EUR 820 million.** Most of this increase comes from the expenditure on higher insurance premiums for persons whose health insurance is covered by the state, i.e., EUR 515 million, as also reflected in the revenue and expenditure of the public health insurance system. To a lesser extent, expenditure to cover the costs associated with the purchase, storage and use of vaccines and medicines increased by EUR 225 million and expenditure to address higher energy prices rose by EUR 80 million.

- The above increase in the expenditure of the Ministry of Health is **fully covered by a reduction in sources under the General Treasury Administration chapter**. The reserve for negative effects of the COVID-19 pandemic and health care expenditure amounting to EUR 400 million is no longer included in the budget, the reserve for compensatory measures in response to higher energy prices is reduced by EUR 80 million, and other expenditures under the General Treasury Administration chapter, earmarked in the budget for a transfer to public health insurance, are lower by EUR 340 million.

- The expenditure of the Ministry of Justice of the Slovak Republic increased by EUR 33 million, at the expense of reducing the reserve for addressing the impacts of

7 CBR, Evaluation of the General Government Budget Proposal for 2023-2025.

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

9 The Ministry of Finance's answers to the CBR's questions regarding the approved General Government Budget for 2023-2025 are published along with this document.

legislative changes in the General Treasury Administration chapter. The increase in expenditure is due to the establishment of administrative courts in Bratislava, Košice and Banská Bystrica.

During the 78th parliamentary session held from 29 November to 22 December 2022, the following changes with an impact on the General Government Budget for 2023 to 2025 were approved:

- The parliament approved the **law on gas transit pipeline taxation** (not applicable to local distribution of gas within a part of the territory of the Slovak Republic), which will have an impact on tax revenues and social contributions. This involves an introduction of a flat-rate tax calculated based on the length of the gas transit pipeline in kilometres and the prescribed tax rate. The tax rate is set at EUR 6,000 per kilometre of the gas transit pipeline. The legislation was vetoed by the Slovak President on 2 January 2023 and returned with reservations to the parliament for re-discussion.

- The approved **Act of the National Council of the Slovak Republic on the solidarity contribution from activities in the oil, gas, coal and refinery sectors** constitutes a temporary tax revenue in response to the adoption of the EU Council's Regulation of 6 October 2022 on emergency intervention to address high energy prices. It applies to companies generating at least 75% of their turnover from economic activities in the oil, gas, coal and refinery sectors. The tax applies to excess profits[10] which are subject to a tax rate of 55%. The tax liability is applicable to income for 2022.

- On 22 December 2022, the parliament approved an amendment to the **Act on excise duty on alcoholic beverages**, as amended. Effective from April 2023, both the basic and reduced rates for the taxation of spirits are increased by 30%.

- In the same amendment, changes regarding VAT have been made as well. Specifically, the **tax rate has been reduced to 10%** for gastronomic services, passenger transport by cable cars and ski lifts, as well as for making accessible various types of sports grounds, effective from April 2023. The measure is a follow-up to the temporary reduction of the tax rate to 10%, applicable to similar services for the period between January and March 2023, which was approved on 6 December 2022.

- The third revenue-side measure, introduced through an amendment to the Act on excise duty on alcoholic beverages, involved the **levy on gambling**. Effective from February 2023, several rates of the levy will increase from 22% to 27%.

- On 22 December 2022, the parliament approved an amendment to the law on gas transit pipeline taxation, whereby abolishing the **fees of the public radio and television broadcaster RTVS** (license fees) as of 30 June 2023. RTVS will be funded

[10] Excess profit is calculated based on the difference between the tax base in the comparison taxation period and the average of the tax bases in the comparative taxation periods, increased by 20%. The comparison taxation period means a taxation period preceding the relevant contribution period and starting in 2022 or 2023, which may be ended even after 31 December 2023. The average of the comparative periods is calculated based on four consecutive taxation periods, the first of which commenced after 1 January 2018.

from a **claimable contribution from the state budget** as from 1 July 2023. This contribution for the relevant fiscal year will be provided as the amount of contribution in the previous year, adjusted for the average inflation rate, while the adjustment for the inflation will be applied in 2024 for the first time.

- On 30 November 2022, the Medical Trade Unions (LOZ) signed a **memorandum with the Slovak government for the purposes of improving the health care system**. The memorandum consists of eight points, with some of them having an impact on the budget. Among other things, it involves **changes in the system of financing the health care facilities or the remuneration of healthcare professionals in inpatient facilities**. The most significant impact on public finances is attributable to the **remuneration of health care professionals**. This involves increasing the coefficients of the minimum basic salary component for doctors and dentists. The change was adopted by the approved amendment to the Act on health care providers. In connection with this act, an amending proposal putting healthcare professionals other than doctors and dentists on equal footing by counting 30 years' seniority towards their remuneration has been approved.

- On 22 December 2022, the parliament approved an amendment to the Act on health insurance companies, which also amended the Act on health insurance. Effective from 1 January 2023, a **minimum assessment base of employees is introduced**.

- Other changes approved by the parliament include reduced registration fees for eco-friendly cars, a law on a special voting method in a referendum, the treatment of referendum outcomes, the establishment of a detention centre at the Psychiatric Hospital in Hronovce, and a proposal to establish a UNESCO Coordination Office.

