

Subsidy Spending Review

Final Report

February 2023



One of the tasks of the Value for Money Project is to review general government expenditure. This document of the Ministry of Finance of the Slovak Republic is an assessment of general government and security within the meaning of Government Resolution of the Slovak Republic No. 289/2022, Task B.2. The assessment was prepared by Jaroslav Bukovina, Martina Erdélyiová, Michal Havlát, Martin Krok, Jakub Kurila, Peter Mandžák, Lenka Martišková, Mária Mihoková, Ján Mykhalchuk Hradický, Janka Palkovičová, Dušan Paur, Vladimír Peciar, Barbora Porubská and interns Tatiana Bielaková, Jakub Jobus and Marco Majerčák, who were headed by Martin Haluš.

Acknowledgements

For valuable suggestions and comments during the preparation of the report, we would like to thank our current and former colleagues Tomáš Hellebrandt, Peter Hronček, Matej Kurian, Juraj Mach, Gabriel Machlic, Martin Murín, Patrik Pružinský and colleagues from the Institute for Financial Policy, Institute for Environmental Policy, Institute for Economic Analyses, Institute for Cultural Policy, Institute for Agricultural Policy, Educational Policy Institute, Institute for Transport Policy, Institute for Digital and Development Policies and the Budget Policy Section of the Ministry of Finance of the Slovak Republic. We would also like to thank Andrej Juris and Michal Hudec from the Regulatory Office for Network Industries and Ján Karaba from SAPI for their valuable comments. Errors and omissions remain the responsibility of the authors.

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Executive summary

The aim of subsidies is to achieve higher societal benefits by reallocating resources. Subsidies should support the production of goods or services that would not be produced without state support (or in smaller quantities) but are beneficial to society. An example is subsidies for the production of green energy, which may have been non-refundable for companies in the past, but have positive environmental impacts. Some of the subsidies provided are a result of EU membership (e.g. Common Agricultural Policy), others have been introduced in the public interest as government objectives. However, subsidies can distort competition, distort pricing, reduce the rationalisation of resource use and thus reduce pressure for efficiency. It is therefore necessary to regularly review whether subsidies are achieving their intended objectives or whether the originally stated objectives are up to date.

The Subsidy Spending Review evaluates spending of EUR 1.46 billion per year (1.5% of GDP; 3.5% of public spending). The objective of the spending review is to identify dysfunctional subsidy schemes with a view to abolishing them and at the same time to formulate measures to increase the efficiency of justified schemes. The spending review considers as subsidies the state aid that either lowers the prices of products and services or raises the incomes of producers compared to the outcome of the free market. Subsidies are provided in the form of public spending (EUR 876 million), tax relief (EUR 471 million) or reduced fees for firms (EUR 116 million). The review does not analyse transfers to municipalities and higher territorial units (devolved government), to individuals in the form of social benefits, and also contributions from EU funds or contributions abroad (e.g., to the EU budget). Beyond the overview and description of the schemes in the interim report, the final report adds evaluations and recommendations for each scheme.

The final report evaluates existing subsidy schemes, in particular in terms of the need for state intervention and the appropriateness of the form of subsidy. Due to the size and number of subsidy schemes, the final report assesses the design of subsidies and overall effectiveness only in selected cases. Detailed evaluations are proposed to be carried out for all existing subsidy schemes, for example by the analytical units of each ministry.

One of the findings of the review is that the assessment of the impacts or effectiveness of subsidy schemes is not systematically carried out in Slovakia. In most cases, schemes do not have clearly defined objectives to achieve and key performance indicators against which effectiveness can be assessed. Although state intervention in the free market is in most cases justified and supported by economic theory, it is often unclear whether the chosen form of support is the most effective. Alternative options for the form of support are often not considered when schemes are introduced. Combined with unclear objectives, it is thus unclear whether public money is being spent efficiently where it is most needed. The reallocation of funds itself is often mistaken for an objective, even if the subsidy is only meant to be a tool to achieve it.

The review recommends the abolition of subsidy schemes worth EUR 291 million per year, of which EUR 174 million with an impact on the state budget and EUR 117 million in electricity prices for consumers (average 2019-2021). The market failures that they corrected are no longer relevant or the schemes are ineffective in removing the failures. For schemes worth EUR 80 million, the review recommends suspending funding and making their eventual reinstatement conditional on modification or more detailed analysis demonstrating their effectiveness. Subsidies worth EUR 358 million need to be adjusted to improve their effectiveness. As it stands, the review proposes to maintain the support of EUR 630 million.

In terms of expenditure, the most significant part of the subsidies examined (EUR 809 million per year) goes to the energy sector, of which schemes worth around EUR 218 million per year are recommended for abolition by the review. For the schemes to support the production of electricity from domestic coal (EUR 130 million) and the compensation of companies for the TSO (EUR 40 million), the market failures that justified them no longer exist. Optional exemptions from energy taxes (EUR 61 million) are not the most effective way of meeting the objectives. Sixty per cent (EUR 505 million) of the subsidies are made up by end

consumers in the price of electricity. Another EUR 255 million is made up of tax expenditure and reduced charges. Only EUR 49 million is financed from the state budget. The undefined objectives and the absence of key performance indicators make a detailed evaluation of the schemes difficult. The lack of transparency and opacity of the individual schemes (especially for reduced rates) is also a problem. Publication of data on volume, unit amount and beneficiaries should be a minimum standard. The state may pursue several, partly conflicting objectives in the energy sector - environmental (reduction of greenhouse gas emissions and harmful substances), economic (energy prices and support for businesses), geopolitical (energy security), or technological (promotion of new sources).

State support for sport amounts to EUR 110-150 million a year. While sport subsidies in Slovakia are meeting appropriately set objectives, the problem may be that key performance indicators are not always sufficiently set and the target status is not clearly defined. Before the next pooling of resources, the Sport Support Fund should spend the current ones. Although Slovakia's structural spending from the state budget on sport has doubled since 2015 (from around EUR 50 million in 2015), Slovakia allocates less public spending to sport than the average of EU countries. Funding for sport is fragmented among multiple actors with similar objectives, which increases bureaucracy and complicates the pursuit of public interest. However, the combination of distinctly different objectives (youth, representation) complicates the debate on ambition and the results achieved. According to the literature, the state should encourage the population to be physically active in the first place, which should translate into better health, including mental health. Support for the representation of Slovakia also brings feelings of happiness and national pride to the population.

Agricultural subsidies, excluding EU funds, amount to an average of EUR 64 million per year and account for less than a tenth of total support in the sector. The review proposes to abolish non-transparent support for food producers (EUR 6 million). The review also proposes to suspend schemes worth EUR 37 million (mainly Green Diesel, EUR 25 million) pending an analysis that will allow clear targets to be set and increase pressure on the efficiency and productivity of support. Most support for agriculture is paid for by the EU through the Common Agricultural Policy measures. The productivity of Slovak agriculture is low, agriculture is not very competitive and is more dependent on subsidies than in other EU Member States. State subsidies often take the form of across-the-board "compensation schemes", which do not sufficiently motivate the efficiency of beneficiaries and increase the productivity of the sector. The resulting effect of interventions in agriculture remains questionable. The impact of the subsidies provided is not independently evaluated - it is not clear what effect the funds have had and whether they have achieved their intended objectives. There is a concentration of support for large farms, weak support for organic farming, the creation of redundant administration or indirect aid through payments for filling in questionnaires instead of standard subsidy calls.

Subsidies in culture amount to around EUR 60 million annually, of which EUR 15 million are provided directly through the subsidy system of the Ministry of Culture of the Slovak Republic and EUR 40 million through subsidy funds. The total expenditure on culture is comparable with abroad. A good practice in culture support is the existence of independent subsidy funds, in which the decision on the subsidies provided is independent of the Ministry. However, the subsidy schemes mainly lack clear objectives and key performance indicators. They need to be set and evaluated in such a way that the benefits of culture support are evident. Often, even basic indicators such as the number of visitors to supported events are not published. Improving data collection on supported projects, already recommended by the Culture Spending Review (2020), would allow for an assessment of results and an overall evaluation of the effectiveness of support activities. In particular, culture subsidies should aim to support areas and activities that bring broad societal benefits, contribute to the consolidation of national identity, while not being commercially self-sufficient (e.g., traditional folk culture, research and educational activities). The enjoyment of different cultural goods improves the social behaviour of citizens, increases their openness, sensitivity and tolerance and thus contributes to a better functioning society.

Subsidies for research and development (R&D) from the state budget amount on average to EUR 86 million. The spending review recommends adjusting the operation of the R&D cost super-deduction (EUR 42 million) to make it significantly more targeted at small and medium-sized enterprises. It also proposes to abolish the patent box, which is not used in practice. Slovakia spends significantly less on research and development than most EU countries and the least of all V4 countries. At the same time, it performs poorly in research and development compared to other countries. To improve, it is not enough to streamline the support system; the reforms proposed in the Recovery and Resilience Plan as well as the reform of governance and management of institutions are important. Economic theory emphasises the need for state support, especially for basic research, which carries the highest risks for the investor but positive spillover effects for the whole economy. At the same time, government spending on research and development also stimulates private sector participation. The most effective support is for small and medium-sized firms, which are unlikely to carry out research without support. Research and development subsidies are predominantly redistributed to researchers in the public sector (86% of expenditure), with little support for the private sector.

The state supports tourism from the budget with an average of EUR 68 million per year. Support for tourism is also justified by the significantly lower number of overnight stays per person than the EU average. More than half of the package is made up of tax expenditure to support the sector as a whole, or domestic tourism. Slovakia Travel has two to three times higher expenditure in relation to the size of the tourism sector than agencies abroad. We recommend reducing the agency's budget to a level comparable to other countries. Holiday vouchers are mainly targeted at supporting domestic tourism, despite the fact that Slovakia lags behind the EU average significantly in the number of overnight stays by foreign tourists. The justification for reduced VAT depends to a large extent on the approach of neighbouring countries with similar policies and partly compensates for the reduced profit of businesses due to weekend surcharges. The schemes lack established key performance indicators against which it would be possible to retrospectively evaluate the effectiveness of the support and hence its efficiency.

Regional development in Slovakia is supported by an average of EUR 322 million per year. The largest part is made up of EU funds (EUR 204.5 million and co-financing on average EUR 29.6 million), the remaining EUR 88 million are state budget subsidies. Almost 75% of the direct investment aid was directed to more developed districts with above-average employment or to the vicinity of motorways. We recommend increasing the targeting of investment aid with a view to increasing its potential to reduce regional disparities and/or attract higher value-added investments. In particular, regional development subsidies aim at gradually closing the socio-economic gap between developed and less developed regions. Schemes lack clear objectives and systematic evaluation of results. It is therefore not clear whether there is a real reduction in regional disparities. There is some overlap in objectives between the schemes and other areas (e.g. support for the construction of playing fields with the Sport Support Fund).

Spending review recommendations

Area	Name of the scheme	Recommendation	Amount (EUR million)
Energy sector	Support for RES and HE CHP	Retain. In the future, support the expansion of auctions with conditions that fulfil the principle of value for money. Also, the current form of support by means of a surcharge at low guaranteed feed-in prices helps investors to expand capacity. Define targets and KPIs.	388.2
	Support for electricity generation from domestic coal	Abolish as soon as possible in 2023, in accordance with the government resolution. Once the stability of the transmission system and heat supply to the surrounding municipalities has been secured, there is no justification for further subsidising the Nováky power plant, while the electricity generated from the power plant additionally burdens consumers with an increase in the TSO.	116.8

Area	Name of the scheme	Recommendation	Amount (EUR million)
	Compensation to companies for the tariff for system operation	Abolish in 2023 with respect to the reduced TSO tariff. TSO compensation to companies is a justifiable subsidy if the TSO price is high. In 2024 it is appropriate to support only companies with consumption between 1 and 100 GWh and to reduce the amount of the subsidy.	40.0
	Support for the decline and liquidation of coal mining - closure of mining fields	Retain, verify the amount of funding needed and reduce state budget requirements. State support for mine closure is a necessary subsidy, but the expected level of funding needs to be verified on the basis of an objective and independent assessment of costs. It would also be appropriate to reduce the demands on the state budget by making the most of European resources, in particular the Just Transition Fund.	3.7
	Support for energy-intensive businesses from ETS allowances	Retain, increase predictability. The level is not stable year-on-year, which reduces predictability and makes long-term planning on the part of firms impossible.	5.0
	Individual rate of TSO levy	Retain in its current form as it fulfils a justified objective - the competitiveness of businesses. Following the introduction of a multi-band TSO in 2022, the individual rate is a form of duplication. However, its continuation makes sense in the event of an increase in the third TSO band or the abolition of the multi-band system. It would be appropriate to increase the transparency of the scheme by annually informing on the beneficiaries of the individual tariff.	81.7
	Individual rate of TSS (Tariff for System Services) levy	Retain in its current form as it fulfils a justified objective - the competitiveness of businesses and also has a technical justification. It would be appropriate to increase the transparency of the scheme by annually informing on the beneficiaries of the individual tariff.	21.1
	Reduction of the effective rate of the levy to the National Nuclear Fund (NNF)	Retain in its current form. It would also be appropriate to disclose information on the NNF income foregone due to the reduction in the effective rate of the levy.	7.3
	Discounts on tariffs for reserved capacity and electricity transmission	Retain. The continued existence of the discount is justified as it is granted on a non-discriminatory basis and increases the competitiveness of businesses. The objectives need to be defined.	6.3
	Optional exemptions from excise duty for households, energy and transport	Abolish and replace with more efficient methods of meeting targets (social transfers, increase in feed-in tariffs).	60,8
	Optional exemptions from excise duty for industry	Retain with regard to maintaining the competitiveness of the industry and support existing abroad.	69,8
Sport	Recognised sports	Retain, set clear targets and for KPIs set target values for each target. Align the payout formula across sports (legislation is already under preparation, inter-ministerial comment procedure).	56.8
	Sport Support Fund	Suspend contributions; make their further payment conditional on the exhaustion of accumulated reserves. Set the scope of the Fund's activities so that they do not overlap with other subsidy schemes. Set the objectives and the system for selecting the events supported in such a way that they are transparent and compete on the basis of quality.	33.9
	National sports projects (Top Team)	Retain, set clear goals and KPIs. Set measurable objectives and their evaluation so that the benefits of the scheme are evident. Monitor and publish key performance indicators.	14.1
	Sports vouchers	Abolish. The allowance is not a systematic support of sporting activities for children and young people; it is not clear whether it fulfils the desired purpose, as the state does not monitor who draws the allowance, in what amount and which group of the population benefits from it. After the possible introduction of the allowance to finance leisure activities for children, it loses its meaningfulness.	2.4
Agriculture	State aid (Green Diesel)	Suspend. Make the continuation of funding conditional on adjusting the terms of the scheme to increase agricultural productivity. Take into account	24.9

Area	Name of the scheme	Recommendation	Amount (EUR million)
		the currently insufficient conditionality of support to strive for more efficient behaviour of beneficiaries, consistency with the crops and animals supported in the Common Agricultural Policy, high concentration of support. There is a need to set outcome indicators and to regularly evaluate the impacts of the support.	
	State aid (insurance premiums)	Retain and modify. There is a need to regularly and systematically monitor and evaluate the impact of the support. Gradually reduce/eliminate state budget funding when EU support is secured. Consider developing systemic tools to address risks in agriculture, as recommended by several policy documents (Green Report, Agriculture Spending Review).	5.0
	National support (support for state-owned enterprises)	Suspend. Make the continuation of funding conditional on the modification of payout conditions on the basis of an analysis focused on the scope and justification of services provided by state-owned enterprises, the possibility of generating own revenues, the possibility of simplifying administration, and the setting of indicators to monitor the impact of the support. Enterprises also need to be subjected to audits already recommended by previous spending reviews.	5.7
	Support for food producers	Abolish in view of non-transparency, form of payment (reward for completing questionnaires), unclear objective and KPIs. An alternative to abolition would be to make the scheme more transparent - approval by the European Commission (notification) is required for inclusion in the official support schemes of the MARD SR.	5.8
	Complementary national payments (livestock units)	Suspend. Make the continuation of funding conditional on adjustments to the payout conditions, based on an analysis to assess the impact of the scheme and the transaction costs, concentration of payments, targeting and environmental impact of the support. Gradually reduce funding in line with EU legislation, extend it maximum up to 2027. It should not be extended to additional forms of support (area support, hops and payment for animals).	3.8
	Military Forest Administration	Suspend. Make the continuation of funding conditional on adjustments to payout conditions on the basis of an analysis focused on the possibility of obtaining other sources of funding along the lines of similar state-owned enterprises abroad, the possibility of simplifying administration, and the setting of indicators to monitor the impact of the support. The enterprise should also be subjected to audits, already recommended by the Spending Review of Wage.	3.0
Culture	Art Support Fund	Retain and modify. Set measurable objectives and their evaluation so that the benefit of the Fund is evident. Monitor and publish, at a minimum, the number of visitors to supported events and other key performance indicators.	20.2
	Audiovisual Fund	Retain and modify. Set measurable objectives and their evaluation so that the benefit of the Fund is evident. Improve the KPIs monitored.	12.5
	Fund for the Support of National Minority Culture	Retain and modify. Set measurable objectives and their evaluation. Introduce a transparent system for redistributing contributions among minorities in line with their representation in the population. Consider merging administrative support activities with the Art Support Fund.	7.6
	Let's renovate our house	Retain and modify. Implement the measures of the Culture Spending Review relating directly to both the subsidy scheme and the protection of the monuments fund. Establish a more specific target and its evaluation so that the benefit of the scheme is evident.	11.9
	Promoting attendance at cultural events (Cultural vouchers)	Retain and modify. Implement the measures of the Culture Spending Review aimed at reducing the operating expenses of the scheme, enabling an assessment of its effectiveness and removing the obligation for schools to re-register.	2.0

Area	Name of the scheme	Recommendation	Amount (EUR million)
	Support for the activities of the Slovak Matica (Matica slovenská)	Suspend. Make continuation of funding conditional on an analysis. Examine which tasks entrusted to the Matica by law could be carried out by other institutions, or for which tasks the Matica could try to apply for competitive subsidies, e.g. from the ASF, which would contribute to increasing the quality of its outputs.	1.6
	Culture of disadvantaged population groups	Retain and modify. Set measurable objectives and their evaluation so that the benefit of the scheme is evident.	0.9
Research and development	General call of the SRDA	Retain, publish more data on supported projects directly on the SRDA website. Slovak R&D support is significantly underfunded compared to foreign countries. The scheme is competitive and applicants are transparently evaluated. Supported projects are evaluated retrospectively. However, detailed information is not published on the SRDA website in a way that makes it easy to search and obtain all available information.	35.7
	Incentives for research and development	Retain. Slovakia's private R&D spending is among the lowest in the EU. The scheme supports this sector, thus contributing to its growth.	5.2
	Tax relief (R&D cost super-deduction)	Retain and modify. In order to increase public and private R&D spending in line with the Recovery Plan (Component 9), it is proposed to maintain the super-deduction, but at the same time to modify its functioning to be significantly more SME-oriented.	41.9
	Patent box	Abolish. Patent box is virtually not used in practice. Every year it is used by about 10 domestic companies, mainly from the IT sector, in the amount of about 1.2 million euros.	1.2
Tourism	Slovakia Travel	Retain and modify. Reduce the agency's budget to a level comparable to other countries. Consider partial take-over of marketing and promotional tasks by area-based tourism organisations (economies of scale).	19.0
	Subsidies to tourism organisations	Retain and modify. Reconsider the amount of subsidies, as the newly established Slovakia Travel agency has partially taken over the tasks of the area-based organisations in promotion and marketing. Also focus more on those area-based organisations that do not have a highly developed tourism infrastructure.	7.3
	Holiday vouchers	Retention with a fixed end date. In the context of the post-crisis support to the most affected sectors, a stay in place could be considered until tourism returns to its pre-pandemic levels. Keeping vouchers in place is equivalent to sectoral aid.	28.0
	Reduced VAT on accommodation	Temporarily retain and reassess the impact on the sector. The reduction of VAT and its pass-through to final prices is questionable in the economic literature; it does not generally lead to price reductions. We recommend addressing the low productivity of the sector and its competitiveness through targeted levy-deductible items that can reduce labour costs (a major cost item for the accommodation sector).	31.0
Regional development	Support for the least-developed districts	Retain and modify. Prioritise projects and entities that have the potential to create or retain jobs; municipal enterprises may be an example. Reconsider the extent to which support for projects has a more substantial impact on increasing employment. Eliminate the overlap of tourism or cultural development projects, which should be brought under the designated schemes. Monitor and evaluate the achievement of objectives.	15.9
	Support for regional development	Suspend. Make the continuation of funding conditional on a more detailed review. Regional development can largely be financed from EU sources - therefore priority should be given to encouraging greater uptake of EU funds (IROP for regional development). The extent to which the scheme complements other calls (e.g. EU funding) should be examined.	7.4
	Regional investment aid	Retain and modify. We recommend increasing the targeting of investment aid. For example, through adjusting the criteria of the evaluation model in the investment incentive application with the intention of increasing its potential to reduce regional disparities and/or attract higher value-added	64.7