In addition to the changes in the parliament, further changes with a possible impact on the general government budget have occurred:

- On 5 December 2022, the government approved a **stabilisation contribution** for inpatient health care professionals other than doctors and dentists. It was aimed at compensating the group of health professionals not covered by an increase in coefficients determining the minimum wages of doctors and dentists. Subsequently, on 29 December 2022, the government approved a similar stabilisation contribution for the employees of institutions for child protection, social guardianship and social services.

- Other measures include the **introduction of higher fees for motorway vignettes** from 1 January 2023. The increase was approved by the government at its session on 14 December 2022.

- On 13 December 2022, based on a petition by the Slovak President, the **Constitutional Court of the Slovak Republic ruled that a part of the so-called pro-family package**, which was re-approved by the parliament in June 2022 following a veto by the President, **was in conflict with the Slovak Constitution**. Considering the additionally approved changes in the tax bonus and child allowance, which have already been incorporated in the estimate already at the time of the evaluation of the budget proposal, **this decision has no impact on the estimated level of expenditure in 2023 and 2024**. The decision thus resulted in the abolition of the allowance on children's free time activities, the effectiveness of which has been postponed to 2025 in the meantime.

According to the CBR's current estimate, **the abolition of the allowance on children's free time activities will not affect the level of expenditure in 2025**. Most of the resources budgeted for this purpose will be used to cover the additional expenditure associated with a permanent increase in the child allowance to EUR 60. The CBR assumes that the remaining funds in the budget, estimated at EUR 186 million (0.1% of GDP), will be used to finance other measures related to family support. The possible non-spending of these funds thus constitutes a **positive risk in terms of the general government deficit level estimated by the CBR for 2025**.

- The government has approved **several measures to compensate households and businesses for high energy prices**[11]. These measures should be financed from a reserve of EUR 3.4 billion earmarked in the budget for this purpose. These schemes include, in particular:
    - setting a limit on the increase in heat prices for households, with an estimated impact of EUR 395 million on the budget, according to the Ministry of Finance
    - setting a limit on the increase in gas prices with an impact of EUR 1.7 billion on the budget (a maximum increase of 15% compared to the previous year);
    - setting a limit for a part of the regulated supply of electricity, with an estimated cost of EUR 850 million;
    - in connection with aid for businesses in terms of energy prices, the price ceilings were approved at EUR 199 / MWh for electricity and at EUR99 / MWh for gas. By means of the adopted measures, the government compensates 80% of the price above these ceilings.

Table 2: Overview of changes and their impacts since the approval of the GG Budget Proposal for 2022-25 by the government, parliament and the Constitutional Court ruling (ESA2010, EUR million)

	2022	2023	2024	2025	zdroj
1. Overview of changes approved by the parliament	**70**	**-254**	**-287**	**-344**	
a. Act on gas transit pipeline taxation	0	124	118	101	*CBR estimate*
b. Act on solidarity contribution from activities in oil, gas, coal and refinery sectors*	70	0	0	0	*CBR estimate*
c. Act on excise duty on alcoholic beverages	0	64	83	83	*CBR estimate*
d. VAT reduced to 10% for gastronomic services	0	-250	-258	-272	*CBR estimate*
e. VAT reduced to 10% for the services of sports facilities	0	-25	-26	-27	*CBR estimate*
f. Increased gambling levy rates	0	19	21	23	*CBR estimate*
g. Abolition of television/radio licence fees	0	-38	-76	-76	*CBR estimate*
h. Minimum health insurance contributions	0	21	22	22	*CBR estimate*

[11] The list contains only the measures known and approved before the closing date for the CBR's forecast drawn up for this evaluation (19 January 2023). Beyond these measures, the government approved a compensation of 100% of the price exceeding the ceilings for small consumers who are subject to regulated prices; at the same time, the European Commission approved an aid scheme in the form of direct grants for all economic operators, in particular for larger and energy-intensive enterprises.

i. Increase in the wages of doctors (agreement with LOZ)	0	-104	-109	-136	*impact clause*
j. Equalising the years of seniority between other health professionals and doctors	0	-21	-23	-24	*Institute for Health Care Analyses estimate*
j. Other measures	0	-44	-39	-39	*impact clause*
2. Overview of other changes beyond those approved by the parliament	**-150**	**-43**	**11**	**197**	
a. Stabilisation contribution	-150	-54	0	0	*CBR estimate, impact clause*
b. Abolition of the allowance on children's free time activities by a Constitutional Court ruling**	0	0	0	0	*CBR estimate*
c. Other measures	0	11	11	11	*CBR estimate*

Note.: Impacts on the general government balance *Source: MF SR, Parliament, Government, CBR, IZA*

** taking into account the difference against the estimate in the Evaluation of the General Government Budget Proposal for 2023-2025.*

*** the original estimate in the Evaluation of the General Government Budget Proposal for 2023-2025 did not foresee the spending of expenditure for children's free time activities allowance in the full budgeted amount due to the approval of a permanent increase in child allowance; according to CBR's assumptions. the remaining resources estimated at EUR 186 million will be used for funding other measures aimed at support to families*

2. Assessment of changes and their impact on CBR forecast

In its evaluation of the approved budget, the CBR estimates the general government deficit to reach 3.4% of GDP in 2022, rising to 6.0% of GDP in 2023, 4.3% of GDP in 2024 and 4.5% of GDP in 2025. Consistent with such developments in the deficit, the gross debt would remain above the upper limit of the debt brake during the entire budget horizon, possibly reaching 55.3% of GDP at the end of 2025. The changes made since the approval of the budget proposal by the government have also been reflected in the updated CBR's estimates of the general government balance and debt.

Impacts on general government balance

Compared to the evaluation of the budget proposal, the general government deficit estimate in 2022 has been reduced mainly due to the expected lower spending of the state budget expenditure, which is also reflected in the subsequent years. **The expected lower tax revenue represents the most significant negative impact**, as reflected in the deficit estimate over the entire forecast horizon. After considering all changes, the CBR estimates the deficit to be lower in 2022, higher in 2023 and lower in 2024 and 2025 compared to the levels expected in the evaluation of the budget proposal, assuming that no additional measures are adopted. However, the deficit will remain at high levels and is likely to reach 4.5% of GDP in 2025 (Table 3, see Chart 1 for a comparison with the values set in the budget).

Table 3: Changes compared to the evaluation of the budget proposal (ESA2010, impacts on the budget balance, EUR million)

	2022	2023	2024	2025
A. CBR's GG balance forecast – budget proposal evaluation	**-3,835**	**-6,898**	**-6,076**	**-6,856**
- in % of GDP	**-3.5**	**-5.6**	**-4.6**	**-4.8**
B. Total impact of changes on GG balance (1+2)	**125**	**-495**	**454**	**322**
1. New measures*	-80	-297	-275	-333
2. Impact of changes in the estimate for 2022	205	-199	730	655
a. Tax revenue (excl. measures)	*-205*	*-252*	*-266*	*-267*
b. Non-tax revenues	*166*	*-49*	*-56*	*-55*
c. Social transfers and benefits	*37*	*140*	*90*	*65*
d. Transactions with the EU budget	*-24*	*-122*	*-101*	*-107*
e. State budget expenditures	*226*	*472*	*574*	*615*
f. Budgets of local governments	*-9*	*-36*	*-43*	*-45*
g. Health care expenditures	*-36*	*-15*	*-72*	*-73*
h. Financial performance of other general government entities	*43*	*436*	*413*	*441*
i. Measures for addressing the pandemic	*11*	*-38*	*0*	*0*
j, Government measures related to the war in Ukraine	*50*	*-42*	*0*	*0*
k, Government measures to compensate for energy prices	*-93*	*-737*	*124*	*0*
l, Measures to support families	*0*	*1*	*22*	*32*
m. Other changes	*39*	*43*	*46*	*49*
C. Current CBR's forecast of GG balance	**-3,711**	**-7,393**	**-5,621**	**-6,534**
- in % of GDP	**-3.4**	**-6.0**	**-4.2**	**-4.5**

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

Source: CBR

In comparison with the CBR's forecast in the evaluation of the budget proposal, the **estimate of the balance in 2022 was reduced by EUR 125 million (0.12% of GDP)**, with the following changes[12]:

- The expected revenue from **taxes and social contributions** declined by EUR 205 million in 2022. This was mainly due to a reduction in the estimated VAT revenue.

- In **non-tax revenue**, the estimated revenues rose by EUR 166 million, in particular due to higher collection of non-tax revenues of the state budget. Part of the additional revenue comes from the payments of cash irregularities in the absorption of EU funds by other general government entities, while such levels are not expected to be seen between 2023 and 2025.

- The estimated level of **social transfers and benefits** declined by EUR 37 million, in particular due to lower spending on social benefits paid by the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

- In terms of **transactions with the EU budget**, the negative impact on the general government deficit has increased by EUR 24 million due to higher expenditure on financial corrections to EU funds absorption in comparison with the assumptions in the previous estimate.

- The updated estimate of the **state budget expenditure** contributed positively to the change in the balance by EUR 226 million, mainly because of slower spending of current expenditures, where the risk for the balance has been reduced by EUR 324 million. Due to a slowdown in the growth rate of wage expenditure, the estimated amount of spending declined by EUR 117 million. A more significant positive impact was also seen in expenditure on goods and services, where the expected savings are amounting to EUR 107 million. On the other hand, capital expenditure contributed negatively to the estimate of the balance, by EUR 99 million, mainly due to higher investments financed by the general government entities through transfers.

- The impact of **fiscal performance of other government entities** on the general government balance has improved by EUR 43 million. The positive contribution was mainly attributable to the fiscal performance of the state-run railway operator ŽSR, the National Motorway Company (NDS), public universities and transport companies. Conversely, the estimated impact on the general government balance deteriorated due to the fiscal performance of the state-run rail passenger transport company ZSSK and organisations partly funded from the state. A significantly negative impact can also be attributed to higher investment expenditure associated with the Valaliky Industrial Park.

[12] The updated estimate for 2022 reflects more recent data. While at the time of preparation of the forecast for the evaluation of the budget proposal the only available data were those recorded for the first eight months of 2022 (nine months for the state budget), the current estimate is based on information for ten months of the current year, whereas the budget reflects the preliminary data for eleven months. More detailed information is published within the so-called budgetary traffic lights ("Rozpočtový semafor") available on the CBR's website.