Area	Name of the scheme	Recommendation	Amount (EUR million)
		investments. At the same time, indirectly, this instrument partly contributes to maintaining competitiveness (vis-à-vis other countries and tax systems).	
Other	Mobility support in the form of an accommodation and transport allowance	Retain and modify. The availability of skilled labour is crucial for the Slovak economy and therefore support for labour mobility is justified. The scheme should set KPIs to determine its effectiveness.	22.7
	Wine tax - reduced rate (0 EUR)	Abolish. From a health point of view, taxation according to alcohol content seems to be the most appropriate, which would also be indexed by the increase in the price level and thus prevent significant differences between different types of alcoholic beverages. An additional argument is the elimination of unequal taxation across different types of alcohol.	36.9
	Alcohol tax - reduced rate for growers' distillation	Retain. The need for intervention is partly justified, as the reduced rate motivates households not to use illegal home distilling, which has non-negligible health risks.	13.3
	Beer tax - reduced rate for small breweries	Retain and modify. Reconsider whether it is necessary to specifically help the beer sector through excise duties. This is an across-the-board sectoral aid which is not evaluated. It is not clear why it is the small brewers' sector that should receive aid or whether it is value for money.	1.5
	Reduction of the CIT rate from 21% to 15%	Retain and reassess the expediency of the measure. Not all micro-taxpayers can take advantage of the measure as a taxable profit is needed. Thus, in 2021, only 37% of micro-taxpayers (65 thousand) took advantage of the reduced rate. The reduced rate is also used by businesses whose sales have fallen over the period, which may have also led to the subsidisation of inefficient firms.	21.3
	Other tax reliefs for micro-taxpayers	Retain and modify. We recommend reconsidering the concept of a micro-taxpayer. Currently, only revenue is considered for micro-taxpayers. Other factors, such as number of employees or balance sheet, can be taken into account in order to improve the definition.	10.3
	Exemption of capital income from the sale of securities on a regulated market	Retain and modify. We recommend that the measure be reconsidered, particularly in the context of its potential to make investing more attractive or to increase the potential for retirement savings. The availability of savings and investment products, financial literacy and potential risks for the investor/savers should also be taken into account in the reassessment of the measure. It is also appropriate to evaluate the minimum security holding period, as the current period of 1 year does not create strong incentives for long-term investment.	5.0
	Exemption of capital income from the sale of a business interest	Retain and modify. We recommend improving the reporting of data on the sale of a business interest, which would then allow for an assessment of the stated objectives.	21.0
	Reduction of the depreciation period for electric vehicles	Retain and modify. Depreciation is only available to entrepreneurs and companies and the benefit comes primarily from a reduction in their tax liability.	4.1

1. Subsidies as gifts - they please even if they are not useful

- The aim of subsidies is to reallocate resources to achieve better public welfare outcomes compared to the free market. An example is subsidies for green energy production, which may have been non-refundable for companies in the past, but have positive environmental impacts. However, subsidies can distort competition, distort pricing, reduce the rationalisation of resource use and thus reduce pressure for efficiency, and therefore need to be regularly reassessed.
- The spending review considers state aid that either lowers the prices of goods and services or raises the incomes of producers relative to the free-market outcome to be subsidies (Schwartz and Clements, 1999). Subsidies provided in the form of public expenditure (subsidies and other transfers, EUR 876 million), tax relief (tax expenditures, EUR 471 million), or reduced fees (EUR 116 million) were evaluated.
- The Subsidy Spending Review assesses expenditure of EUR 1.46 billion per year (1.5% of GDP; 3.5% of public expenditure) in eight areas.
- The spending review does not assess expenditure from EU funds, social transfers and transfers to municipalities and HTUs (devolved government).

The aim of subsidies is to reallocate resources to achieve better public welfare outcomes compared to the free market. The most common argument in favour of subsidies is market failure, which causes production and resource allocation decisions that are optimal from the perspective of individual firms to be suboptimal from the perspective of society as a whole (Schwartz and Clements, 1999, Wilson and Pomfret, 2009)¹. An example is green energy production subsidies, which may be non-refundable for firms but have high social benefits.

In reality, subsidies often fail to deliver the desired results, are socially costly and are perceived as unfair. Subsidies can distort competition, distort pricing, reduce the rationalisation of resource use and thus reduce pressure for efficiency (Diaz Arias and van Beers, 2013). Thus, subsidies generate not only direct financial costs but also indirect costs. For these reasons, the introduction of subsidy schemes needs to be thoroughly defended and their achievements and effectiveness regularly reassessed.

1.1. What are subsidies? As with beauty, it depends who is looking.

The Subsidy Spending Review assesses expenditure of EUR 1.46 billion per year (1.5% of GDP; 3.5% of public expenditure). There is no clear definition of subsidies in the literature. The spending review considers subsidies to be state aid that either lowers the prices of goods and services or raises producers' incomes relative to the free market outcome (Schwartz and Clements, 1999). Subsidies² can be provided in the form of:

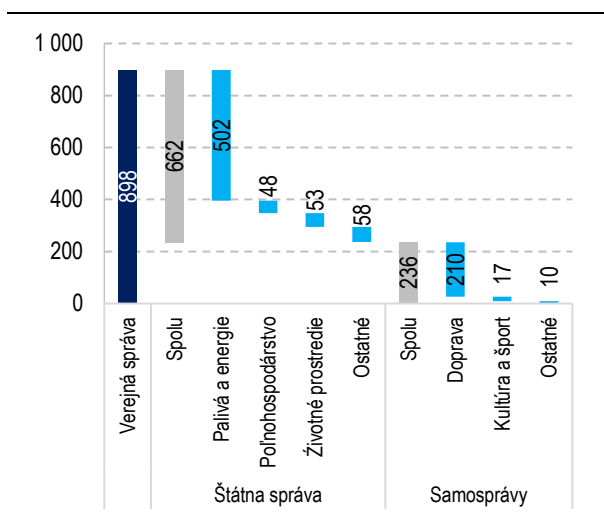
- public expenditure (subsidies and other transfers) - EUR 876 million,
- tax relief (tax expenditures) - EUR 471 million,
- reduced fees - EUR 116 million.

Between 2015 and 2019, the general government provided subsidies in the form of direct expenditure worth EUR 1 billion annually. Of this, EUR 900 million were subsidies (according to the ESA2010 methodology) and EUR 0.1 billion were other competitive transfers to the third sector. The share of subsidies in Slovakia in 2019 was lower (1% of GDP) than the average of the V3 countries (1.4% of GDP) or the EU27 countries (1.2% of GDP). The increase in 2020 was mainly due to one-off expenditures related to the COVID-19 pandemic and a reduction in the overall GDP.

¹ The annex lists all the major market failures and their negative social consequences, taken from Weimer and Vining (2017).

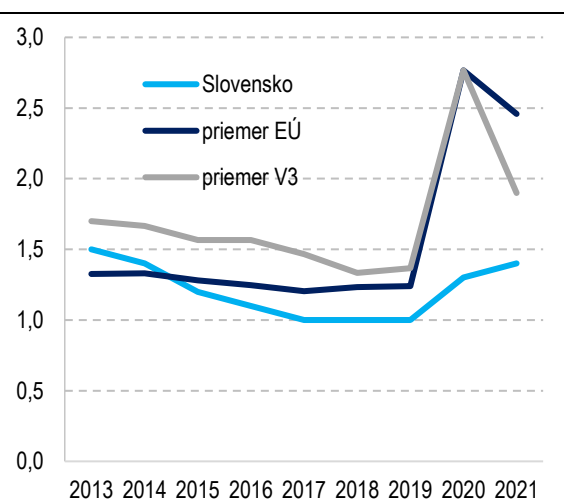
² The subsidies identified by the spending review cover a wider range of government activities than the view through the definition in the law or in the national accounts provides. Act No. 523/2004 Coll. on the budgetary rules of general government recognises direct cash payments by the government to producers or consumers as subsidies. Subsidies within their material scope may be granted by the chapter administrator and are granted only on the basis of a specific law. The definition according to the national accounts (ESA 2010 methodology) uses the concept of subsidies, which also includes payments made by other general government entities as well as implicit payments by the private sector as a result of government regulation (e.g. a tariff for system operation).

Chart 1: General government subsidies by provider in functional breakdown (COFOG), 2015-2019, EUR million



Source: Compilation by the VřMU from Eurostat data

Chart 2: Expenditure on government subsidies, % of GDP



Source: Compilation by the VřMU from Eurostat data

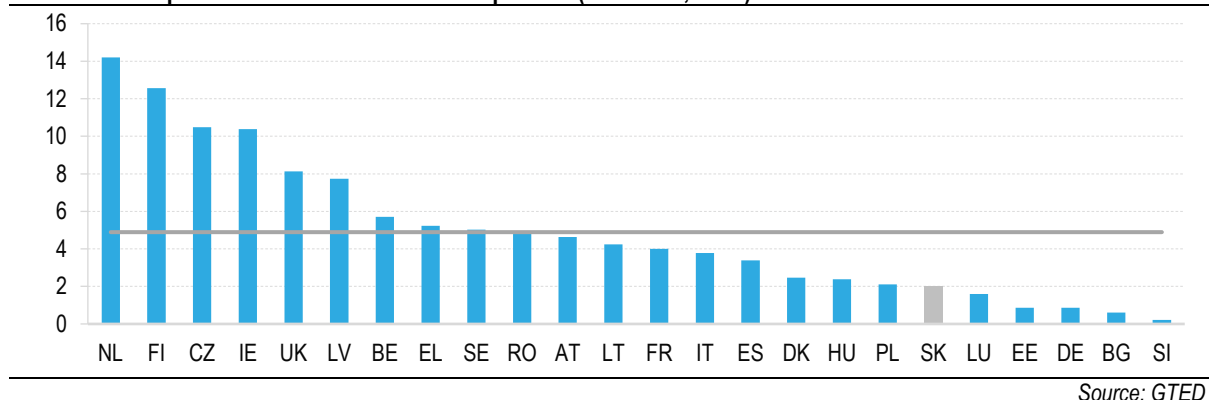
Verejná správa	General government
Spolu	Total
Palivá a energie	Fuels and energy
Poľnohospodárstvo	Agriculture
Životné prostredie	Environment
Ostatné	Other
Doprava	Transport
Kultúra a šport	Culture and sports
Štátna správa	Central government
Samosprávy	Local governments
Slovensko	Slovakia
Priemer EÚ	EU average
Priemer V3	V3 average

The same public policy objectives pursued by subsidies can also be achieved through selective tax advantages that reduce potential tax revenues (so-called tax expenditures). Thus, part of government spending is "hidden" in tax laws in the form of various advantages or exemptions, about whose financial magnitude there is only scarce information and, in the Slovak case, weak reassessment mechanisms (Rahim et al., 2022). In both cases, their impact on the general government balance may be the same (IFP, 2014). Tax expenditures complicate the tax system and their effectiveness is more difficult to assess than for direct expenditures³. Eliminating tax exemptions generally leads to a more efficient tax system and the potential savings can serve to reduce the overall tax burden. Equally, their abolition can be used to achieve growth-oriented fiscal consolidation (IFP, 2014).

Of the total tax expenditures, the review focuses on those that are mainly intended to support the private sector and have similar objectives to subsidies. Slovakia provides relatively smaller tax expenditures (2% of GDP) compared to selected EU countries (4.9% of GDP). According to the IMF, total tax expenditures are not significant in size, but their setting should be subject to regular evaluation (Rahim et al., 2022).

³ According to the OECD, the goal of the tax system should be efficient tax collection with a broad base and a small number of justified tax exemptions to avoid speculation (OECD, 2010). In terms of efficiency, simplicity and fairness, the tax system should not address social or economic policy as a priority. In practice, it is difficult to evaluate the effectiveness of tax expenditures against, for example, expenditure-side policies (OECD, 2010), as they are generally administered by the financial administration, whose main objective is to collect taxes rather than to assess their impact.

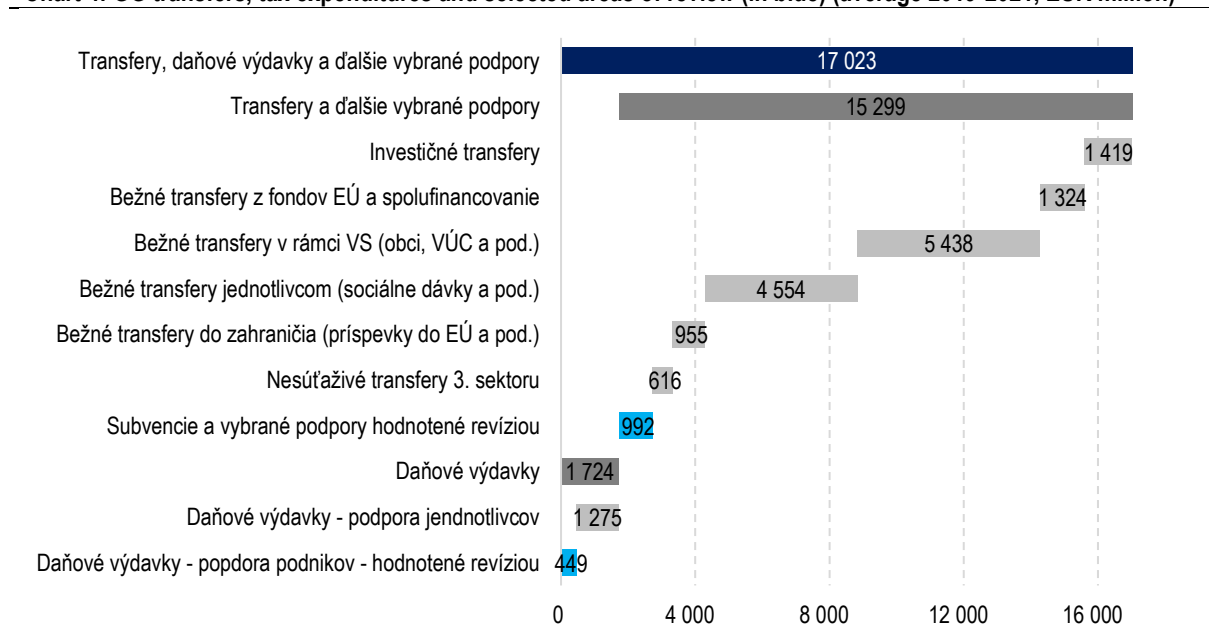
Chart 3: Tax expenditures in international comparison (% of GDP, 2020)



In the energy sector, there is additional support for companies in the form of reduced tariffs and fees in final electricity prices. The aim of tariff and fee reductions is to maximise the overall social benefit and to influence the behaviour of economic operators. The European Commission considers tariff reductions to be state aid, even if the funds do not pass through the state budget but are set by the government.⁴

The spending review does not assess transfers to households (e.g. social benefits), expenditure on emergency measures related to the COVID-19 pandemic, contributions from EU funds or abroad (e.g. to the EU budget), and transfers to municipalities and HTUs (devolved government). The review also does not assess transfers to the third sector that are provided as a complement to funding for public entities - e.g. education grants for pupils in religious and private schools or contributions to non-state social service facilities.

Chart 4: GG transfers, tax expenditures and selected areas of review (in blue) (average 2019-2021, EUR million)



Source: BIS MF SR, General Ledger, MF SR

Transfery, daňové výdavky a ďalšie vybrané podpory	Transfers, tax expenditures and other selected support
Transfery a ďalšie vybrané podpory	Transfers and other selected support
Investičné transfery	Investment transfers
Bežné transfery z fondov EÚ a spolufinancovanie	Current transfers from EU funds and co-financing
Bežné transfery v rámci VS (obci, VÚC a pod.)	Current transfers within the GG (municipality, HTU, etc.)
Bežné transfery jednotlivcom (sociálne dávky a pod.)	Current transfers to individuals (social benefits, etc.)
Bežné transfery do zahraničia (príspevky do EÚ a pod.)	Current transfers abroad (EU contributions, etc.)
Nesúťaživé transfery 3. sektoru	Non-competitive transfers to the 3rd sector

⁴ This principle was also confirmed in point 25 of state aid notification SA.50877 (2018/N). The relevant legal precedents are the judgments of 11.12.2014, Austria v Commission, T-251/11, EU:T:2014:1060, paragraph 112; and of 10.5.2016, Germany v Commission, T-47/15, EU:T:2016:281, paragraph 55.

Subvencie a vybrané podpory hodnotené revíziou	Subsidies and selected support assessed by the review
Daňové výdavky	Tax expenditures
Daňové výdavky - podpora jednotlivcov	Tax expenditures - support to individuals
Daňové výdavky - podpora podnikov - hodnotené revíziou	Tax expenditures - support to enterprises - assessed by the review

Box 1: Subsidies from EU funds

The review does not assess subsidies from EU funds due to the end of the programming period. Most of the subsidies from the 3rd programming period are already spend or contracted and thus there is minimal room for intervention. There is not yet enough information on the next programming period. From the third programming period, EUR 5.2 billion has been spent on subsidies until 2021, with a further EUR 1.4 billion budgeted for 2022-2024. Subsidies from EU funds are mainly directed to agriculture (90%), most of them to the Common Agricultural Policy (EUR 3.4 billion spent; EUR 0.5 billion budgeted until 2024) and rural development (EUR 0.9 billion spent; EUR 0.9 billion budgeted until 2024).

Table 1: Absorption of EU funds in the 3rd programming period (EUR million)

	2014-2018 S	2019-2021 S	2022-2024 N	Total
TOTAL	6 231	7 748	7 634	21 614
Subsidies	2 748	2 479	1 433	6 659
Pillar 1 Common Agricultural Policy	2 086	1 368	489	3 943
Rural Development SR 2014 - 2020	506	412	934	1 851
OP Research and Innovation and Integrated Infrastructure	75	470	10	555
Other	81	229	0	310
Other transfers	690	1 473	478	2 641
Compensation of employees	230	517	0	748
Goods and services (including advances for EU projects)	229	400	2 790	3 420
Capital expenditure	2 334	2 879	2 933	8 146

Source: BIS, MF SR

Around EUR 1.4 billion will be allocated to subsidies (excluding the Common Agricultural Policy) in the next programming period. This is a rough estimate based on available data. Expenditure will be directed mainly towards science, research and innovation (EUR 0.6 billion), improving energy efficiency and decarbonisation (EUR 0.4 billion) and the environment (EUR 0.3 billion). EUR 3.3 billion will be allocated to the Common Agricultural Policy. On the basis of the available data, it is not possible to analyse the schemes in detail at the moment.