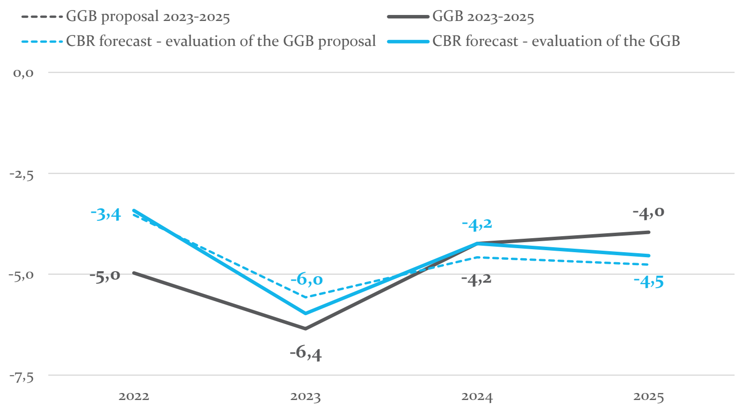
- Lower spending in **government measures related to the war in Ukraine** brought savings of EUR 50 million compared to the estimate in the evaluation of the budget proposal.

- As part of g**overnment measures to compensate for energy prices,** a negative impact of EUR 93 million on the balance was mainly due to the approved transfer of an EUR 500 million contribution to the SPP gas company's equity fund. On the other hand, spending under other measures was lower compared to the assumptions made in the previous forecast.

The estimated reduction in the general government balance in 2022 will not be reflected in 2023, as the estimate of the cost of government measures to compensate for energy prices has been significantly increased in 2023. Given the one-off nature of these measures, the deficit is reduced by 0.3 p.p. of GDP in 2024 and 2025 in comparison with the previous forecast.

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

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



Source: CBR, MF SR

Impacts on the gross and net debt of the general government

The CBR has updated the estimate of gross and net debt development based on changes in deficit estimates between 2022 and 2025. At the same time, the estimate also reflects the actual developments in terms of the government debt as at the end of 2022[13], including the assumed reduction in debt issuance in 2023 in connection with higher cash balances in the State Treasury at the end of 2022.

Compared to the evaluation of the budget proposal, the gross debt estimate has increased only for 2022. For the other years of the medium-term horizon, the CBR's estimate is lower in the current forecast, with the gross debt reaching 55.3% of GDP at the end of 2025 (Chart 2). **The**

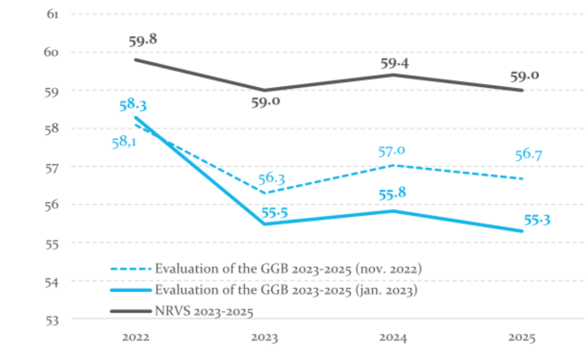
[13] Among other things, the change in the estimate of the year-end gross debt level compared to the CBR's November forecast was also due to the inclusion of an additional issue of government bonds in November, as well as the repurchases of bonds to the portfolio of the Ministry of Finance.

fact remains that, during the entire period, the gross debt level will remain above the upper limit of the debt rule established by the constitutional Fiscal Responsibility Act, provided that no additional measures are adopted.

The debt-to-GDP ratio has been staying above the highest sanction bracket of the debt brake since 2020. The constitutional Fiscal Responsibility Act requires the government to present medium-term consolidation measures. **Following the publication of the 2021 debt in April 2022, the government approved the document[14] as late as in January 2023, while it does not contain any relevant measures aimed at bringing the debt-to-GDP ratio down to safe levels.**

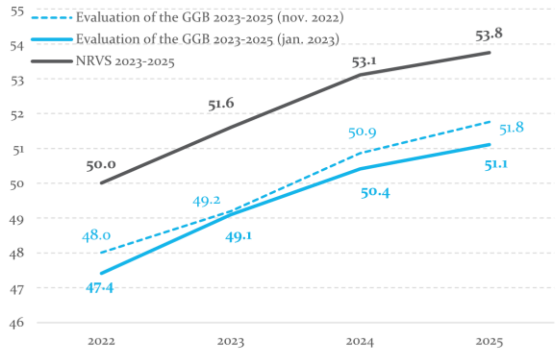
The estimated development of the net debt has been slightly **revised downwards for the period up to 2025** when compared to the November forecast in the evaluation of the budget proposal. At the end of 2025, the net debt is expected to reach 51.1% of GDP.

Chart 2: GG gross debt development (% of GDP)



Source: CBR, MF SR

Chart 3: GG net debt development (% of GDP)



Source: CBR, MF SR

Impacts on the structural balance of general government

In comparison with the evaluation of the budget proposal, there were only slight changes in the estimate of the structural balance when adjusted for the impact of fluctuations in the economic development and other one-off and temporary measures (Table 4)[15]. Taking into account the above changes, the CBR estimates the structural deficit of the general government at 2.2% of GDP in 2022. In the next three years, the CBR expects the **structural deficit to deteriorate cumulatively by 1.4% of GDP in total**.

[14] Substantiation of Slovakia's Gross Debt Amount and Measures Proposed for its Reduction, approved by the Slovak government on 25 January 2023.