Table 2: Expected subsidies from EU funds, programming period 2021-2027 (EUR million)

Priorities	Allocation
Research, science and innovation	611
Energy efficiency and decarbonisation	352
Environment	288
Skills for better adaptability and inclusion	105
Adaptable and accessible labour market	11
Just Transition Fund	N/A
TOTAL	1 370

Source: Partnership Agreement, compilation by the VfMU

1.2. To which areas do the subsidies go?

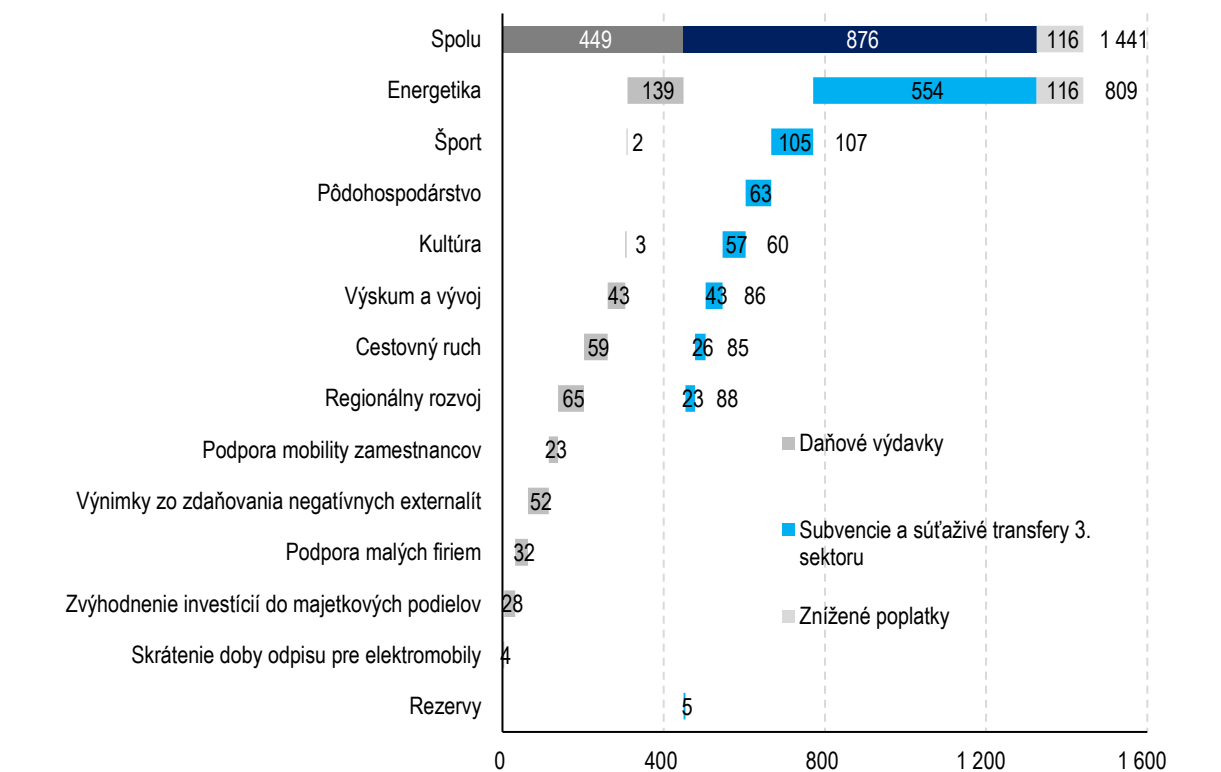
The review divides the subsidy schemes into 8 areas, irrespective of the form in which they are provided. More than 50 schemes are analysed in more detail (

Spolu	Total
Energetika	Energy sector
Šport	Sport
Pôdohospodárstvo	Agriculture
Kultúra	Culture
Výskum a vývoj	Research and development
Cestovný ruch	Tourism
Regionálny rozvoj	Regional development
Podpora mobility zamestnancov	Employee mobility support

Výnimky zo zdaňovania negatívnych externalít	Exemptions from taxation of negative externalities
Podpora malých firiem	Support for small firms
Zvýhodnenie investícií do majetkových podielov	Advantageous investment in equity interests
Skrátenie doby odpisu pre elektromobily	Reduction of the depreciation period for electric vehicles
Rezervy	Reserves
Daňové výdavky	Tax expenditures
Subvencie a súťaživé transfery 3. sektoru	Subsidies and competitive transfers to the 3rd sector
Znížené poplatky	Reduced fees

Table 3). Expenditure is mainly directed towards energy (EUR 809 million), sport (EUR 107 million), regional development (EUR 88 million), research and development (EUR 86 million), tourism (EUR 68 million) and agriculture (EUR 63 million), and several other areas, which are the subject of separate chapters.

Chart 5: Expenditure on subsidies, selected transfers and tax expenditures by area (EUR million, 2019-2021)



Source: GG budget, compilation by the VfMU

Spolu	Total
Energetika	Energy sector
Šport	Sport
Pôdohospodárstvo	Agriculture
Kultúra	Culture
Výskum a vývoj	Research and development
Cestovný ruch	Tourism
Regionálny rozvoj	Regional development
Podpora mobility zamestnancov	Employee mobility support
Výnimky zo zdaňovania negatívnych externalít	Exemptions from taxation of negative externalities
Podpora malých firiem	Support for small firms
Zvýhodnenie investícií do majetkových podielov	Advantageous investment in equity interests
Skrátenie doby odpisu pre elektromobily	Reduction of the depreciation period for electric vehicles
Rezervy	Reserves
Daňové výdavky	Tax expenditures
Subvencie a súťaživé transfery 3. sektoru	Subsidies and competitive transfers to the 3rd sector
Znížené poplatky	Reduced fees

Table 3: Overview of subsidy schemes included in the interim report (average 2019-2021, EUR million)

Form	Chapter	Name of the scheme	Expenditure
Energy sector total			809,3
Subsidy	3.1	Support for RES and HE CHP	388.2
Subsidy	3.2	Support for electricity generation from domestic coal	116.8
Subsidy	3.3	Compensation to companies for the tariff for system operation	40.0

Form	Chapter	Name of the scheme	Expenditure
Subsidy	3.4	Support for the decline and elimination of the consequences of mining in the coal mining sector - closure of mining fields	3.7
Subsidy	3.5	Support for energy-intensive businesses from ETS allowances	5.0
Reduced fee	3.6	Individual rate of TSO levy	81.7
Reduced fee	3.7	Individual rate of TSS (Tariff for System Services) levy	21.1
Reduced fee	3.8	Reduction of the effective rate of the levy to the National Nuclear Fund (NNF)	7.3
Reduced fee	3.9	Discounts on tariffs for reserved capacity and electricity transmission	6.3
Tax expenditure	3.10	Optional exemptions from excise duty for households, energy and transport	60.8
Tax expenditure	3.11	Optional exemptions from excise duty for industry	69.0
Tax expenditure	3.12	Obligatory exemptions from excise duty*	8.2
Sport total			107.2
Subsidy	4.1	Recognised sports	56.8
Subsidy	4.2	Sport Support Fund	33.9
Subsidy	4.3	National sports projects	14.1
Tax expenditure	4.4	Sports vouchers	2.4
Agriculture total			63.4
Subsidy	5.1	State aid	43.3
Subsidy	5.2	National support	7.5
Subsidy	5.3	Support for food producers	5.8
Subsidy	5.4	Complementary national payments (livestock units)	3.8
Subsidy	5.5	Military Forest Administration	3.0
Culture total			60.0
Subsidy	6.1	Art Support Fund	20.2
Subsidy	6.2	Audiovisual Fund	12.5
Subsidy	6.3	Fund for the Support of National Minority Culture	7.6
Subsidy	6.4	Let's renovate our house	11.9
Subsidy	6.5	Promoting attendance at cultural events (Cultural vouchers)	2.0
Subsidy	6.6	Support for the activities of the Slovak Matica (Matica slovenská)	1.6
Subsidy	6.7	Culture of disadvantaged population groups	0.9
Tax expenditure	6.8	Reduced VAT on print media	3.3
Research and development total			85.7
Subsidy	7.1	General call (SRDA)	35.7
Subsidy	7.2	Incentives for research and development (MESRS SR)	5.2
Subsidy	7.3	Other subsidies of the MESRS SR	0.8
Subsidy	7.4	Research and development to support national defence	0.9
Tax expenditure	7.5	Tax relief (R&D cost super-deduction)	41.9
Tax expenditure	7.6	Patent box	1.2
Tourism total			67.9
Support	8.1	Slovakia Travel	19.0
Subsidy	8.2	Subsidies to tourism organisations	7.3
Tax expenditure	8.3	Holiday vouchers	23.9
Tax expenditure	8.4	Reduced VAT on accommodation	17.7
Regional development total			88.0
Subsidy	9.1	Regional contribution for LDDs	15.9
Subsidy	9.2	Support for regional development	7.4
Tax expenditure	9.3	Regional investment aid	64.7
Other total			141.2
Employee mobility support total			22.7
Tax expenditure	20.4	Non-cash income (accommodation)	15.6
Tax expenditure	2.3	Non-cash income (transport)	12.5
Exemptions from taxation of negative externalities total			51.7
Tax expenditure	10.2.1	Wine tax - reduced rate (0 EUR)	36.9
Tax expenditure	10.2.2	Alcohol tax - reduced rate for growers' distillation	13.3
Tax expenditure	10.2.3	Beer tax - reduced rate for small breweries	1.5
Support for small firms total			31.6
Tax expenditure	10.3.1	Reduction of the CIT rate from 21% to 15%	21.3
Tax expenditure	10.3.2	Arbitrary depreciation period of the asset	4.7
Tax expenditure	10.3.2	Tax loss deduction	4.5
Tax expenditure	10.3.2	Value adjustments	1.1
Advantageous investment in equity interests			26.0
Tax expenditure	10.4.1	Exemption of capital income from the sale of securities on a regulated market	5.0

Form	Chapter	Name of the scheme	Expenditure
Tax expenditure	10.4.2	Exemption of capital income from the sale of a business interest	21.0
Reduction of the depreciation period for electric vehicles total			4.1
Tax expenditure	10.5	Reduction of the depreciation period for electric vehicles	4.1
Reserves total			5.1
Subsidy	10.6	Subsidies from the prime minister's reserve, government reserve and MF SR subsidies	5.1

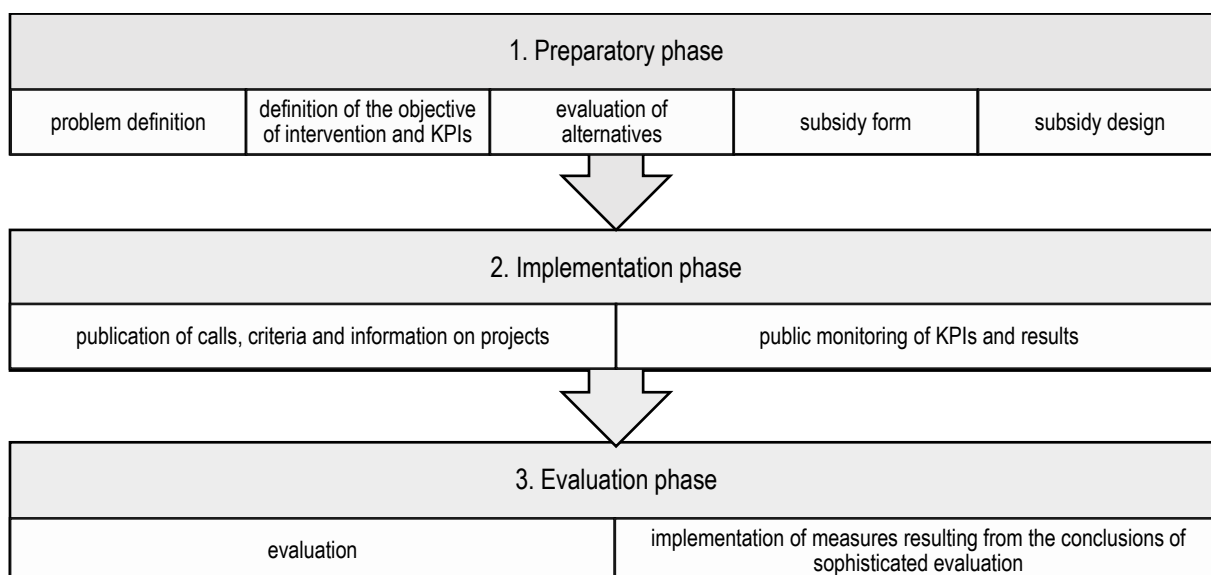
2. How to set up and evaluate subsidies

The existence of subsidy schemes must be thoroughly defended and their effectiveness regularly reviewed. They can be a relatively costly spending instrument that can be politically difficult to curb,⁵ even though in reality they often underperform, are socially costly and are perceived as unfair. They can distort competition, distort pricing, reduce the rationalisation of resource use and thus reduce pressure for efficiency (Diaz Arias and van Beers, 2013).

The final report offers a suggested process to examine the suitability of the subsidy and determine its best form and design. The procedure consists of steps and questions to evaluate the appropriateness and effectiveness of the subsidy, which are applicable both before and after its introduction. The list of questions should not be considered definitive; the questions may be further specified in the preparation and implementation of specific subsidies.

Subsidies should primarily be used as a tool of the state to address free market failures, and even then, only where this is the most effective form of intervention. The process of justifying and implementing a subsidy scheme should involve several steps:

1. In the preparatory phase, it is necessary in particular to identify the market failure (define the problem), define the objective of the intervention and the desired outcome state, determine the expected effects of the intervention and the key performance indicators. It is also necessary to evaluate alternative solutions to the problem, their costs, expected impacts and the final design of the subsidy.
2. The implementation phase covers the transparent process of subsidy provision, monitoring of KPIs and formal evaluation.
3. The evaluation phase comprehensively assesses the achieved effects of the intervention and proposes measures for improvement based on the findings.



1. Preparatory phase

The preparatory phase is primarily about thinking about the best possible solution to a particular problem in the economy. It addresses the question of state intervention and the policy by which the state wants to achieve the desired state. In the decision-making process, it puts forward a number of possible solution alternatives, from which

⁵ There are historical cases where subsidies have been so costly and politically almost impossible to curb that they have threatened the country's fiscal stability. Varian (2009, p. 310) gives the example of Iraq in 2005, where the government subsidised food and fuel prices. Although the subsidies were fiscally unsustainable (they accounted for about one-third of government spending), the Iraqi government did not curb them because it feared social unrest.

the most effective one, or a combination of several, must be chosen, always according to the specificity of the problem in question.

a. Defining the problem - the need for intervention

When assessing the need for intervention, it is particularly important at the outset to clearly define the problem or the specific market failure or other relevant reason that, on the basis of economic theory, may imply the need for intervention. Not every need for government intervention should be addressed by subsidy (see section c. Evaluation of Alternatives).

Questions:

- What is the current state and what is problematic about it?
- Is there a market failure that needs to be addressed? Alternatively, is there another relevant reason why a subsidy needs to be introduced (e.g. socially motivated)?
- If there is a market failure, is there a need for state intervention to address it?

Example of a suitable subsidy: Support for the production of electricity from renewable energy sources (RES)

The scheme was established in 2009 when market mechanisms were unable to increase the share of RES in final energy consumption. From a commercial point of view, this way of generating electricity represented much higher costs and could not compete on price with alternatives. Compared to electricity generation from fossil fuels, which has negative externalities in the form of emissions, electricity generation from RES has significantly lower negative environmental impacts. State intervention was justified at the time, with the state guaranteeing the feed-in tariff of electricity for 15 years in the form of a surcharge.

b. Definition of intervention objectives and key performance indicators

After defining the problem, it is important to determine the objective and the time horizon in which it is realistic to achieve it. In the next stages of the process, key performance indicators will measure progress towards the desired state. The absence of an objective and key performance indicators does not motivate effective failure resolution or evaluation of success. Without a clearly stated objective, it is impossible to determine whether the measure has succeeded in sufficiently improving the current situation. It may be the case that the objective is mistakenly taken to be the mere reallocation of funds. The criteria for determining the relevant indicator are internationally defined by the acronym SMART⁶ (Specific, Measurable, Achievable, Responsible a Time-bound). The number of indicators should not be high; fewer indicators tend to motivate actual tracking of results. Monitoring and publication of indicators during the lifetime of the state intervention informs about the success of the objectives and encourages public debate. Most of the schemes considered in the review have broadly defined objective, undefined or too vague key performance indicators that do not inform about the success of the subsidy.

Questions:

- What are the objectives to be achieved by the intervention? By when?
- What indicators will be used to measure progress towards the objective?

Example of a subsidy: Recognised sports

The scheme is primarily aimed at increasing the number of active young sportsmen aged 23 and under. Other objectives are to improve the position of Slovakia in all sports and to increase the number of medals from international events. These objectives are linked to indicators (number of registered sportsmen under 23, number of medals, etc.), which define a "Plan" for the coming years, which are evaluated on an ongoing basis. Public surveys of sport among population groups in different countries are also useful indicators for comparison.

⁶ Slovak translation: špecifický, merateľný, dosiahnuteľný, zodpovedný a časovo orámcovaný.

c. Evaluation of alternatives

At this point, if state intervention seems justified, it is necessary to choose the best solution from the alternatives offered by economic theory (Weimer and Vining, 2017). In addition to subsidies, the latter offers direct provision of services by the state, regulation (legislation), insurance and protection, or market relaxation or simulation as other possible solutions. At the same time, subsidies can also take several forms: direct payment, tax relief, soft loans, etc. A combination of several approaches and different formats is also a possible solution, which is addressed later in the process under Form and Design. The choice of alternatives should take into account the efficiency and effectiveness of subsidies, where the desired effects are achieved at the minimum possible cost. A quantitative comparison of the costs (not only the administrative costs of general government but also the private costs of the beneficiary of the subsidy) between the subsidy options contributes to the selection of the most appropriate alternative. The purpose of subsidies may also be to increase the availability of goods or services beyond what the free market can provide. It is important to take this aspect into account when choosing alternatives.

Questions:

- According to economic theory, is a subsidy the most appropriate instrument to support or solve a particular market failure? Is it not more appropriate to address the market failure, e.g. by regulation (legislation) with the maintenance of similar objectives or by direct provision of services?
- Does the selected alternative have the best benefit-cost ratio?
- Will the subsidy fundamentally change the availability of the goods/service in the desired direction?

Example of a subsidy in agriculture: state aid - insurance premiums

Agriculture is a sector susceptible to the risk of adverse weather and farm animal diseases. Farmers take an increased risk of declining production and rising costs in the course of their business, which, especially in combination with higher insurance premiums, can be considered a market failure. State intervention may be justified and there are a number of possible alternatives. The most common solution is financial compensation for farmers affected by the harmful effects of the weather, which is, however, unpredictable in budgetary terms. A more effective, but more difficult to implement, alternative is to support preventive measures - for example, growing crops more adaptable to climate change, investing in irrigation infrastructure or setting up hail nets. Economic theory identifies affordable insurance as an appropriate form of risk management. Insurance is provided through commercial insurances; government support encourages farmers to take out insurance.

d. Subsidy form

If a subsidy is an appropriate alternative to address a market failure, its specific form needs to be defined. Common forms are direct monetary support, fee rebates, tax relief (tax expenditures) or soft loans. It is important that the most effective form of subsidy is chosen for a given problem, in line with the value for money principle. Similarly, the form of the subsidy is important, as is the justification of the need for the subsidy so that it does not distort the market and competition. The form determines to a large extent which actors will benefit from the support.