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

Tab 4: Change in the GG structural balance between 2022 and 2025, according to CBR (ESA2010, % of GDP)

	2022	2023	2024	2025
1. General government balance	**-3.4**	**-6.0**	**-4.2**	**-4.5**
2. Cyclical component	0.3	-0.2	-0.3	-0.3
3. One-off effects	-1.6	-2.5	-0.2	-0.6
4. Structural balance (1-2-3)*	**-2.2**	**-3.2**	**-3.7**	**-3.6**
5. Change in the structural balance (Δ4)/ Fiscal compact*	**-0.7**	**-1.1**	**-0.4**	**0.1**
6. General government balance under NPC scenario	**-2.3**	**-1.4**	**-2.7**	**-3.0**
7. Structural balance under NPC scenario	-1.8	-1.3	-2.0	-1.9
8. Change in structural balance under NPC scenario		**0.5**	**-0.7**	**0.0**
9. Other factors (p.m.)**		-0.1	-0.1	-0.1
10. Size of measures (1-6)		**-4.5**	**-1.6**	**-1.6**
11. Consolidation effort after considering other factors (5-8-9)	**0.4*** **	**-1.5**	**0.4**	**0.1**
p.m. other factors (year-on-year effects, difference against NPC):		-0.1	-0.1	-0.1
- Measure with no impact on long-term sustainability		0.0	0.0	-0.1
- PPP projects		0.0	0.0	0.0
- Interest payments		-0.1	-0.1	0.0

** Calculation of the structural balance and its change based on the methodology for the evaluation of the balanced budget rule (Fiscal Compact).*
Source: CBR methodology
*** Other factors represent those impacts which are not, by default (internationally), taken into account in the calculation of the structural balance, in particular due to being specific for individual countries. However, the CBR took them into account in order to provide the most accurate quantification of the government's actual effort.*
**** An estimate derived by comparing the development in structural balance under the NPC scenario based on the situation in 2021 according to the CBR's most recent macroeconomic forecast (structural deficit of 2.6% of GDP in 2022) with the CBR's current estimate (structural deficit of 2.2% of GDP in 2022).*

In order to assess the extent to which the estimated change in the structural balance could be attributed to government measures or other external factors, it is necessary to compare its development with the no-policy-change scenario. **Without government interventions, the structural deficit would cumulatively worsen by 0.2% of GDP to reach 1.9% of GDP in 2025.** A more significant improvement in the structural balance in 2023 would only be temporary. Due to the delayed response of expenditure to soaring inflation[16], the structural deficit in 2024 would deteriorate slightly above the 2022 level.

According to the CBR's estimate, government measures are contributing to the widening of the deficit (cumulatively by 0.6% of GDP between 2022 and 2025), as the net contribution of the measures to the permanent change in the general government balance would be **negative in 2023, at 1.5% of GDP**[17]. In the following two years, the measures will contribute to **improving the deficit by 0.4% in 2024 or 0.1% of GDP in 2025.** However, a substantial part of this improvement is associated with the assumption that local authorities will be forced to offset the shortage in revenues caused by legislative changes and the increased spending on compensations and intermediate consumption not covered by revenues by permanent cuts in operating expenditure (contribution of 0.3 p.p.). If this assumption does

[16] The estimated decline in the inflation rate in 2024 would bring a slowdown in tax revenue growth in 2024, while the expenditure growth rate would be much faster in that year, reflecting the high inflation rate in 2023.

[17] The most significant deficit-increasing measures in the medium term include expenditure associated with the so-called family package, the introduction of the parental pension, measures in the health care sector (in particular, wage increases beyond the automatic mechanism) and wage increases in the civil service and for teaching staff in accordance with agreed collective agreements (beyond the wage increase in the private sector).

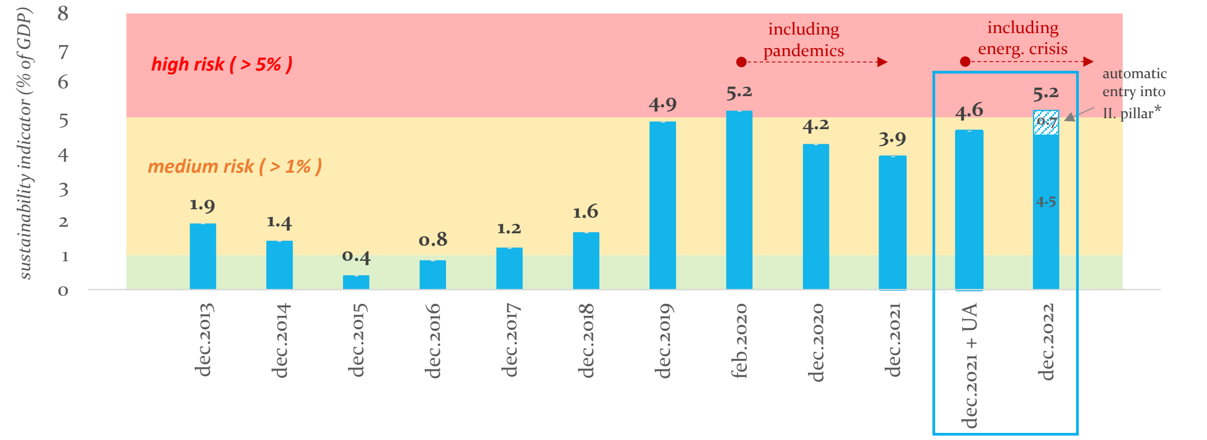
not materialise, the government measures would contribute cumulatively 0.9% of GDP to the deterioration of the balance between 2022 and 2025.