Questions:

- Does the subsidy cause distortion of competition (market) / do the benefits of the subsidy flow to society as a whole?
- Is there not a risk that the subsidy is set too broadly and is given to entities that do not need it?
- Do the benefits of the subsidy outweigh its costs?

Example of a subsidy: Individual rate of Tariff for System Operation (TSO)

The individual TSO rate is an indirect subsidy in the form of a reduced fee for electricity consumption for some companies. The individual tariff is granted to companies that meet three conditions: they consume at least 1 GWh of electricity per year, have a high electricity intensity of production and belong to a specifically defined sector of

the economy. A subsidy in the form of a reduced fee is the most appropriate alternative, with the advantage over cash subsidies or refunds being mainly lower administrative costs and less bureaucracy.

e. Subsidy design

The design of the subsidy is partly related to the form of the subsidy, it specifies it more and sets out its practical details. It is primarily a matter of setting the timeframe of the subsidy, clear conditions and adequate criteria to be met by the beneficiaries. It is also important to determine the purpose of the subsidy - whether it is to help cover operating and overhead costs or rather to motivate investment. The objective and scope of the support that the state wants to achieve through the intervention will determine the size of the subsidy.

A flat subsidy is intended for the whole potential group of beneficiaries, and is eligible for all potential applicants, regardless of the quality of the project (output). Competitive subsidies, in turn, support only quality projects that have passed the evaluation. Inconsistently set conditions will also allow relatively healthy and competitive entities to receive support, or to support projects that would have been carried out even without state support. Conversely, if the conditions are set strictly, there is a risk that the entity that needs the subsidy will not receive it.

Questions:

- How strong a legislative framework to choose (law, decree, etc.)?
- For how long is the subsidy to be provided? For a limited period or indefinitely?
- Is it more appropriate to support the investment or the operating costs of the entity?
- Should the subsidy be competitive, claimable or across the board? – Is the aim to support the best quality projects or to support all those who meet certain criteria?
- Are clear and sufficiently strict allocation criteria set?
- Is a sufficient share of private resources involved? To what extent is private entrepreneur activity subsidised so as to avoid moral hazard on the part of the beneficiary?

Table 4: Subsidy design aspects

Aspects	Alternatives	Positive aspects	Negative aspects
Legislative framework	Law	greater legislative power, it is appropriate to state the basic rules of subsidies in a law	more complex legislative process, risk of amendments, change of law needed for repeal
	Decree	if the basic parameters are defined in a law, the details of subsidies are easier and quicker to put into practice through a decree, no need for a long legislative process, easier to change	a legislative regulation with lower legal force
Time period	Limited	more stable for corporate strategic planning, more pressure to evaluate KPIs at the end of the subsidy	compliance with contractual obligations to businesses despite retrospective inefficiencies
	Unlimited	can be cancelled by the state in case of inefficiency or consolidation measures, predictability	complicated for the financial strategy of enterprises if it can be unilaterally revoked, risk of dependency for enterprises that perceive the subsidy as status quo and have a problem if the subsidy is revoked, low motivation for KPIs assessment due to the indefinite end date
Character of the financial support	Operation	usually minor but annual budgetary impact, long-term stability of firms	creating long-term liabilities for the state budget, with the planned abolition risking lobbying by interest groups against

Aspects	Alternatives	Positive aspects	Negative aspects
	Investment	predictability and control over the use of resources, less need for long-term borrowing for the private sector	usually high one-off budget requirement, risk of losing state money in the event of a crash
Claimability	Flat	support for all eligible entities	perceived as unfair, risk of funding also being used by entities that do not need it
	Competitive	support for quality projects, promotion of competition	susceptible to expert evaluation, with a small amount of subsidy, even high-quality projects may not be supported
Co-financing of entities	High	rational use of state resources	smaller entities may not have the means to co-finance
	Low	lower barriers to subsidy absorption	the project is largely financed by the state with uncertain benefits for society as a whole

Source: Internal compilation

Example of a subsidy: General call of the SRDA:

The general call of the Slovak Research and Development Agency (SRDA) provides grants to support research and development, primarily to the public (universities and the SAS) but also to the private sector. It is used to support cutting-edge basic and applied research and development in all fields of science and technology. Its status and tasks are laid down by law, which gives the Agency a strong position among the organisations of the MESRS SR. The subsidy of a specific project is time-limited; this motivates scientific institutions to use the subsidy efficiently and creates pressure to achieve results. Grants finance 100 % of the costs for basic research, which is mainly carried out by non-business entities whose main research objective is not profit. For other types of research, there is already a degree of co-financing, which avoids moral hazard with public funds. The Agency supports both investment and operating costs, the split depending on the specific project. The scheme is competitive, thus increasing the quality of projects. Applicants are transparently evaluated, and projects supported are also evaluated retrospectively.

2. Implementation phase

The implementation phase mainly defines the practical details of receiving the subsidy, the clear publication of calls, conditions and the regular monitoring of progress towards the desired status through KPIs.

a. Information and clear application for subsidy

Potential applicants should be informed of the subsidy well in advance. Assistance and additional information from the subsidy provider should also be available to applicants. Typically, a flat subsidy should be applied for each year via the form provided on the organisation's website. The need to apply annually could in many cases be replaced by maintaining a list of beneficiaries. The unnecessary bureaucracy and complexity of the application process adds to the overall administrative costs, which in some cases may outweigh the benefits of the subsidy.

b. Publication of calls, selection criteria and information on supported and unsupported projects

The provision of a subsidy scheme often also depends on the clarity of the calls and the procedure to apply for the subsidy. Transparent conditions will ensure fairness in the distribution of funds. The aim is not to distribute the earmarked funds at any cost, but to select the successful beneficiaries in a transparent manner and to assess the amount of subsidy they are applying for. This is what the methodology for evaluating and selecting applications, which guides the evaluators, should oversee. Evaluators should be professional and unbiased towards applicants. The selection of the best applications takes into account the relevance of the project, the impact on the market and the group of stakeholders affected. Public lists of supported and unsupported projects increase public scrutiny without spending excessive resources. The list should be clear, include an evaluation and the reason why the entity was or was not supported. An export of the selected list into a machine-readable format should be available. It is also important to update the lists regularly.

Example: Audiovisual Fund

The Audiovisual Fund has on its website a provisional schedule of call openings, application conditions, maximum and minimum subsidy amounts. It maintains a registration list of applicants, which includes information on all applicants since 2010. The basic categories of applicants are name, Comp. ID number, address and type of applicant, number of applications supported and registered. The second list of the Audiovisual Fund is a list of all applications since 2010. In addition to the applicant details, it gives more information about the application - programme, title and description of the project, information on costs and approved contribution and on mandatory co-financing. It is possible to export the data in csv format. The Fund's advisory bodies are expert evaluation commissions which assess applications in a professional, transparent and independent manner. The commissions are professionally responsible for the assessment, the amount and the form of the subsidy.

c. Monitoring of results, KPIs and their publication

Systematic monitoring and publication of the achievement of objectives through key performance indicators is lacking in most subsidy schemes. Often objectives and key performance indicators are not even set. It is important to carry out monitoring at regular periods depending on the design of the subsidy. Reassessment through the development of indicators will determine the progress and extent to which the subsidy is meeting the objective it has set itself. In addition, the evaluation will also identify possible inefficiencies or help to reconsider the form and design of the subsidy if it appears insufficient on the basis of the indicators.

3. Evaluation phase

The main argument for introducing a subsidy is the need to address market failure. Subsidies represent an expenditure that is politically sensitive to reduction or removal. For this reason, it is also important to monitor the effects of the subsidy regularly and, after a certain period of time, to proceed to a more sophisticated control of the subsidy. The latter can suggest changes to the subsidy that will improve its quality. If the comprehensive review assesses that the subsidy has fulfilled its purpose and that the cancellation of the subsidy will not change the desired situation, the subsidy can be cancelled.

a. Evaluation

The evaluation system starts in the preparatory phase, which sets out the desired status and key performance indicators. These need to be collected throughout the life cycle of the subsidy. The control of the subsidy also requires data from the implementation phase, the number of entities supported and the funds spent. A **baseline evaluation of the subsidy** should be carried out once a year. This mainly covers the formal aspects of the subsidy, the monitoring of the KPIs, the number of entities supported and the funding allocated to them. The baseline evaluation also serves to inform the public and check that the subsidy is being spent legally. A **sophisticated evaluation** should follow a longer duration of the subsidy (at least several years), after which the results of the impact of the subsidy are already observable. The control is based on evidence that assesses the economic and social effects of the subsidy policy. The evaluation should aim at identifying inefficiencies and suggesting measures for improvement, whether for the form, design or other nature of the subsidy.

Questions:

- What are the results of the subsidy? Has the subsidy achieved the desired state/objective or are we at least moving towards it?
- Will the desired status be maintained without the subsidy or is the subsidy still needed?

b. Implementation of measures from the conclusions of the sophisticated evaluation

Sophisticated evaluation results in the identification of measures that will increase value for money of public money spent on subsidy schemes. The implementation of the measures is the follow-up phase of the evaluation, the measures should be sustainable and should be accounted for by the ministry according to the implementation plan.

Box 2: Methodology for the evaluation of subsidy schemes

The final report evaluates the existing subsidy schemes at the level of the preparatory phase: in terms of the need for or justification of the intervention, the objectives set and, in part, the form of the subsidy. Due to the size and number of subsidy schemes, the final report only assesses the design of the subsidies (implementation phase) and the overall effectiveness (evaluation phase) in some cases. A detailed evaluation of effectiveness, for all existing subsidy schemes, is best handled by individual ministries.

The review qualitatively assesses the subsidies at the level of three aspects of the preparatory phase:

- definition of intervention objectives and key performance indicators - "Objectives and KPIs",
- defining the problem - the need for intervention - "The need for intervention" and
- Evaluation of alternatives or form of subsidy - "Form of support"

The evaluation of each of the aspects consists of answering a number of supplementary sub-questions, followed by a summary evaluation.

Level	Supplementary questions	Retain	Retain and modify / Suspend funding, make continuation conditional	Abolish
Objectives and KPIs	<ul style="list-style-type: none"> • Are SMART objectives set? • Is the objective relevant? • Are KPIs set? 	a well-defined, specific objective	the objective is very broadly defined (e.g., sector support), the objective is not clearly defined but an implicit objective is appropriate	the objective is not defined/obvious or a wrong objective is set
The need for intervention	<ul style="list-style-type: none"> • Does the subsidy contribute to meeting the objectives? • Can the market provide the good/service? • Does the subsidy affect the availability of the good? • Would the availability of the good change substantially without the subsidy? • Is there a market failure that needs to be addressed? • Is the area being promoted abroad? • Do subsidies cause distortions of competition (market)? 	state intervention is justified	there are grounds for state intervention (it cannot be completely ruled out that there are grounds for intervention)	there is no apparent need for state intervention, there is no market failure
Form of support	<ul style="list-style-type: none"> • Is it more appropriate to solve the problem with another tool while maintaining similar results? • If monetary support (subsidy) is most appropriate, what form is it in (direct subsidy, tax expenditure, loans, etc.)? • Abroad subsidy or other form? 	the form/alternative and amount of support is correctly chosen	the subsidy meets the objective (or has a high probability of doing so), but there is a more appropriate form or a lower level of support	the form of support does not lead to the fulfilment of the objective, there is a more effective alternative

3. Subsidies in the energy sector

- Subsidies in the energy sector exceed EUR 800 million per year, which represents more than half of the expenditure assessed by the review. 60% (EUR 505 million) of the subsidies are paid by final consumers in the price of electricity. A further EUR 255 million is made up of tax expenditure and reduced fees. Only EUR 49 million is financed from the state budget.
- The state can pursue several, partly conflicting objectives in the energy sector - environmental (reducing greenhouse gas emissions and pollutants), economic (energy prices and business support), geopolitical (energy security), or technological (promoting new resources).
- The review recommends the abolition of subsidy schemes worth around EUR 218 million (of which EUR 101 million is from the state budget). For the schemes to compensate companies for the TSO and to support electricity generation from domestic coal, the market failures that justified them no longer exist. In turn, optional exemptions from energy taxes are not the most effective form of meeting the objectives.
- Detailed evaluation of the schemes is hampered by undefined objectives and the absence of key performance indicators. The lack of transparency and opacity of individual schemes (especially for reduced rates) is also a problem. Publication of data on volume, unit amount and beneficiaries should be a minimum standard.

Table 5: Subsidy schemes in the energy sector, EUR million, average 2019-2021

Form	Chapter	Name of the scheme	Amount
Subsidy	3.1	Support for RES and HE CHP	388.2
Subsidy	3.2	Support for electricity generation from domestic coal	116.8
Subsidy	3.3	Compensation to companies for the tariff for system operation (TSO)	40.0
Subsidy	3.4	Support for the decline and liquidation of coal mining - closure of mining fields	3.7
Subsidy	3.5	Support for energy-intensive businesses from ETS allowances	5.0
Reduced fee	3.6	Individual rate of TSO levy	81.7
Reduced fee	3.7	Individual rate of TSS (Tariff for System Services) levy	21.1
Reduced fee	3.8	Reduction of the effective rate of the levy to the National Nuclear Fund (NNF)	7.3
Reduced fee	3.9	Discounts on tariffs for reserved capacity and electricity transmission	6.3
Tax expenditure	3.10	Optional exemptions from excise duty for households, energy and transport	60.8
Tax expenditure	3.11	Optional exemptions from excise duty for industry	69,8
Tax expenditure	3.12	<i>Obligatory exemptions from excise duty*</i>	8,20
Total			809,3

* *unanalysed subsidies*

Source: VIMU

The chapter on energy assesses subsidies mainly between 2019 and 2021. It therefore does not take into account newly adopted subsidies in response to the consequences of the energy crisis related to the Russian aggression in Ukraine. The energy crisis, manifested by high prices and price volatility, has a major impact on the subsidies analysed, for example increasing energy costs for companies (subchapters 3.2 and 3.5-3.11). Even without taking the crisis into account, the review of energy subsidies is relevant, as it provides for the first time a comprehensive and clear picture of subsidies and recommends measures for their improvement even under current market conditions.

Some beneficiaries also benefit from several subsidy schemes at the same time. For example, Slovalco, a.s. benefited from five schemes (Table 6). Most of the schemes serve to reduce the final electricity prices for companies, but each of them serves a different component of the final prices. Thus, there is no direct overlap in this sense. The exceptions are schemes 3.3 and 3.6, as both aim to reduce the tariff for system operation. However, one firm cannot benefit from both schemes, as a consequence of the relevant legislation.⁷ The largest beneficiary

⁷ TSO compensation cannot be received by companies that have an individual TSO rate (according to Act No. 309/2009 Coll., Article 6a(1)(d)).

of subsidies is Slovenské elektrárne, a.s. due to the production of electricity at the Nováky power plant. However, this subsidy is not voluntary, as Slovenské elektrárne, a.s. is obliged to produce electricity in the general economic interest.

Table 6: Beneficiaries of subsidies in the energy sector, cumulatively above EUR 2.5 million per year (2021 or 2020, EUR million)

Subchapter	3.1	3.2	3.3	3.4	35	3.6	3.7	3.8	3.9	Total
Scheme	Support for RES and HE CHP (2021)	Support for electricity from coal (2021)	TSO compensation to companies (2021)	Support for the decline of mines (2021)	Compensation from emission allowances (2020)	Individual TSO rate (2021)	Individual TSS rate (2021)	Effective rate of the levy to the NNF (2021)	Tariff for capacity and electricity transmission (2021)	
Slovenské elektrárne, a.s.	0.6	124.8								125.4
Slovalco, a.s.					5.0	47.4	11.9	4.8	5.9	75.0
OFZ, a.s.					1.0	11.7	3.0	1.4		17.1
U.S.Steel Košice, s.r.o.			10.1		0.3			1.1		11.6
FORTISCHEM a. s.						8.4	2.1			10.5
Slovnaft, a.s.	0.3		6.7		1.3			0.7		9.0
Hornonitrianske bane Prievidza, a.s.		<i>indirectly*</i>		7.3						7.3+*
Mondi SCP, a.s.	0.9		3.1		1.0					5.0
Duslo, a.s.			2.0		1.6		1.4			5.0
MH Teplárenský holding, a.s.	4.9									4.9
SSE-Solar, s.r.o.	3.7									3.7
Ferroenergy s.r.o. (100 % dcéra USSK)	3.4									3.4
Veolia Utilities Žiar nad Hronom, a.s.	3.2									3.2
ECOSTART, a.s.	3.1									3.1
BUKÓZA ENERGO, a.s.	3.1									3.1
Energy Edge ZC s. r. o.	3.0									3.0
Železiarne Podbrezová, a.s.	0.9		1.7		0.3					2.9
BUKOCEL, a.s.	2.8									2.8
TEPLÁREŇ Pov. Bystrica, s.r.o.	2.7									2.7
Teho Topoľčany, s.r.o.	2.5									2.5
Total (both included and non-included entities)	262.8	124.8	40.0	7.3	11.0	67.5	18.4	8.0	5.9	545.7

Note: Tax expenditures (subchapters 3.10 and 3.11) of EUR 139 million per year (2019-2021) are not included due to tax confidentiality. Some firms may receive them in addition to other subsidies. Hornonitrianske bane Prievidza, a.s. is an indirect beneficiary of the subsidy to support the production of electricity from domestic coal at the Nováky power plant, as it is the only producer of coal burned at this plant (further explanation in subchapter 3.3).

Source: VFMU based on the data of the RONI, IHA, ME SR, MEnv SR

The sum of the subsidies in Table 5 is different from the sum of the subsidies in Table 4 because of the different time horizons (Table 4 contains an average over three years).

3.1. Promotion of green energy sources and high-efficiency combined heat and power generation

<p>Producers of electricity from renewable energy sources (RES) and high-efficiency combined heat and power generation (HE CHP) receive guaranteed feed-in tariffs for 15 years when the plant is first put into operation. The guaranteed feed-in price is determined by a decision of the RONI in the year of commissioning of the installation. The surcharge is equal to the difference between the feed-in price and the price on the daily market in Slovakia. The expected results of the scheme in terms of contribution to the green targets are not specified. However, the impact of the scheme is significant, subsidising almost 17 % of the electricity generated in Slovakia.</p>	
Objective and KPIs	The objective of the scheme is not directly defined. KPIs are not set. The scheme contributes to the European objectives of increasing the share of RES in Slovakia (implicit objective).
The need for intervention	The need is justified by the non-competitiveness of some RES and CHP technologies under current market conditions. The market is unable to provide for the deployment of less competitive RES and CHP. State intervention is also justified because of the need to meet climate targets.
Form of support	A guaranteed feed-in tariff for 15 years has disadvantages due to the creation of long-term liabilities for public expenditure. However, in the case of relatively low feed-in tariffs (as is currently the case), this may be an appropriate way.
Recommendation	Retain. Encourage the expansion of auctions in the future with conditions that fulfil the principle of value for money. Also, the current form of support by surcharging at low guaranteed feed-in prices helps investors to expand capacity. Define targets and KPIs.

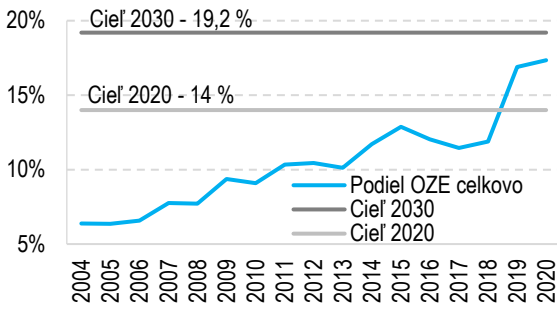
Since 2009, producers of electricity from RES and HE CHP plants receive guaranteed electricity feed-in tariffs for 15 years when the plant is put into operation. These prices are determined by the decision of the RONI in the year of commissioning of the installation. If the determined guaranteed feed-in price is higher than the price on the daily market in Slovakia, the producers receive a surcharge equal to the difference between the feed-in price and the price on the daily market⁸. If the price on the daily market is higher than the guaranteed feed-in price, the surcharge is zero.