Impacts on the sustainability of public finances

When compared to the evaluation of the budget proposal, the updated development of the primary structural balance of the general government, as envisaged by the CBR, does not have an essential impact on the long-term development of public finances. **Therefore, the fact remains that the long-term sustainability is estimated within the high-risk zone and, in order for the long-term sustainability to materialise, it would be necessary** to increase revenue and/or reduce expenditure by more than EUR 6.4 billion (5.2% of GDP). This situation (i.e., **1.4% of GDP**) is partially driven by external factors, especially the energy crisis and Russia's aggression against Ukraine, which contributed 0.7% of GDP to the deterioration in sustainability of public finances. The remaining 0.7% of GDP come from the introduction of the automatic entry to the second pension system pillar, although the Council evaluates its introduction positively[18].

[18] Since the long-term sustainability indicator covers a period of 50 years and the benefits of lower payments from the 1st pillar to the persons concerned will for the most part accrue after this interval (and are therefore ignored from the 50-year-based calculation), the long-term sustainability indicator estimates a deterioration of 0.7% of GDP. If a longer time framework is taken into account, the impact on sustainability would be lower.

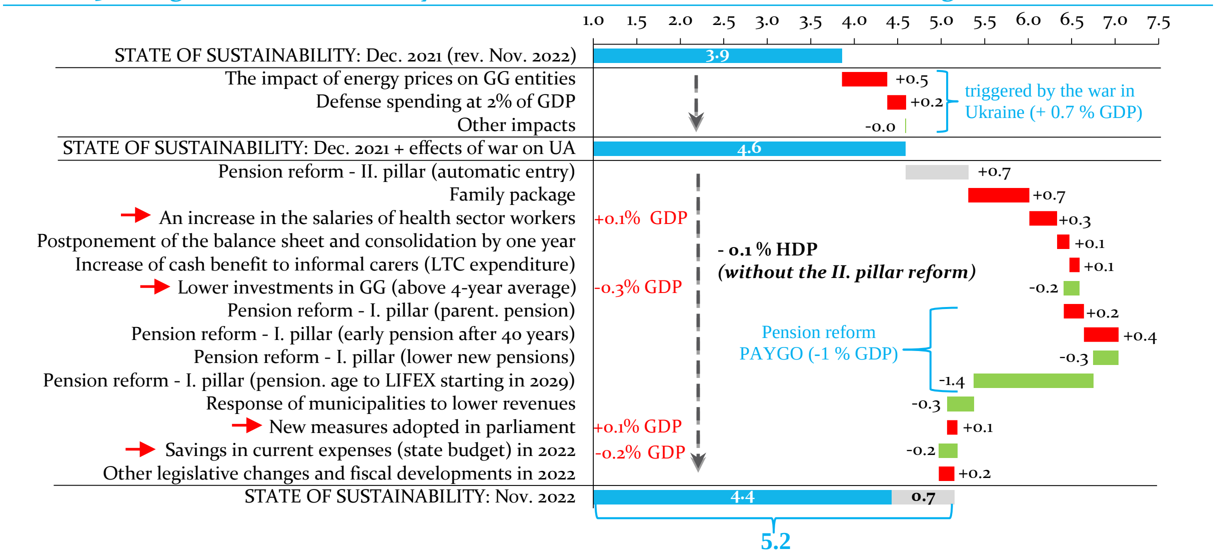
Chart 4: Long-term sustainability development (% of GDP)



(*) The automatic entry to the 2nd pillar is considered by the Council as positive from the long-term perspective. *Source: CBR*

Adjusted for the aforementioned factors, the **long-term sustainability of public finances will improve by 0.1% of GDP year-on-year**. The major contribution to this improvement comes from the pension system reform (1% of GDP) and expected savings of local governments (0.3% of GDP). By contrast, the remaining government measures worsen the sustainability of public finances by 1.2% of GDP. Without the pension reform, the budget alone worsens the long-term sustainability. **Savings from the pension reform will be felt only after the budget period.**

Chart 5: Long-term sustainability in 2021-22 and contributions to the change (% of GDP)



Source: CBR

Compared to the evaluation of the budget proposal approved by the government, the following changes have had the most significant impact on long-term sustainability:

- **Improvement of -0.3% of GDP:** due to **slower year-end spending in investments** among entities and a lower volume of funds carried over to 2023 in the state budget, the expected level of investments except for the EU funds, the Recovery Plan and the

Defence Ministry has been decreased over the entire medium-term horizon, thus reducing the long-term sustainability indicator;

- **Improvement of -0.2% of GDP:** at the end of the year, under state budget expenditure, **savings in operating costs and current transfers were achieved** in comparison with previous estimates; when reflected in expenditure in the upcoming years, these savings are expected to improve the long-term sustainability of public finances;
- **Deterioration of +0.1% of GDP**: an **additional increase in the wages of health care professionals** based on a memorandum signed between the government and the Medical Trade Union (LOZ), bringing a higher permanent level of public expenditure and, therefore, increasing the long-term sustainability indicator;
- **Deterioration of +0.1% of GDP**: the long-term sustainability is worsened by **new measures adopted by the parliament, mainly as regards revenues from taxes and social contributions**, thus permanently increasing the general government deficit;
- **Deterioration of +0.2% of GDP: developments in other items of the budget in 2022** cause the long-term sustainability indicator to increase, with the deterioration resulting primarily from a slower growth in tax revenue, thus reducing the expected revenues over the entire budgetary horizon.