The objective of the subsidy is not set, but implicitly the scheme is intended to increase the share of RES in final energy consumption,⁹ which is one of the European environmental objectives. Slovakia was already close to reaching the 2030 target in 2020 (Chart 6). This is due to a jump of five percentage points due to a change in methodology and the inclusion of small biomass home heating sources between 2018 and 2019. Decarbonisation of the economy will require electrification of industries and transport, which will increase electricity demand (VfMU, IEP, BCG, 2022). It is desirable to cover this growth at least partly from RES and to maintain a low-emission electricity generation mix (Chart 7), which today is mainly the result of a high share of electricity generation from nuclear. A suitable KPI would be the share of RES in final electricity consumption or electricity generation.

⁸ The subsidy scheme results from Act No. 309/2009 Coll. on the support of renewable energy sources and high-efficiency combined generation.

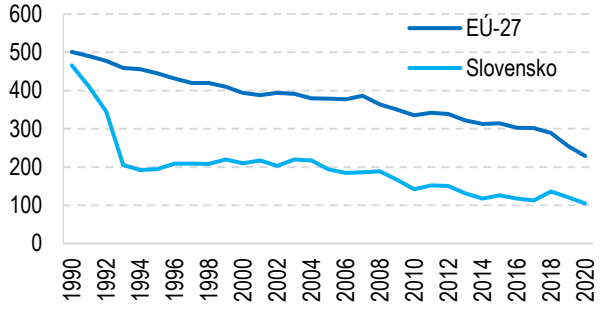
⁹ Act No. 321/2014 Coll. on energy efficiency and on the amendment to certain acts, Article 2(c).

Chart 6: Share of RES in energy consumption in the SR



Source: Eurostat

Chart 7: Emission intensity of electricity production (gCO₂/kWh)

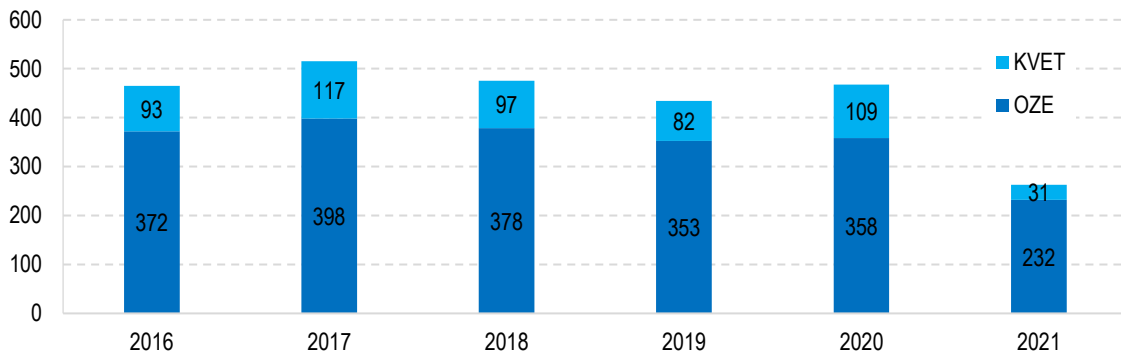


Source: EEA

Ciel	Objective
EÚ-27	EU27
Podiel OZE celkovo	Share of RES in total
Slovensko	Slovakia

The amount of support is variable, reaching EUR 263 million in 2021, which was a significant decrease compared to the previous period (Chart 8). The decrease between 2020 and 2021 was due to the rising price of electricity on the market. A further decrease in the annual support volume is expected due to the extension of the support for mainly photovoltaic power plants. Under it, the support period for a significant part of solar power plants has been extended by 5 years, but with a lower guaranteed unit price. This move spread the support over a longer period with a lower annual support amount.

Chart 8: Evolution of surcharges by year (EUR million)

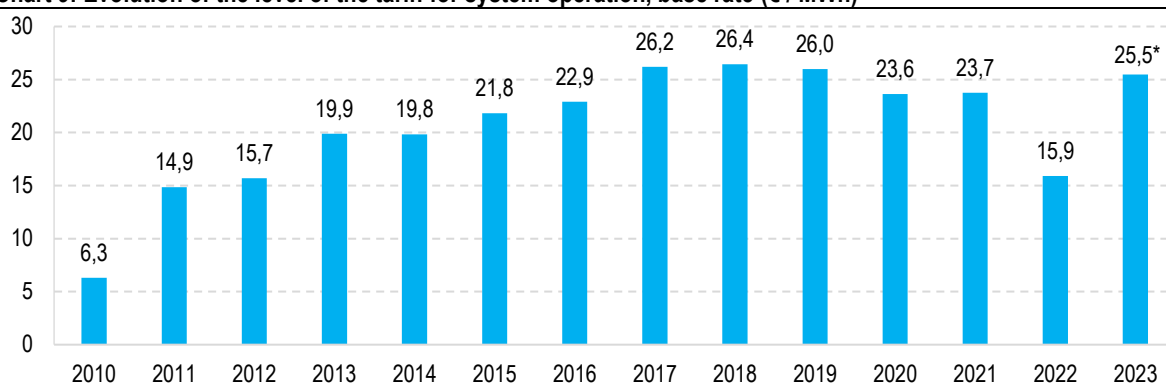


Source: VfmU based on the data of the RONI (undated)

KVET	CHP
OZE	RES

The level of TSO is directly related to the level of surcharges. The RES and CHP surcharges are financed by the TSO paid by consumers in the final electricity prices. Between 2010 and 2017, there has been a continuous increase in the unit level of the TSO (Chart 9) due to the gradual inclusion of the cost of the surcharge for installations commissioned before 2013 and the decrease in electricity prices on the market. This is also a consequence of high subsidies for installations commissioned after 2009 under insufficiently transparent and competitive conditions¹⁰. These factors have resulted in a significant increase in costs for final electricity consumers and the introduction of TSO compensation (subchapter 3.2). After 2019, there is a decrease in the TSO, initially due to rising electricity prices, and in 2022 also due to the prolongation of the support for photovoltaics and the payment of a one-off subsidy from the state budget (subchapter 3.2). The TSO increased significantly in 2023 due to the reflection of part of the cost of purchasing support services in the TSO (RONI, 2022) and the non-payment of the subsidy from the state budget as in 2022 (more details in subchapter do TPS 3.2).

¹⁰ Too high surcharges have been repeatedly criticised, e.g., in the study "Najlepší z možných svetov" [The Best of All Possible Worlds] (Filko, Kišš, Ódor, 2016: 52-54).

Chart 9: Evolution of the level of the tariff for system operation, base rate (€ / MWh)

* In 2023, the tariff for regulated customers remained at the 2022 level. A portion of the TSS costs was passed on to the TSO. Note: From 2022 onwards, the TSO is multi-band according to consumption. Details are available in subchapter 3.3.

Source: VřMU based on the data of the RONI

The scheme is non-competitive; subsidies are available for all power plants with supported technology built during the scheme period. For 2021, 1 847 beneficiaries for 2 338 power plants received subsidies. Most of the resources are obtained by large beneficiaries. Over 95% of the funds are obtained by 28% of the beneficiaries. The largest beneficiary is the state-owned MH Teplárenský holding, a.s. (EUR 4.9 million). The average subsidy per beneficiary is EUR 142 thousand.

Table 7: Overview of the distribution of surcharges by size of beneficiary (2021)

Category by volume of subsidy	Sum of subsidies (EUR million)	Average amount of subsidy (EUR)	Number of beneficiaries
EUR 0 to 10 000	2.3	2 250	1 024
EUR 10 001 to 100 000	9.9	32 661	303
EUR 100 001 to 500 000	136.0	307 927	442
EUR 500 001 to 1 000 000	20.7	767 967	27
Over EUR 1 000 001	93.7	1 837 520	51
Total	262.8	142 259	1 847

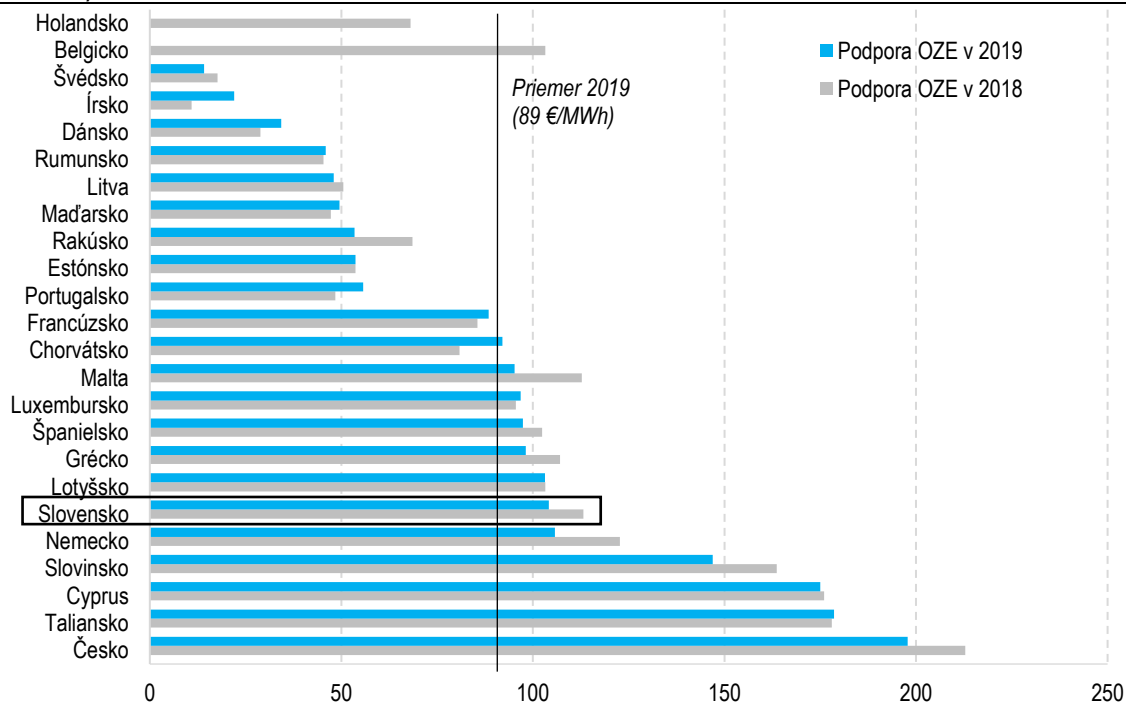
Source: VřMU based on the data of the RONI (undated)

Fossil fuels, which produce emissions but reduce primary energy consumption, are also supported. In 2021, almost 15% of the scheme volume (Chart 8) was for CHP (combined heat and power) sources, most of which used fossil fuels (either exclusively or in combination with another fuel). These were mainly black coal and natural gas in central heating systems. The promotion of these sources is partly against the environmental objectives of the Slovak Republic, as it encourages the construction and operation of fossil fuel plants. On the other hand, these technologies have high energy efficiency (which reduces primary energy consumption, which is also an objective of the SR) and reduces costs for consumers connected to district heating. This support is not an exception abroad, for example in Poland, where, however, a rule was introduced in 2019 that grants support only to lower-emission fossil sources. For example, natural gas in high-efficiency plants ([IEA, 2022: 140](#)).

The abolition of guaranteed feed-in tariffs would likely lead to lawsuits with subsidy beneficiaries. The current level of subsidies is based on past pricing decisions of the RONI. In theory, the subsidy can be abolished by a change in legislation. As the state has committed to paying guaranteed prices for 15 years, abolishing the surcharge would likely lead to lawsuits with subsidy beneficiaries. Abolition of subsidies without this risk is only possible for plants that do not yet exist. However, they will receive less support than existing plants.

The unit subsidy for electricity generation from RES in Slovakia is above the EU average (Chart 10). Within our region, the level of support varies significantly. The Czech Republic provided the highest support among all countries, and in contrast, Austria and Hungary's subsidy was half of the average. The unit level of support in Slovakia is likely to be significantly lower in 2022, due to the extension of support for photovoltaics and high electricity prices on world markets (but these are also reducing the level of support in other countries).

Chart 10: Average subsidy amount per 1 subsidised MWh of electricity from RES in the EU, 2018 and 2019 (EUR/MWh)



No information available on support in Bulgaria, Finland and Poland

Source: CEER, 2021

Holandsko	Netherlands
Belgicko	Belgium
Švédsko	Sweden
Írsko	Ireland
Dánsko	Denmark
Rumunsko	Romania
Litva	Lithuania
Maďarsko	Hungary
Rakúsko	Austria
Estónsko	Estonia
Portugalsko	Portugal
Francúzsko	France
Chorvátsko	Croatia
Malta	Malta
Luxembursko	Luxembourg
Španielsko	Spain
Grécko	Greece
Lotyšsko	Latvia
Slovensko	Slovakia
Nemecko	Germany
Slovinsko	Slovenia
Cyprus	Cyprus
Taliansko	Italy
Česko	Czech Republic
Priemer 2019	Average 2019
Podpora OZE v 2019 (2018)	RES support in 2019 (2018)

In addition to the amount of support, the share of RES and geographical conditions must also be taken into account. In EU countries with a higher unit subsidy, the share of RES in electricity generation is on average *lower* than in EU countries with a lower subsidy. This can be explained by the fact that countries with an already high share of alternative sources do not have to subsidise them heavily and/or their geographical conditions are conducive to their diffusion. The subsidy policy in Slovakia (RES share in electricity generation 23%) is more efficient than in the Czech Republic (14% RES share with significantly higher unit subsidies), but probably less efficient than in Estonia, which has the same share of RES (mainly biomass) as Slovakia with half the subsidies (Eurostat, 2019). Thus, when preparing support schemes, the type of support scheme needs to be chosen appropriately.

The support of renewable energy sources is an example of an area where subsidies are appropriate. The need for subsidies stems from the low competitiveness of some green energy sources and the need to expand them in order to reduce greenhouse gas emissions and increase energy self-sufficiency. The subsidy will allow new technologies to penetrate the market, and then the subsidy needs to be reduced as their competitiveness increases. For example, the prices of photovoltaic power plant have fallen by 90% since 2010 ([Lazard, 2021](#)), which has led to guaranteed feed-in tariffs for some types of photovoltaic power plants becoming unnecessary and being abolished in Slovakia.

The support of electricity production from RES and CHP by means of a surcharge is a relevant intention of state subsidies. Without subsidies, the share of electricity generated from RES would be significantly lower. The current situation on the electricity market creates downward pressure on the tariff and the level of support, which will allow to reduce the final electricity prices and to redesign the support system.

Box 3: Overview of forms of support for renewable energy sources

There are several renewable energy subsidy schemes, the most important of which are feed-in tariffs, premium tariffs, green certificates and capacity subsidies ([Newbery, 2021: 6](#)).

1) The system of feed-in tariffs (FiTs) or surcharge works on the principle of compulsory purchase of electricity produced from RES at a predefined price for a set guaranteed period, usually 10 to 30 years ([RONI, 2016: 8](#)). Feed-in tariffs can be fixed or dynamic (depending on the day and time of electricity supply). A feed-in tariff system is the most common form of support for RES in the EU. In 2019, 19 EU Member States, including Slovakia, used it ([CEER, 2021: 15](#)). This system has the advantage of almost zero input costs for the public sector and protection of producers from market volatility. The state's guarantee of electricity buy-back also provides investors with long-term investment certainty and stability of returns, which improves their position on the banking market. The disadvantage is the long-term commitment to buy back electricity. This can be a particular problem if market energy prices are low and/or feed-in tariffs are set too high, creating long-term and high liabilities for consumers and/or the general government budget.

2) Under premium tariffs (premium FiTs), a premium is paid by the producer over and above the market price. The premium can be fixed or dynamic. In the UK, a premium tariff with a contract for difference system has been introduced. If the market price rises above a certain threshold, producers participating in the premium tariff system have to return part of their revenues back to the support system ([Newbery, 2021: 6](#)). The advantage of this system is less risk for the public sector, as the amount of the subsidy is constant even at long-term low electricity prices. The disadvantage is the transfer of more risk to energy producers, which may lead to less favourable financing conditions from banks and thus less diffusion of the supported technologies or a higher price in the auction result.

3) The support through green certificates is based on a system of awarding them to RES producers for electricity generated from renewable sources. Companies that supply electricity to final consumers are obliged to buy a certain amount of these certificates from producers as a percentage of their electricity sales. The advantage of the system is that it operates on the market principle and creates competition on the part of electricity producers, who are motivated to offer the certificates as cheaply as possible. The disadvantage of the system is the possible volatility in the price of green certificates, which does not suit either suppliers or RES investors (Hustveit, Frogner, Fleten, 2017).

4a) The capacity subsidy system works on the principle of subsidising the investor for the installed capacity, not for the energy produced. The subsidy can take different forms, such as a one-off investment aid or an annual lower subsidy. The advantage of a capacity subsidy system is the incentive to expand the technology and the associated positive externalities of decreasing costs from economies of scale (e.g., solar panel production). Most expert studies argue that this positive externality arises from the installed capacity and

not the energy produced (Meus et al., 2020: 2; Newbery et al., 2018; Özdemir et al., 2019: 28), so it is more efficient to subsidise capacity. A significant disadvantage of a capacity subsidy is the incentive for manufacturers to install the cheapest equipment with the highest capacity. In the case of India and the Netherlands, a similar scheme has led to the installation of low-quality equipment that produces little electricity - wind turbines with high declared power but insufficient blade size (Meus et al., 2020: 2).

4b) As a subtype of the capacity subsidy system, the system of investment subsidies and preferential tax rates defined by Meus et al. (2020: 2) can be mentioned. The state reimburses the power producer a set percentage of the investment cost of the installation and also reduces the VAT rate. In practice, this system has so far had limited use, but the risk is that the tax credits are too high and may lead to a preference for cheap and unreliable installations, such as in California (Newbery et al., 2018: 9).

In order to select the appropriate model for Slovakia, the first necessary step is to set an objective. Slovakia has committed itself to the objective of increasing final energy consumption from RES. An appropriate subsidy should therefore take the form of a support for the energy produced (i.e., a feed-in tariff or premium tariff system) and not the installed capacity (capacity subsidy). In this sense, the current form of support by feed-in tariffs is an appropriate instrument, although its effectiveness can be improved, for example by auctions. In other EU countries in the past (around 2000), the aim of subsidies was to increase the total installed capacity of RES in order to generate positive externalities - to make further installations cheaper. For this objective, capacity support subsidies were the best form of subsidies.

The gap between support for capacity and energy generation can have far-reaching consequences. Özdemir et al. (2019: 21) model a notional EU-wide target of an 18-percentage point increase in electricity consumption from RES by 2030 compared to a reference scenario. If countries subsidise capacity, the cost of achieving this target will be up to 58% higher compared to subsidising the energy generated. In other words, if the target (energy generated) is inconsistent with the support scheme (capacity), the cost of achieving the target will be significantly higher. Özdemir et al. (2019: 26) also argue that setting targets for different types of RES technologies instead of a technology-neutral approach significantly increases the cost of public support. Thus, a technology-neutral approach should be preferred in the interest of efficient use of resources.

Irrespective of the system established, the level of support should be determined by a competitive auction, which can determine the lowest market price at which an RES investment of a specified scale can be made. Auctions can be held not only for the investment cost but also for the level of the feed-in tariff or premium tariff. In the interest of value for money, the support scheme should be technology-neutral, which implies the necessity not to set partial targets for individual RES technologies in Slovakia.

In addition to capacity and generation volumes, other factors could also enter into the preparation of an appropriate subsidy scheme. First, there should be an incentive to build plants in locations that will not require significant additional investment in transmission infrastructure, even though some sources may be highly location dependent (e.g., geothermal energy). Secondly, sources that allow power regulation and thus improve the stability of the transmission system (hydro, geothermal and biomass power plants) should be favoured. The advantage can be achieved by setting a dynamic surcharge (either in the feed-in tariff or in the premium tariff) which would increase at the time of highest demand. Thirdly, the subsidy should take the form of a contract for difference, leading to a payment by electricity generators to the system administrator in the event of high market prices for electricity. Such a mechanism also has the positive effect of mitigating price increases for end-users in the event of high market prices. Fourthly, long-term sustainability criteria must also be taken into account, especially for biomass.

3.1.1. New forms of support for green electricity sources

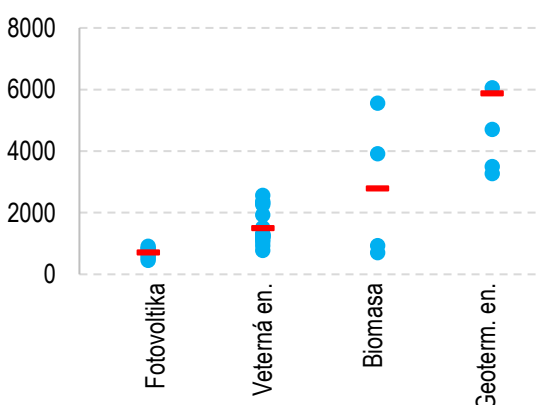
Auction schemes are a new form of RES support in Slovakia. In February 2020, the ME SR announced an invitation to tender in the form of an auction, in which the competition for the support of 30 MW of capacity was held. Tenderers in the one-round auction offered a purchase price per MWh of electricity generated for a period of

15 years. This was similar to the existing TSO support, except that the purchase price was not fixed, but tenderers offered the price in an auction. Limiting the amount of support to 30 MW led to the motivation of tenderers to offer the lowest possible price.

The scheme was technology-neutral and the auction was based on a single criterion - the price offered per MWh of electricity generated. The difference between individual types of sources was the maximum and minimum capacity (100 kW to 2 MW for solar and 500 kW to 10 MW for other sources) and the maximum offered amount (EUR 84.98/MWh for solar and wind, EUR 106.8/MWh for other sources). The invitation was cancelled at the end of March 2020 due to the epidemiological situation, so the successful tenderers were not selected (ME SR, 2020). Nevertheless, the scheme can be evaluated in terms of the criteria set and their suitability.

The design of the subsidy would likely lead to support for wind and solar power plants in particular, as a result of the cost-effectiveness of these sources. The International Energy Agency regularly publishes information on the cost of building different types of power plants (Chart 11) and on the lifetime cost of generation, which includes capital costs, maintenance and disposal (Chart 12). The estimates are based on actual completed projects in different countries around the world. Chart 12 confirms that the costs of wind and solar plants are on average significantly lower than for other renewables (and also compared to fossil and nuclear plants¹¹). In the design of the subsidy scheme of the ME SR, these sources are partly disadvantaged by the lower maximum level of the subsidy price, but it is to be expected that the real bids would be an order of magnitude lower than the maximum value.

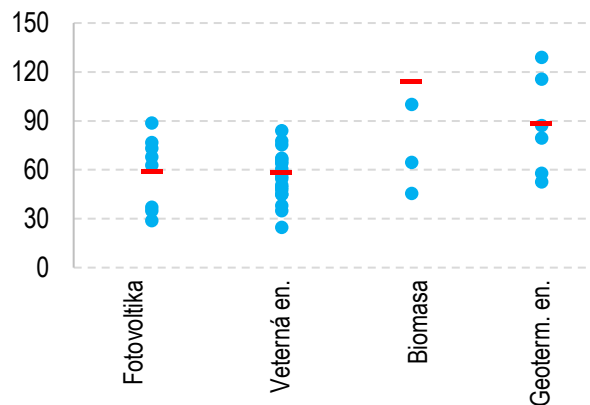
Chart 11: Power plant investment costs (€/kW). Points represent individual plants, lines are average.



Values over EUR 8000 not specified.

Source: IEA, 2020

Chart 12: Cost of generation, life cycle (€/MWh). Points - individual plants, lines - average.



At a 7% discount rate.

Source: IEA, 2020

Values above 150 €/MWh not specified.

Fotovoltika	Photovoltaics
Veterná en.	Wind energy
Biomasa	Biomass
Geoterm. en.	Geothermal energy

In May 2022, the ME SR published a new subsidy scheme from the funds of the Recovery and Resilience Plan of the Slovak Republic. It is a pilot auction scheme in the amount of EUR 39 million, while the total allocation for the construction of RES from the SR RRP is EUR 122 million. Facilities with a capacity from 0.5 to 50 MW are supported. The support takes the form of a non-repayable contribution, with the main selection criterion being cost-effectiveness for the generation of 1 MWh of electricity over a 15-year period. In the first scheme of the ME SR, the plan was to disburse the funds gradually from the TSO over a 15-year period based on the volume of electricity actually generated in a particular year. Since the scheme from the RRP is paid in the form of a one-off non-repayable contribution before the start of generation, it is necessary to estimate what volume of electricity will be

¹¹ These costs are significantly lower in the EU, according to the IEA (2022: 269), even after accounting for the secondary costs of variable resource management, the so-called VALCOE metric - *value-adjusted levelised costs of energy*.

produced at the facility in the next 15 years. The scheme statement uses a reference scenario to produce this estimate.

The scheme is partly technology-neutral. Cost-effectiveness has a weighting of 85% of the assessment, with some types of technology¹² gaining an additional 15%. The level of cost-effectiveness is derived from the reference scenario. This determines the expected hours of operation per plant type per year - the number of hours per year that the plant will be generating at full capacity and therefore determines the expected volume of electricity generated. From this value, a capacity factor can be derived (the percentage of how many hours per year the plant will generate electricity at full capacity). The capacity factor is used irrespective of the specific project and depends entirely on the technology¹³.

The reference scenario reduces the administrative burden, but it also has its drawbacks. The capacity factor depends on the specific installation - for photovoltaics it can vary considerably within Slovakia (14.1% in the south; 11.6% in the north).¹⁴ Similarly for wind, where location and turbine type have a major influence. Determining capacity factors without taking into account actual installations thus reduces the motivation of producers to look for the best locations. Similar schemes abroad have resulted in the installation of poor quality installations with high declared capacity ([Meus et al., 2020: 2](#)). The reference scenario also does not favour tracking support structures increasing the capacity factor by rotating the panels towards the Sun. On the other hand, the reference scenario significantly reduces the administrative burden for both the business and the ministry.

Auction schemes should continue. Auctions have a number of advantages over the existing surcharge system, as they do not create long-term demands on public funding and incentivise producers to offer the lowest possible surcharge. Identifying the shortcomings in the previous paragraph may help to address them when the next rounds of this action scheme are announced - the announced scheme was only the first of several (EUR 39 million out of EUR 103 million under the RRP). Support for RES is also planned from the Modernisation Fund¹⁵.

¹² Rooftop photovoltaics, wind power or combined heat and power.

¹³ In the reference scenario, this is 12.6% for photovoltaics; 22.8% for wind; 51.4% for biomass; and 74.2% for geothermal and biogas.

¹⁴ The weighted average of photovoltaic plants supported by the TSO surcharge was almost 13.1% in 2021.

¹⁵ Another new type of RES support is the financing of geological exploration and drilling, as exploration is one of the riskiest stages of investing in geothermal energy. Funding is planned from the Slovakia Programme (2021-2027).

3.2. Support for electricity generation from domestic coal

<p>Slovenské elektrárne, a.s. is obliged to produce electricity from domestic coal at the Nováky power plant. This obligation results from the general economic interest, which was approved by the government in order to ensure the stability of electricity supply in the region. Generating electricity in this way is unprofitable, which creates the need for subsidies, which are covered by the tariff for system operation (TSO). The indirect beneficiary of the subsidy is Hornonitranske bane Prievidza, a.s., from which Slovenské elektrárne buys brown coal mined in Slovakia. The government has committed to ending the subsidies in 2023.</p>		
Objective and KPIs	A relevant objective of the subsidy is to ensure the stability of electricity supply in the region. KPIs are not defined.	
The need for intervention	The need arises from the necessity to ensure the stability of the transmission system. Without the intervention, the functionality of the Nováky power plant, which is the only one that can guarantee the stability of the transmission system at a given location, could not be ensured. Without state intervention, the good would not be available and state intervention is justified. The power plant also provides heat for the surrounding municipalities.	
Form of support	A surcharge on the electricity produced is an appropriate form of support. A more appropriate solution in the past was to improve the throughput of the transmission system and close the plant before 2023. The measures needed to shut down the plant (investment in the transmission system and heat supply to the surrounding municipalities) are already underway.	
Recommendation	Abolish as soon as possible in 2023, in accordance with the government resolution. Once the stability of the transmission system and heat supply to the surrounding municipalities is ensured, further subsidisation of the Nováky power plant is not justified, while the electricity generated from the power plant additionally burdens consumers with an increase in the TSO.	

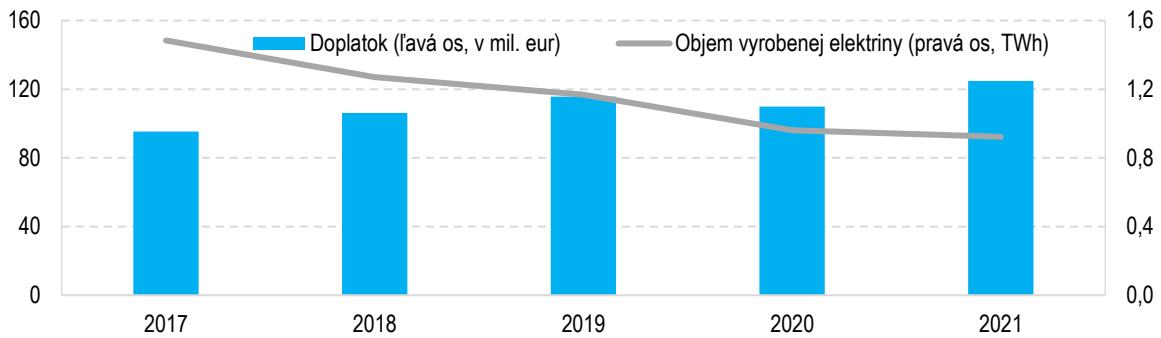
Slovenské elektrárne, a.s. is obliged to produce electricity from domestic coal at the Nováky power plant. This obligation results from the general economic interest, which was approved by the government¹⁶. Generating electricity in this way is unprofitable, which creates the need for subsidies, which are covered by the TSO. The indirect beneficiary of the subsidy is HBP, from which SE buys brown coal mined in Slovakia.

The stated aim of the subsidy is to ensure the stability of the electricity system in the region. The transmission system leading to the region depends on the capacity of the Bystričany distribution plant. In the event of an outage of this plant, the system in the area would not have sufficient capacity and industrial enterprises sensitive to electricity supply (Slovalco, a.s., Fortischem, a.s.) would be endangered. A short-term solution is the operation of the Nováky power plant, which increases the stability of the system by generating electricity directly in the area. The long-term solution is to invest in increasing the capacity of the electricity system.

The volume of the subsidy is growing, reaching almost EUR 125 million in 2021. The amount depends on the level of the surcharge, which is periodically determined by the RONI for each MWh of electricity produced at the Nováky power plant, and on the volume of electricity produced. The volume of energy produced has been decreasing in recent years (from 1.3 TWh in 2018 to 0.9 TWh in 2021) while the surcharge has been increasing (EUR 64/MWh to EUR 135/MWh for the same period).

¹⁶ In compliance with Government Resolution No. 580/2018

Chart 13: Subsidies to support the production of electricity from coal (left axis, EUR million), energy produced (right axis, TWh)



Source: Institute for Economic Analyses, SE

Doplatok (ľavá os, v mil. eur)	Surcharge (left axis, EUR million)
Objem vyrobenej elektriny (pravá os, TWh)	Volume of electricity produced (right axis, TWh)

The subsidy is an example of allocative inefficiency; the government has committed to abolish it. Supporting coal-fired power generation causes several negative externalities at once - it raises costs for electricity end-users, pollutes the environment¹⁷ and produces greenhouse gases. Hence the need to end the subsidy as soon as possible, but this is conditional on increasing the throughput of the transmission system and creating an alternative source for heating the surrounding municipalities (Nováky, Prievidza, Zemianske Kostofany). As a KPI it is possible to set a deadline for the end of the subsidy scheme. The closure commitment was made in a government resolution¹⁸ in 2018, with a deadline of the end of 2023 at the latest. Slovakia has also committed to this milestone in the framework of the Recovery and Resilience Plan (Component 4, Reform 1). By the end of 2023, the capacity of the electricity system will be increased and an alternative heating source will be ready.

Since 2007, according to the OECD, the production of electricity from coal has been supported by more than EUR 1.2 billion¹⁹. The Institute for Financial Policy warned about the high subsidies as early as 2011 (IFP, 2011). The government did not take into account the uneconomic nature of the subsidy and in 2015 adopted a resolution that obliged the Minister of Economy to support the production of electricity from domestic coal until 2030²⁰. The situation changed in 2018. The government revoked the previous resolutions and obliged the Minister of Economy to end the support by 2023 at the latest. The ME SR stated that ending the subsidy earlier than 2023 was "absolutely unrealistic" due to the stability of the transmission system (ME SR, 2018).

The late abolition of the subsidy is a missed opportunity. Production at Nováky has been unprofitable for a long time and the gradual increase in ETS emissions prices has increased the pressure to close it. In this context, the originally defined plan to continue with subsidies until 2030 (or 2035) seems unrealistic and inappropriate. An earlier decision to end the subsidies (before 2018) could have led to earlier construction of an alternative heat source and investments in the transmission system, which would have allowed the subsidy to end earlier, saving TSO payers' funds and reducing greenhouse gas emissions and other pollutant emissions several years earlier.

The current electricity market situation will reduce the need for subsidies. The increase in market prices for electricity from the second half of 2021 will reduce the amount of the unit subsidy as the cost of producing electricity from brown coal will be closer to market prices. A possible fall in electricity prices would again lead to an increase in the unit subsidy.

We propose to retain the subsidy and close the power plant as soon as possible in 2023. After ensuring the stability of the transmission system and the supply of heat to the surrounding municipalities, further subsidising the

¹⁷ The Institute for Environmental policy, in its July 2017 Environmental Spending Review, estimated the annual health benefits from the phase-out of coal-fired power generation at EUR 500 million.

¹⁸ Government Resolution No. 580/2018

¹⁹ Counting only support from the TSO. Other forms of support such as direct payments from the state budget and excise duty exemptions are not included (IFP, 2011).

²⁰ Point B.5. of Resolution 140/2015. In Resolution 47/2010, the government talked about mining until 2035.

Nováky power plant is not justified, while the electricity produced from the power plant additionally burdens consumers with an increase in the TSO. The 2018 decision to close the plant came late, the inefficiency of the plants and the unprofitability of production had been widely known for almost a decade.

3.3. Compensation to companies for the tariff for system operation

Large consumers of electricity receive compensation for the tariff for system operation (TSO), which is one of the reasons for the above-average final prices of electricity in Slovakia. The purpose of the TSO is to support renewable energy sources, combined heat and power generation, and electricity generation from domestic coal. The compensations take the form of direct payment from the ME SR to companies with a consumption of more than 1 GWh of electricity per year. Compensations have been paid annually since 2019, always in the total amount of EUR 40 million for the previous year.	
Objective and KPIs	The objective is to promote the competitiveness of companies. KPIs are not defined.
The need for intervention	State intervention is justified by addressing the negative externalities of the introduction of the TSO system. The high payment for the TSO by enterprises in the period before 2022 increased final electricity prices and reduced the international competitiveness of enterprises. However, the TSO dropped significantly for all firms in 2022. Between 2022 and 2023, the TSO increased slightly, but is still very low for the largest enterprises (annual consumption above 100 GWh). Thus, intervention is not needed in 2023, and in 2024 it will only be needed for medium-sized enterprises (annual consumption up to 100 GWh p.a.).
Form of support	A direct subsidy (refund) for the TSO paid may be an appropriate form when TSO prices are high. However, a more appropriate form is the newly introduced multi-band TSO.
Additional information	Since 2022, a multi-band TSO system has been in place which means that larger customers have a lower tariff level. With this measure, there is no need to compensate any firms in 2023, and in 2024 the amount of subsidy may fall to less than a fifth.
Recommendation	Abolish in 2023 in light of the reduced TSO tariff. TSO compensation to enterprises is a justifiable subsidy if the cost of TSO is high. In 2024 it is appropriate to support only enterprises with consumption between 1 and 100 GWh and to reduce the amount of subsidy.

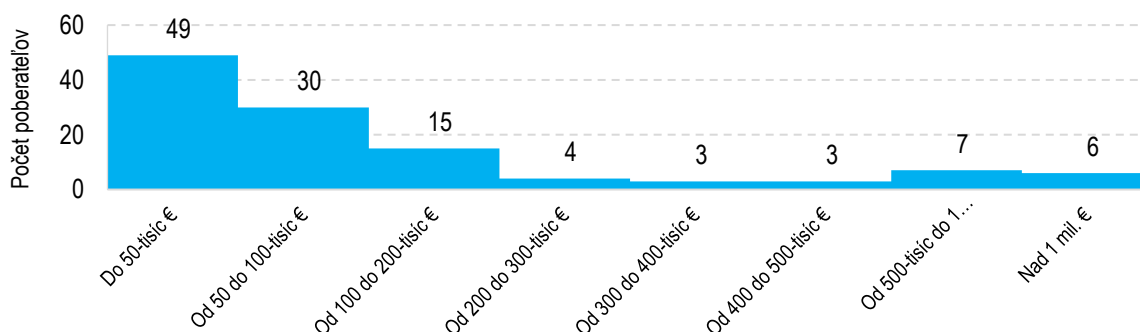
The tariff for operating the system is partially subsidised for large companies. Compensation takes the form of a direct payment from the ME SR to most enterprises with a consumption of over 1 GWh of electricity per year for the previous calendar year²¹. Between 2019 and 2022, EUR 40 million was redistributed annually among companies. In 2022, an additional EUR 40 million was paid directly into the TSO system, with the aim of reducing final electricity prices for all consumers. The amount of compensation is determined by a decision of the ME SR when the call is announced and does not result from the law.

The objective of the subsidy is to promote competitiveness. The objective was relevant as the high level of the TSO led to a significant increase in final electricity prices, which reduced the competitiveness of energy-intensive businesses. The KPIs of the subsidy are not established. A possible KPI would be to keep the final value of the TSO for enterprises below a long-term threshold, e.g., EUR 15/MWh. The subsidy is an appropriate instrument as it addresses the negative effects of other state policies. The adequacy of the level of support is questionable.

²¹ The legislative framework is Act No. 309/2009 Coll. on the support of renewable energy sources.

The scheme is non-competitive. The subsidy will be granted to any registered enterprise that produces at least 50 % of gross value added in the supported sectors²² and consumes at least 1 GWh of electricity per year²³. The amount of the subsidy will be prorated according to consumption for all applicants. In 2021 (117 applicants), the average subsidy was EUR 0.3 million, with the largest six beneficiaries (**Table 8**) receiving more than half of the allocation (EUR 26 million). More than half of the beneficiaries received less than EUR 100 thousand (Chart 14). The drawback of the support is that it does not differentiate the source of electricity (renewable, non-renewable) and thus reduces innovation in the use of alternative sources (Dias Arias and van Ceers, 2013).