3. Budget transparency

In its evaluation of the budget proposal, the CBR called for a stronger application of the Value for Money principle also in connection with other economic policies beyond the framework of assessing investments. At the same time, the CBR noted several persistent shortcomings in the budgetary process, such as the absence of consolidation measures for meeting the budgetary objectives in 2024 and 2025, the need for extending the application of no-policy-change scenario to all budget expenditures, and better information about fiscal performance of state-owned undertakings. In the present document, the CBR focused on how transparency had been influenced by changes made during the approval procedure in the parliament.

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

Higher health care expenditure is one such example where, through an amendment to the State Budget Act, the expenditure rose in 2023 to cover the agreed increase in wage demands in the sector. Despite the fact that is not a one-off increase applicable only to 2023, it was not reflected in an increase in budget expenditures in 2024 and 2025, according to information from the Ministry of Finance.

The total amount of tax revenues in the budget was approved by the Tax Revenue Forecasting Committee (TRFC) already in September 2022. Since then, a number of legislative changes with significant estimated impacts on the general government balance have been adopted, in many cases totalling hundreds of millions of euros. Even though the budget is consistent with the Committee's conclusions, neither of them is **consistent with the actual situation in terms of legislation adopted at the time of approval of the general government budget**. **As regards the transparency of tax revenues presented in the budget, this situation cannot be considered correct**. At the same time, a number of tax-related measures have been adopted during the fast-track procedure, with many of them attached as amendments to unrelated laws. Such conduct is not in line with the Act on the Rules of Procedure of the National Council of the Slovak Republic[19].

Box 1: Public expenditure ceiling

Compared to the evaluation of the budget proposal, shifts have been seen in several areas related to the public expenditure ceiling:

[19] Pursuant to §94(3) of Act No. 350/1996 Coll. on the Rules of Procedure of the National Council of the Slovak Republic: "When a bill is debated, it is not possible to submit a proposal which amends or supplements a different law that is, in terms of content, unrelated to the bill which is being debated."

- The parliament approved an amendment to the Act on General Government Budgetary Rules concerning the use of the public expenditure ceiling during the validity of the general escape clause announced by the European Commission. In this situation, the government is not required to align the budget with the applicable public expenditure ceiling, while at the same time the ceiling is not broken down to individual general government entities or domains. The government is only required to submit the information concerning the relationship between the approved ceiling and the general government budget to the parliament.
- By means of an amending proposal, the public expenditure ceiling amount for 2023, identical to that which the CBR subsequently submitted to the parliament, has been added to the 2023 State Budget Act. The parliament approved the 2023 State Budget Act on 22 December 2022.
- On 22 December 2022 (following the approval of the budget), a methodology for calculating the ceiling was agreed with the Ministry of Finance and, immediately after reaching this agreement, the CBR calculated and submitted the public expenditure ceilings for the years 2023 to 2025 to the parliament. The parliament approved the submitted ceilings on 1 February 2023.
- At its session on 25 January 2023, the government approved the Information concerning the relationship between the approved ceiling and the general government budget for 2023-2025, noting that while in 2023 the budgeted expenditures were approximately at the level of the calculated ceiling, in 2024 and 2025 the ceilings are exceeded by the budgeted expenditure and, in order to meet the ceilings, it will be necessary to adopt additional measures amounting to EUR 360 million in 2024 and EUR 926 million in 2025.
- At present, due to the applicable general escape clause announced by the European Commission, the government is not required to align the budget with the ceilings following their approval in the parliament. The budget is to be aligned with the applicable ceilings only after the escape clause is deactivated, which the European Commission expects to happen from 2024 onwards.

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

Table 5: Differences in the GG balance between the approved budget and the CBR's forecast (ESA2010, EUR million)

	2022	2023	2024	2025
CBR's general government balance, 2023-25, EUR million	**-5,398**	**-7,871**	**-5,622**	**-5,691**
CBR's general government balance, 2023-25, in % of GDP	**-4.97**	**-6.44**	**-4.32**	**-4.10**
Impacts on general government balance – total:	**1687**	**478**	**1**	**-842**
- in % of GDP	**1.55**	**0.39**	**0.00**	**-0.59**
1. Revenues from taxes and social security contributions	**-371**	**318**	**-154**	**204**
2. Non-tax revenues	**297**	**282**	**358**	**388**
- Dividends – state budget and MH Manažment	38	10	7	1
- Levy on gambling	3	55	55	59
- Emission allowances	0	29	36	22
- Other non-tax revenues (other non-tax revenues of the state budget, EOSA fee)	256	189	259	306
3. Social benefits and transfers	**39**	**58**	**288**	**40**
- Expenditures of the Social Insurance Agency	39	5	272	74
- Social benefits – Ministry of Labour, Social Affairs and Family	1	53	16	-34
4. Transactions with the EU budget	**421**	**129**	**30**	**193**
- Transfer to the EU budget	86	40	48	57
- Co-financing expenditure	447	272	97	283
- Reserve for contributions to the EU budget and EU funding	1	156	156	156
- Financial corrections to EU funds absorption	-114	-338	-271	-302
5. State budget expenditures	**1,486**	**1,134**	**700**	**386**
- Current reserves (excl. wages)	304	155	156	157
- Wage costs of the state budget (incl. reserves)	136	103	-78	-349
- Interest payments	1	200	257	274
- Other current expenditures	413	462	345	327
- Capital expenditures	633	214	20	-23
6. Financial performance of local governments (excl. tax revenues)	**-317**	**-326**	**70**	**-308**
- Municipalities	-277	-315	-40	-346
- Self-governing regions	-39	-11	111	38
7. Expenditures in the healthcare sector	**-144**	**-281**	**-727**	**-947**
- Health care expenditures	91	3	-224	-289
- Repayment of liabilities to shareholders of private health insurers	-20	-25	-25	-25
- Financial performance of hospitals	-178	-204	-415	-562
- Operating costs of health insurance companies	-36	-56	-64	-72
8. Financial performance of other GG entities	**-122**	**-332**	**-607**	**-939**
- ŽSR railway operator	84	-31	34	11
- ZSSK rail transport company	-7	-87	-45	-75
- NDS (National Motorway Company)	91	158	129	109
- Public universities	-31	-83	-131	-201
- Organisations partly funded from the state budget	-148	-282	-390	-485
- Other entities	-110	-7	-204	-298
9. Measures to address the pandemic	**248**	**0**	**0**	**0**
10. Government measures related to the war in Ukraine	**47**	**67**	**0**	**0**
11. Government measures to compensate for energy prices	**104**	**-429**	**124**	**0**
12. Measures to support families	**2**	**-180**	**-116**	**104**
13. Other effects	**-3**	**37**	**34**	**37**
Budget balance reflecting the CBR risks (EUR million)	**-3,711**	**-7,393**	**-5,621**	**-6,534**
Budget balance reflecting the CBR risks (% of GDP)	**-3.42**	**-5.97**	**-4.24**	**-4.54**

Note: a plus or minus sign is used to show the impact on the general government balance

Source: MF SR, CBR

Annex 2 – Updated structural balance

In comparison with the evaluation of the budget proposal (November 2022), several changes have been made in the estimate of the general government structural balance for 2022-25 (Table 6). The CBR updated its estimate of risks and sources for their coverage in the budget based on available information, which affected the size of the general government balance between 2022 and 2025. The changes in the cyclical component were primarily due to an updated CBR's output gap estimate reflecting the most recent output gap estimate by the National Bank of Slovakia (medium-term P4Q forecast)[20] (Table 7). By the same token, legislative measures already approved by the parliament were also incorporated into the medium-term tax forecast. As regards one-off effects, several items have been presented with more accuracy, as shown in Table 8. The above changes have also been reflected in the calculation of the fiscal impulse (Table 9).

Table 6: Change in GG structural balance (2022-2025) – difference in comparison with the Evaluation of the GG Budget Proposal (ESA2010, in % of GDP)

	2022	2023	2024	2025
1. General government balance	**0.1**	**-0.4**	**0.3**	**0.2**
2. Cyclical component	0.0	0.2	0.1	0.1
3. One-off effects	-0.1	-0.6	0.1	0.0
4. Structural balance (1-2-3)	**0.2**	**0.1**	**0.1**	**0.1**
5. Change in the structural balance (Δ4)/ Fiscal compact	**0.3**	**-0.1**	**0.0**	**0.0**

Source: CBR's methodology

Table 7: Output gap estimate (% of pot. GDP)

	2022	2023	2024	2025
Output gap (February 2023)	**0.1**	**-0.6**	**-0.9**	**-0.4**
Change from the Evaluation of the Budget Proposal (November 2022)	0.2	0.9	0.5	0.4

Source: CBR

Table 8: One-off effects (2022-2025) – difference in comparison with the Evaluation of the GG Budget Proposal (ESA2010, EUR million)

	2022	2023	2024	2025
- Compensation for energy prices – households (incl. 14th pensions)	190	-1 735	-	-
- Compensation for energy prices – companies	100	1 225	-	-
- Stabilisation contribution (health care, social services)	-150	14	68	68
- Solidarity contribution from excess profits	-313	-226	124	-
- Costs related to Covid-19	-	-38	-	-
- Aid for Ukraine	50	-42	-	-
Total difference	**-122**	**-802**	**192**	**68**
% of GDP	*-0.1*	*-0.6*	*0.1*	*0.0*

Source: CBR

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

Table 9: Fiscal impulse between 2022-2025 (% of GDP)

	2022	2023	2024	2025
1. Change in structural balance	-0.7	-1.1	-0.4	0.1
a. One-off effects *	-1.4	-2.6	0.1	0.0
b. Change in other factors**	0.0	0.1	-0.2	-0.1
2. Change in structural balance after additional factors (1+Δa-b)	**1.2**	**-2.4**	**2.4**	**0.2**
3. Year-on-year change in transactions with the EU budget	-0.2	2.9	-1.9	-0.6
Fiscal impulse (2-3)	**1.4**	**-5.2**	**4.3**	**0.8**
*Output gap****	*0.1*	*-0.6*	*-0.9*	*-0.4*

(+) restriction, (-) expansion

* *includes Covid-19 measures, measures for aid to Ukraine, compensations to address high energy prices, retroactive top-up of pensions and assistance to selected population groups and companies*

** *reflecting the contributions to the fully-funded pillar of the pension system, PPP projects for the construction of motorways and expressways, and interest payments*

*** *calculated in line with the CBR methodology as an average of estimates of several institutions (CBR, NBS, MF SR)*

Source: CBR

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