Chart 14: Histogram of TSO beneficiaries by level of compensation (2021)

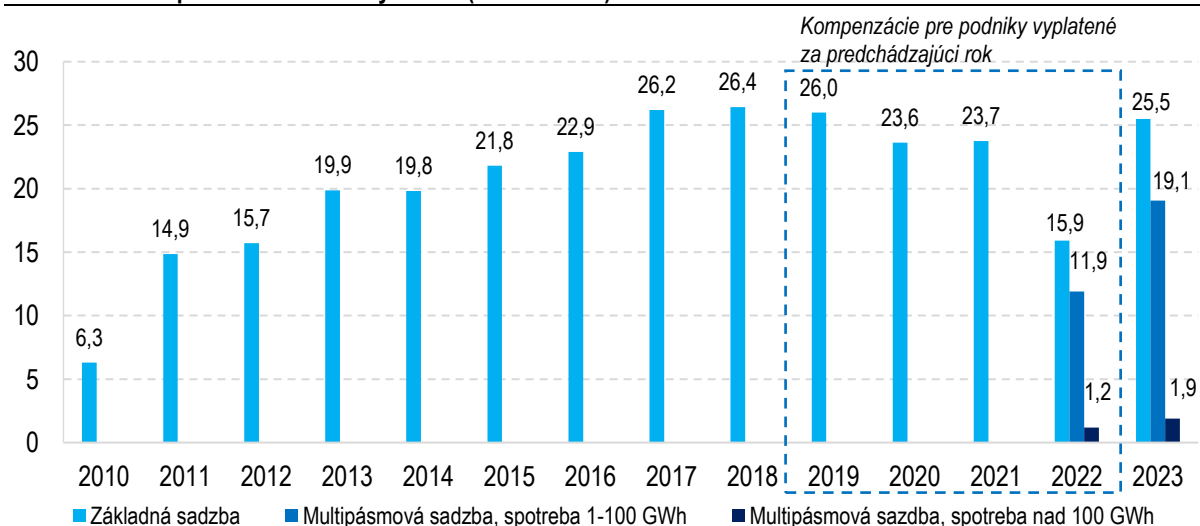


Source: VFMU based on the data of the ME SR

Počet poberateľov	Number of beneficiaries
Do 50-tisíc €	Up to 50 thousand euros
Od 50 do 100-tisíc €	From 50 to 100 thousand euros
Od 100 do 200-tisíc €	From 100 to 200 thousand euros
Od 200 do 300-tisíc €	From 200 to 300 thousand euros
Od 300 do 400-tisíc €	From 300 to 400 thousand euros
Od 400 do 500-tisíc €	From 400 to 500 thousand euros
Od 500-tisíc do 1 mil. €	From 500 thousand to 1 million euros
Nad 1 mil. €	Over 1 million euros

A multi-band TSO has been in place since 2022, which favours large customers. Until then, the level of TSO was constant for all businesses and households. Since 2022, the largest customers (consumption above 100 GWh) have paid a unit tariff by 92% lower compared to small customers. Large companies (above 1 GWh) pay a tariff by 25% lower (Chart 15).

Chart 15: Development of the TSO by bands (in EUR/MWh).



²² This is a wide range of industrial and mining sectors, a detailed list is in Annex No. 2 to Decree No. 106/2019 Coll.

²³ The exceptions are the companies Fortischem, a.s., OFZ, a.s. and Slovalco, a.s., which have a determined individual rate from the TSO in the amount of 95% of the basic value (according to Act No. 2009/309 Coll. Article 6a(1d)). This rate is analysed in more detail in subchapter 3.6.

Note: Part of the TSS expenditure was projected into the TSO in 2023.

Source: VřMU based on the data of the RONI

Kompenzácie pre podniky vyplatené za predchádzajúci rok	Compensation paid to enterprises for the previous year
Základná sadzba	Basic rate
Multipásmová sadzba, spotreba 1-100 GWh	Multi-band rate, consumption 1-100 GWh
Multipásmová sadzba, spotreba nad 100 GWh	Multi-band rate, consumption above 100 GWh

The TSO level also declined in 2022 due to the direct subsidy from the state budget²⁴. For the first time, the state made an additional payment of EUR 40 million to the TSO system in 2022. The TSO has fallen for all end-users proportionally, by an estimated 13%. If this compensation had not been paid into the system, the estimated TSO level would have been EUR 18.3/MWh for small consumers, EUR 13.7/MWh for large enterprises and EUR 1.4/MWh for the largest enterprises.

Direct subsidies to the TSO system (2022) have a smaller positive impact on firms than direct compensation, and households are only minimally affected. From a reduction of EUR 2.4/MWh per unit TSO as a result of the direct TSO system subsidy of 40 million EUR per year (2022), the average household will save approximately 6 EUR per year. Subsidies to reduce electricity prices for households make sense in the current situation, but should be targeted at the most vulnerable consumers at risk of energy poverty.

The companies' savings from the multi-band tariff in 2022 more than made up for the compensation. This can be illustrated with the 2021 example (**Chart 16**). While in 2021 the TSO level was EUR 23.7/MWh, after deducting compensation it was only EUR 15/MWh. After the introduction of the multi-band system in 2022, the tariff was EUR 11.9/MWh for large firms (consumption above 1 GWh) and EUR 1.2/MWh for the largest firms (consumption above 100 GWh). The significant savings with the new system are also shown in **Table 8**. It shows that the savings resulting from the low TSO significantly exceed the compensation received in 2021, for the largest firms almost three times.²⁵

Chart 16: Tariff for system operation (EUR/MWh), for 2022 without compensation.

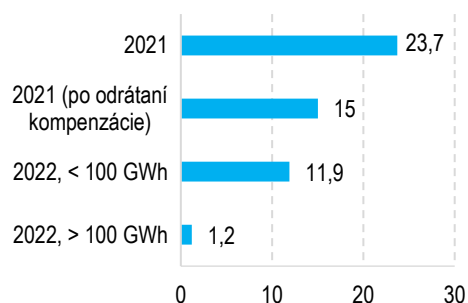


Table 8: Comparison of savings in TSO costs (compensation 2021* and 2022).

(in EUR million)	Subsidy 2021	Saving 2022, estimated
U.S. Steel Košice	10.1	29
Slovnaft	6.7	19
Mondi SCP	3.1	9
CRH (Slovensko)	2.3	7
Duslo	2.0	6
Železiarne Podbrezová	1.7	5
Other companies (111)	14.1	23
Total	40.0	97

²⁴ Other reasons were rising electricity prices and extended support for photovoltaic power plants (chapter 3.1).

²⁵ Even if the direct subsidy from the state budget had not been paid, the savings of companies would have been comparatively high (EUR 93 million).

Source: VfMU

* Paid for 2020.

Source: VfMU

Po odrátaní kompenzácie

After deducting the compensation

TSO compensation to companies is a justified subsidy only when TSO prices are high, when tariffs fall as in 2022 it should be abolished altogether by not issuing a call in the following year²⁶. The tariff is low for large companies also in 2023, so the need for compensation only applies to companies with consumption between 1 and 100 GWh. To compensate their tariff to the level of EUR 15/MWh (as it was in 2021, **Chart 16**) at the same electricity consumption as in 2022 would cost about 6 million euros (15% of the original amount). In the current energy crisis, the issue of supporting the affected companies due to high energy prices is relevant. However, TSO compensation is not an appropriate instrument at least in 2023 due to the relatively low value of the TSO and the legislative limits which would make it impossible to use the full amount of the subsidy in the current circumstances. In the event of a decision on the need for further financing, it would be appropriate to reallocate funds to support schemes through the temporary crisis framework (in particular the so-called 2.4 scheme). This scheme also has the advantage of making the support more targeted, as one of its conditions is a fall in EBITDA and it therefore targets the companies most affected by the energy crisis.

²⁶ The potential subsidy would not be spent in 2023. The reason for this is Act No. 309/2009 Coll., Article 6a (3), which stipulates that the compensation cannot exceed 85% of the tariff paid for the operation of the system in the previous year. As the tariff has fallen significantly, assuming the same consumption as in 2021, only around EUR 19 million could be used.

3.4. Support for the decline and elimination of the consequences of mining in the coal mining sector - closure of mining fields

<p>The state pays the company Hornonitrianske bane Prievidza, a. s. part of the costs for the closure of the mining fields Handlová and Nováky, the reclamation of the area and severance pay to miners. HBP, a.s. does not have sufficient financial reserve for the closure and liquidation of the mining fields. The reason for this is the long history of mining activity that took place in the area for decades before the establishment of HBP, a.s. A direct subsidy to a specific company is necessary, since the company owns the mining objects.</p>		
Objective and KPIs	The objective is the safe closure of the fields and the reclamation of the surface parts of the operation, based on an established closure plan.	
The need for intervention	HBP, a.s. does not have sufficient financial reserves to close the mining fields. Insufficient closure may cause major environmental and social damage. A market mechanism could not ensure closure without which there are significant risks, so state intervention is justified.	
Form of support	A direct subsidy to HBP, a.s. is the only option, as the facilities are owned by it. The amount of the subsidy should be reviewed by an independent audit to identify the real need for the subsidy and any scope for reducing the subsidy. At the same time, it would be appropriate to reduce the demands on the state budget by financing some activities from EU sources.	
Recommendation	Retain, verify the amount of funding needed, and reduce state budget requirements. State support for mine closure is a necessary subsidy, but the expected level of funding needs to be verified on the basis of an objective and independent assessment of costs. It would also be appropriate to reduce the requirements on the state budget by making the most of European resources, in particular the Just Transition Fund.	

The subsidy is intended for the closure of the Nováky and Handlová coal mining fields of Hornonitrianske bane Prievidza, a. s. (HBP, a.s.). The funds are transferred to a separate account within HBP, a.s. and are not used to finance normal production operations, only for costs associated with the closure of the mines²⁷. State aid was approved by Commission Decision of 28 November 2019²⁸ and its main objective is to help cover the exceptional costs of closing uncompetitive coal mines.

The aim is the closure of the Handlová and Nováky mining fields belonging to HBP, a.s., the related remediation of the mining sites, reclamation and financing of severance pay for workers who have lost or are losing their jobs. KPIs are not set, they can be considered as the fulfilment of the timetable for the liquidation and closure of individual mining fields. The timetable is set out in the document Update of the Action Plan for the Transformation of the Upper Nitra Coal Region, (2022)²⁹, and its compliance is insufficiently monitored. According to the available information, the closure works on the first two sites have been delayed (the Cígeľ mine by four months and the eastern shaft of the Handlová mine by several months), which increases the risk of budgetary funds being carried forward to later years³⁰.

²⁷ Government Resolutions No. 580/2018 and 19/2022 provide the legislative framework.

²⁸ SA.55038 (2019/N) – Aid to cover the exceptional costs of Hornonitrianske bane Prievidza (HBP) related to the closure of its mining operations.

²⁹ Approved by the Government by Resolution No. 19/2022.

³⁰ The closure of the Cígeľ mine was to take place in 2018 and 2019, with the closure occurring at the end of April 2020. The eastern shaft was due to be closed in June 2021, but was not completed until at least August 2021. Further information is not available, the Action Plan update does not monitor compliance with the timetable.

HBP, a.s. is legally obliged to create a reserve for the closure and liquidation of mining fields, which amounts to a total of EUR 17 million in excess of the subsidy. However, these funds are not sufficient to cover the costs, not least because of the long history and scale of mining activity³¹. Additional funding from the state budget is needed. The subsidy is based on a public interest fulfilling the theoretical criteria for the use of subsidies (Chapter 2). The closure of the mining fields is in line with the environmental commitments of the Slovak Republic. Insufficient closure can cause great environmental and social damage.

The Action Plan and the notification of state aid³² set the amount of state funding at EUR 92.6 million between 2019 and 2027, with a decrease in 2020. Based on the deliberations of the inter-ministerial commission and the update of costs by HBP, a.s. in 2020, there was a decrease of over 40% from EUR 92.6 million to EUR 53.1 million for the entire period (reduced to 2019-2025). The update of costs in this amount resulted from internal decision-making processes in HBP, a.s. and it is not clear whether further reductions in expenditure would be possible.

Table 9: Subsidy budget by different sources (EUR million)

	Action Plan	New plan	Drawing	State budget
2019	3.4	0	0	
2020	8.8	3.4	3.7	
2021	14.6	7.3	7.5	
2022	17.1	11.8	12.0	
2023	12.2	14.7		17.3
2024	17.6	11.9		12.4
2025	8.5	4.1		17.8
2026	6.6	0		
2027	3.7	0		
Total	92.6	53.1	23.1	47.5

Source: BIS, Action Plan, ME SR

The Just Transition Fund could reduce the need for funding from the state budget. The aim of the fund is to “enable regions and people to address the social, employment, economic and environmental consequences of the transition to achieve the Union’s climate goals” (MIRDI SR, 2021: 3). The Upper Nitra region is also an eligible territory in Slovakia, and the financing of the repurposing and reuse of abandoned industrial sites is identified as a high priority activity in the Just Transition Plan (MIRDI, 2022: 33).

The Fund resources could cover up to 60% of the closure activities. The Fund is intended for specific activities and could not be used to finance underground safety work and severance pay for miners in the context of the closure of HBP, a.s. mines. However, it could probably be used for the remediation of surface facilities and reclamation, which account for the majority of the necessary expenditure, over EUR 32 million of the EUR 53 million budget (60%). The Fund’s co-financing for the Upper Nitra region is 50%.

We recommend that the subsidy be maintained and that the possibilities of reducing the subsidy and funding it from outside the budget be explored. Without co-financing from the state, HBP, a.s. would not be able to close the mining structures, which could lead to environmental burdens. State support for mine closure is therefore a justified subsidy. However, it is necessary to verify the amount of funding needed, as there has already been a significant change in the cost estimate. Further potential savings arise from the financing of some activities from European sources, in particular from the Just Transition Fund or the Slovakia Programme.

³¹ Mining began as early as 1909.

³² State aid notification SA.55038 (2019/N).

3.5. Support for energy-intensive businesses from ETS allowances

<p>The objective of the scheme is to partially compensate energy-intensive businesses for the cost of electricity so that production is not shifted to countries with lower environmental requirements (carbon leakage). The risk of business relocation and carbon leakage is caused by rising electricity prices due to rising prices of emission allowances. The level of support is unpredictable and arbitrary, ranging from EUR 0-11 million per year in recent years. The amount of the subsidy is determined annually by the ME SR. There are ten beneficiaries, the largest being Slovalco, a.s., Duslo, a.s. and Slovnaft, a.s. (Total over 70% of the allocation).</p>	
Objective and KPIs	<p>The objective of the scheme is to partially compensate energy-intensive businesses for the cost of electricity so that production is not shifted to countries with lower environmental requirements (carbon leakage). KPIs are not defined.</p>
The need for intervention	<p>The cost of emission allowances increases electricity prices, making it more expensive for energy-intensive businesses to produce (a negative externality), while these businesses have no direct influence on the way they produce energy. There is a risk of loss of competitiveness and a shift of production abroad, where environmental standards are lower. State intervention is justified by addressing the negative externalities and undesirable outcomes of the ETS.</p>
Form of support	<p>Direct subsidy is the only possible form of support before the introduction of the European carbon tariff. It would be advisable to increase the predictability and stability of the subsidy so that companies can plan for the long term with the amount of subsidy.</p>
Recommendation	<p>Retain, increase predictability. The level is not stable year-on-year, which reduces predictability and makes long-term planning on the part of firms impossible.</p>

The objective of the scheme is to partially compensate energy-intensive businesses for the cost of electricity so that production is not shifted to countries with lower environmental requirements (carbon leakage). The risk of business relocation and carbon leakage is caused by rising electricity prices due to rising prices of emission allowances. This increases the revenue of countries from the sale of allowances, but also creates the need to compensate energy-intensive industries whose electricity costs are rising³³. Similar support schemes were in place in 12 other EU Member States in 2020 (14 in 2021). KPIs are not defined. A possible KPI would be to maintain a stable level of compensation in the medium term.

The total amount of the subsidy averages EUR 6.8 million per year (2016-2021), but is highly variable between years and lacks predictability. From the revenues from emission allowances,³⁴ an applicable share is determined annually, which is the result of an agreement between the MF SR and the MEnv SR, according to the law it is at least 30%. The MEnv SR will then distribute the usable share among the different areas defined by law³⁵. According to law, 25% of the applicable share (minimum 30%) should go to compensation (which is 7.5% of the total proceeds from the sale of allowances), but the MEnv SR may unilaterally change this percentage³⁶. For this reason, undertakings cannot plan the amount of compensation. No compensation has been paid for 2021.

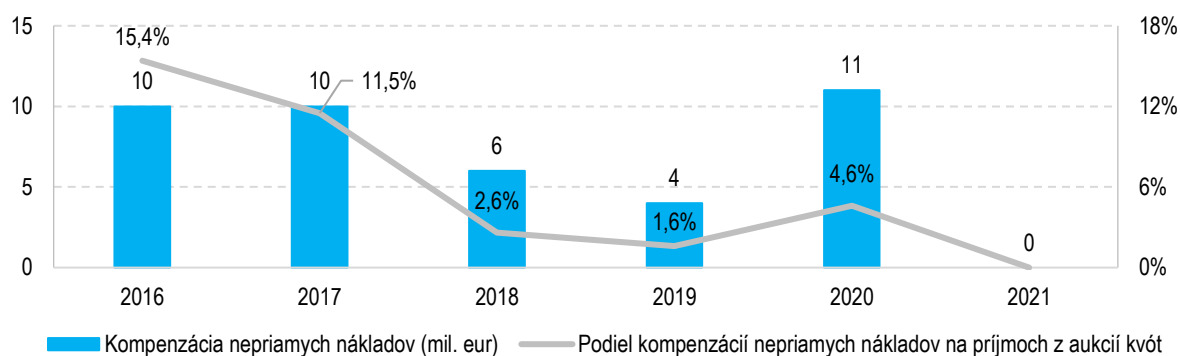
³³ An appropriate solution to this situation, or an alternative to compensations, is the introduction of an EU-wide carbon tariff (CBAM). This is planned to be gradually introduced after 2023.

³⁴ Proceeds from the sale of emission allowances under the ETS are the revenue of the Environmental Fund, which falls under the MEnv SR.

³⁵ On the basis of Act No. 414/2012 Coll. on emission allowance trading, Article 18 (4).

³⁶ The MEnv SR proposed to change the system at the beginning of 2020 by increasing the share of usable revenue to 50%, reducing the share of compensations to 12.5% and removing the possibility for the MEnv SR to change the allocation arbitrarily.

Chart 17: Support to businesses from the Envirofond in million euros and as % of revenues from auctioning allowances



Source: Envirofond

Kompenzácia nepriamych nákladov (mil. eur)	Compensation of indirect costs (EUR million)
Podiel kompenzácií nepriamych nákladov na príjmoch z aukcií kvót	Share of indirect cost compensations in revenues from allowance auctions

Compensation is paid to 10 companies, the largest beneficiary being Slovalco, a.s., which receives 45% of the allocated amount each year, Duslo, a.s. 15% and Slovnaft, a.s. 12% (Table 10). Eligible applicants are enterprises in specific sectors, such as the production of aluminium and other metals, fertilisers and the production of paper products. The scheme is non-competitive; the amount is redistributed among all eligible applicants on the basis of a formula established by the European Commission. The scheme motivates companies to save electricity - compensation does not decrease with reduced electricity consumption due to more efficient production technology.

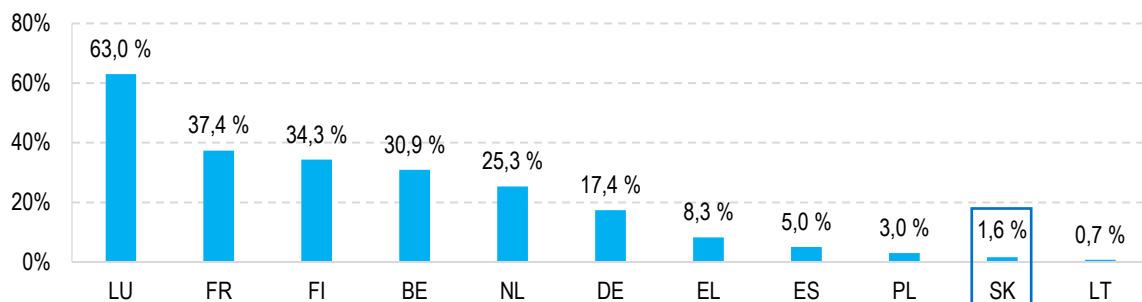
Table 10: List of beneficiaries of compensation 2016-2020 (EUR million)

Company	2016	2017	2018	2019	2020	Total
Slovalco	6.22	5.39	2.75	1.81	4.98	21.15
SLOVNAFT	1.68	1.46	0.74	0.49	1.35	5.72
OFZ	1.29	1.13	0.58	0.38	1.05	4.43
Duslo	-	-	0.90	0.59	1.63	3.12
Mondi SCP	-	1.10	0.56	0.37	1.02	3.04
U. S. Steel Košice	0.43	0.37	0.19	0.13	0.34	1.46
Železiarne Podbrezová	0.39	0.33	0.17	0.11	0.31	1.31
Metsa Tissue Slovakia	-	0.22	0.11	0.07	0.20	0.61
SHP Harmanec	-	-	-	0.03	0.09	0.12
SHP SLAVOŠOVCE	-	-	-	0.01	0.03	0.05
Total	10	10	6	4	11	41

Source: Envirofond

The level of ETS compensation to energy-intensive businesses varies considerably across the EU. In 2020, 12 Member States paid compensation (for 2019), while other 15 paid no subsidies. Slovakia paid out EUR 4 million, representing 1.6% of auction revenues, the second lowest percentage among the subsidising countries. The subsidy fulfils the theoretical basis as it avoids negative externalities of state policies (the possibility of carbon leakage and associated negative environmental impacts).

Chart 18: Share of cost compensation in 2019 in ETS allowance revenues in % (paid in 2020)



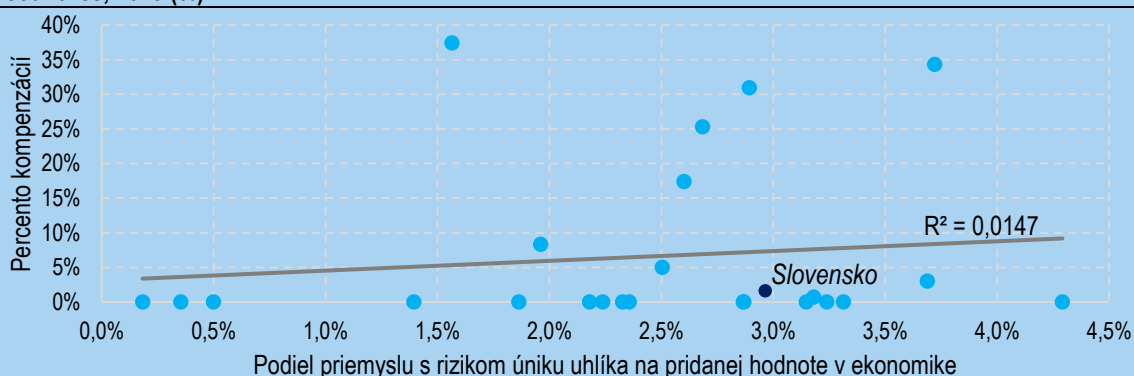
Compensation was also provided by Romania, which did not send information to the EC.

Source: EK, 2021

Box 4: Does the level of compensations depend on the size of the industry at risk of carbon leakage?

The percentage of compensations correlates only weakly with the share of industry at risk of carbon leakage in EU countries. Chart 19 indicates that Slovakia provides fewer compensations relative to the size of the industry at risk compared to EU countries. However, the correlation between compensations and the size of the industry at risk is very weak - the inclusion of a single outlier (Luxembourg) would reverse the trend (compensations would *decrease* as the size of the industry in question increases). Similarly, we find an inverse association between compensation and electricity prices in the data for the last three years than suggested by the literature (Ferrara & Giua, 2022). Thus, countries that pay compensations have, on average, *lower* electricity prices than countries that do not pay compensations.

Chart 19: Relationship between the share of compensation* and the share of selected sectors in GDP, EU countries, 2019 (%)



The chart does not include Luxembourg, which is an outlier (0.6%; 63%).

Source: EC, Eurostat

* The share of cost compensations in ETS allowance revenues

Percento kompenzácií	Percentage of compensation
Podiel priemyslu s rizikom úniku uhlíka na pridanej hodnote v ekonomike	Share of industries at risk of carbon leakage in value added in the economy
Slovensko	Slovakia

Compensations will not solve the current problems of energy-intensive businesses with high electricity prices. The price increases are significantly higher than what the Envirofond can cover with compensations. For example, in the case of Slovalco, a.s., an increase in the price of power electricity by EUR 1/MWh will decrease the company's profit by EUR 2.4 million (Rojko, 2021). In 2022, spot prices increased by hundreds of euros per MWh compared to the average. The total income of Envirofond from the sale of emission allowances in 2021 was EUR 276 million, while other activities (e.g., thermal insulation, water supply systems) are also financed from it. Another argument is that the subsidy is intended to compensate for the increase in electricity prices due to the high

price of emission allowances. The current prices are due to natural gas prices, not allowances, which form a small part of the price³⁷.

Any increase in the level of compensations is a political question, but whatever the level, it is necessary to increase their predictability. In the current situation, the level of compensation is only known to the companies one year after the use of electricity (as compensation is always paid for the previous year) and is repeatedly accompanied by uncertainty resulting from political decision-making and negotiations between the MF SR and the MEnv SR. The conclusions of the literature on the effectiveness of the compensation provided are also ambiguous in view of the changes to the EU ETS in recent years (Box 5).

Box 5: Impact of compensations from emission allowances on companies

There is no clear evidence in the economic literature that compensations reduce carbon leakage. The very concept of carbon leakage in the context of the EU ETS is not fully accepted by the expert community. For example, Naegele and Zaklan (2017) found no empirical evidence of direct (due to the purchase of emission allowances) or indirect (due to electricity price increases) carbon leakage in their study of 25 industries. Dechezleprêtre and Sato (2017) came to similar conclusions in their literature review. One of the stated reasons is that firms' barriers to shifting production resulting from tariffs and transport costs are higher than the direct or indirect costs of emission allowances (Naegele and Zaklan, 2017: 24).

The positive effect of compensations on firms is uncertain. Ferrara and Giua (2022) compared firms in 12 EU countries, half of which compensated firms for increased electricity costs. According to the study, compensations did not have a positive effect on firms' competitiveness (measured by the metrics of turnover and assets per employee). Paradoxically, supported firms performed worse on these metrics and on the number of employees. The authors explain this by higher electricity prices on average in countries that provided compensations (as Box 6 explains, this relationship could not be confirmed). On the other hand, when comparing countries that provide subsidies, firms with higher subsidies perform better.

The EU ETS is undergoing changes that may call into question the validity of existing studies. Most of the existing empirical studies have examined the impacts of the EU ETS in phases 2 and 3 (2012-2020), which were characterised by high levels of free allocation of allowances to businesses. This allocation is gradually decreasing. Allowance prices have also risen significantly, by a factor of about ten over the last five years, creating additional pressure for carbon leakage. It is therefore impossible to say unequivocally whether and to what extent compensations are achieving their objective.

3.6. Individual rate of Tariff for System Operation

The three energy-intensive companies pay a significantly lower tariff for system operation (TSO), only about 5-8% of the base rate. The discount is applied to companies meeting three conditions: annual consumption above 1 GWh, the electricity intensity of the company (ratio of energy expenditure to gross value added) must be at least 100 % and the company must belong to one of four sectors (production of fertilisers and nitrogen compounds; production of primary plastics; production of iron, steel and ferroalloys; production of aluminium). The choice of sectors is not explicitly justified.

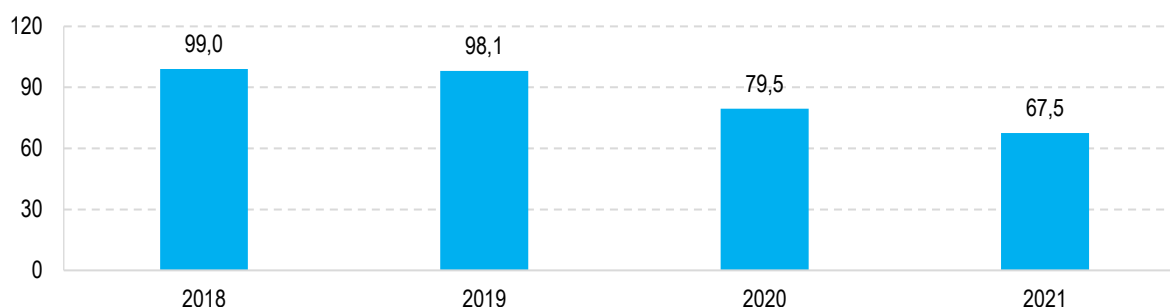
Objective and KPIs	The objective is to support the competitiveness of firms, KPIs are not defined.	
The need for intervention	Energy-intensive companies have a high TSO payment, which makes them less competitive with foreign countries. State intervention is justified to address the negative externalities and undesirable outcomes of the TSO system.	

³⁷ Assuming that electricity from natural gas gives a clearing price, the cost of emission allowances is reflected in the final electricity price of EUR 23-50/MWh (for an energy efficiency of 30-70%). According to Electricity Maps (2022), this is EUR 37.4/MWh for an average Slovak gas-fired power plant. The calculations assume an allowance price of EUR 80/tCO₂.

Form of support	A subsidy in the form of a reduced fee is an appropriate form and helps to meet the objective. Alternative forms (refunds) would not be more appropriate and would likely incur additional administrative costs.	
Recommendation	Retain in its current form as it fulfils a justified objective - the competitiveness of businesses. After the introduction of the multi-band TSO in 2022, the individual rate is a form of duplication. However, its continuation makes sense in the event of an increase in the third band of the TSO or the abolition of the multi-band system. It would be appropriate to increase the transparency of the scheme by reporting annually on the beneficiaries of the individual tariff.	

The individual TSO tariff is an indirect subsidy in the form of a reduced fee on electricity consumption for certain companies. According to the Explanatory Memorandum (National Council of the SR, 2018), the aim is to promote the competitiveness of enterprises. The subsidy facilitates the achievement of the objective. KPIs are not set. The volume of the subsidy between 2018 and 2021 decreased from almost EUR 100 million to EUR 67.5 million (Chart 20). In 2022, the volume will drop to zero due to the same level of TSO for large firms inside and outside the individual tariff system (due to the introduction of the multi-band system).

Chart 20: Amount of reduction in TSO revenues due to the introduction of the individual rate (EUR million)



Note: Estimate, it may differ from actual consumption.

Source: IHA

In this review, we also consider as subsidies the reduced fee rates received by firms providing a certain service for its provider³⁸. These are not normally considered subsidies, but have been included in the interest of creating as complete a list of government measures in the energy sector as possible.

The subsidy results from law, and significant authority in its implementation is vested in the RONI. Act 250/2012 on energy determines that the individual tariff will be granted to companies that meet three conditions: they consume electricity in a volume of at least 1 GWh per year, they have a high electricity intensity of production and they belong to the sector of selected companies according to NACE codes. The first condition is specified directly by the Act, the other two conditions are specified by the RONI in its own decree. Decree 18/2017 of the RONI specifies that the electricity intensity of the company must reach at least 100% in 2020³⁹ and the company must belong to one of four sectors (production of fertilisers and nitrogen compounds; production of primary plastics; production of iron, steel and ferro-alloys; production of aluminium)⁴⁰. The reason for selecting these industries is not known. According to the available information, in 2019, four companies - Slovalco, a.s., OFZ, a.s., Fortischem, a.s. and Duslo, a.s. - received the rate (Energoklub, 2019). Since 2021, Duslo has not been part of it.

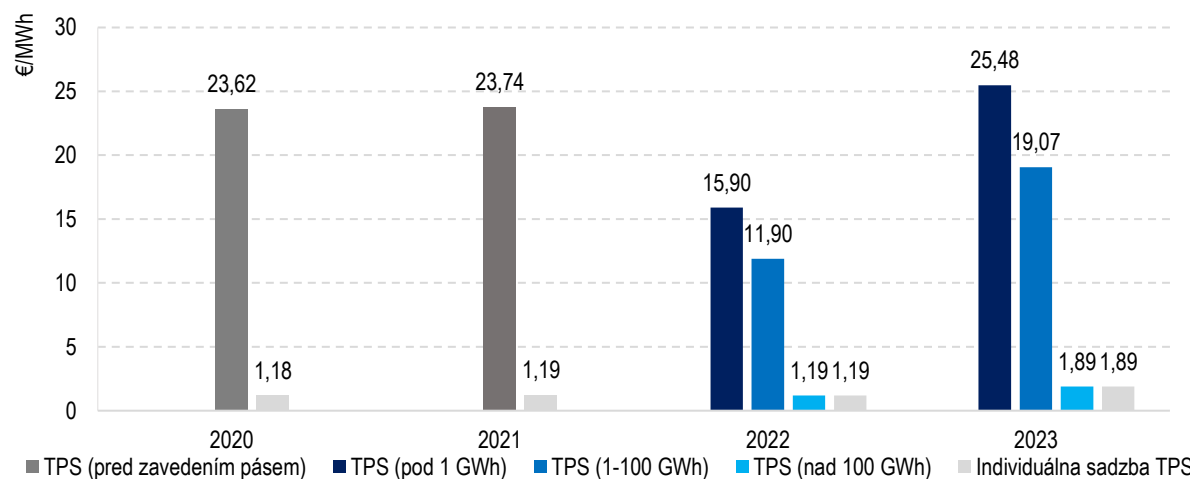
³⁸ These are in particular chapters 3.7 Individual Rate of Tariff for System Services and 3.9 Discounts on Tariffs for Reserved Capacity and Electricity Transmission.

³⁹ For subsequent years, the threshold is increased if electricity prices rise. The intensity is calculated as the product of the multiple of electricity consumption and price (in the numerator) and gross value added (in the denominator). Gross value added is the sum of sales, capital asset capitalisation, other operating income and change in inventories, less the cost of purchasing goods, materials, energy and services, and duties and taxes. The detailed calculation methodology is set out in Article 12a of Decree 18/2017 Coll.

⁴⁰ NACE codes 2015, 2016, 2410, 2442. Annex 8 to Decree No. 18/2017 Coll.

The individual rate represents a 92-95% discount on the basic TSO rate. In 2020 and 2021, it represented a significant saving as compared to the base rate. This changed with the introduction of the multi-band system in 2022 (see Chapter 3.2 for more details), which reduced the TSO payment for the largest companies (consumption above 100 GWh) to the level of the individual rate (Chart 21). The maximum value of the discount that can be set by the RONI is 95%.

Chart 21: TSO levels (in EUR/MWh) by annual consumption and individual TSO rate



Source: VFMU based on the data of the RONI

TPS (pred zavedením pásem)	TSO (before introduction of bands)
TPS (pod 1 GWh)	TSO (under 1 GWh)
TPS (1-100 GWh)	TSO (1-100 GWh)
TPS (nad 100 GWh)	TSO (above 100 GWh)
Individuálna sadzba TPS	Individual TSO rate

Prior to 2022, the subsidy resulted in foregone TSO system revenues that are compensated by other tariff payers. The volume of customers with an individual tariff is also taken into account when calculating the TSO payment. As they pay a lower tariff, the amount of funds needed (which is constant regardless of the number of payers) is spread over a smaller number of customers. This means that if firms in an individual tariff system paid the full tariff, the TSO for households and other firms would be lower (by over 10% in 2021). However, the absence of an individual tariff could cause the closure of these energy-intensive firms and an associated fall in electricity consumption. This would result in an even higher TSO fee for other consumers, as this consumption would not pay even part of the tariff in question⁴¹.

The subsidy should be retained as it fulfils the stated objective. After the introduction of the multi-band TSO in 2022, the individual rate is as beneficial as the TSO band for the largest firms and is a form of duplication. Nevertheless, its continuation makes sense in the event of an increase in the third TSO band or the abolition of the multi-band system, which has only been in practice for two years. It would be appropriate to increase the transparency of the scheme by providing annual information on the level of the individual tariff, its beneficiaries and the volume of electricity subject to the preferential tariff⁴².

3.7. Individual rate of Tariff for System Services

Four industrial enterprises with direct connection to the electricity system, low consumption deviations and frequent use of maximum consumption pay a significantly lower tariff for system services (TSS), only 10% of the basic rate.

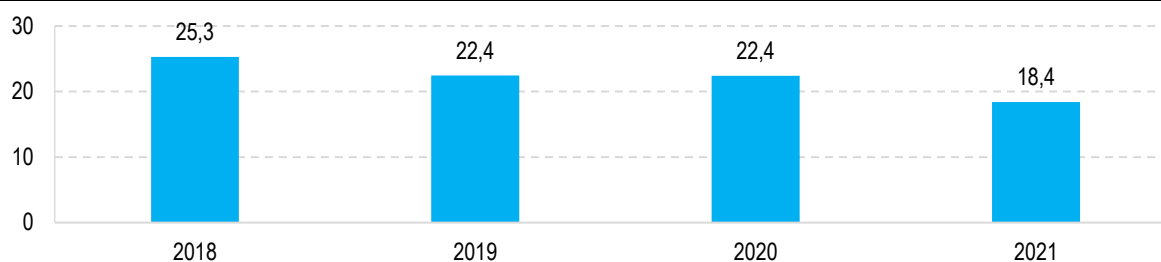
⁴¹ This counterfactual scenario expects increased electricity exports due to the closure of energy-intensive businesses with an individual rate. Exported electricity from the Slovak Republic consumed abroad is not subject to TSO payment.

⁴² In Decree 18/2017 Coll., Article 18 it is a variable with the designation QPvdtsps.

Objective and KPIs	Neither the objective nor the KPIs are defined; the implicit objective is to promote competitiveness.	
The need for intervention	Energy-intensive enterprises have high TSS payments, which reduces their competitiveness with foreign countries. The payment is linked to the transmission network, which is a natural monopoly controlled by the state, so state intervention is justified.	
Form of support	The reduced fee is an appropriate form of support as it meets the objective and also has a technical justification (the supported companies represent lower costs for system services).	
Recommendation	Retain in its current form as it fulfils a justified objective - the competitiveness of businesses and also has a technical justification. It would be appropriate to increase the transparency of the scheme by providing annual information on the beneficiaries of the individual tariff.	

Companies with stable consumption have a discount on system services. The subsidy⁴³ does not have a set target or KPIs⁴⁴. However, it can be inferred that the objective is to increase competitiveness. An alternative objective may be to motivate companies to keep deviations low, which helps to ensure the stability of the transmission system and reduces costs of system services of SEPS, a.s. The subsidy helps to meet both these objectives. Its volume has been gradually decreasing, and in 2021 it was EUR 18.4 million.

Chart 22: Amount of reduction in TSS revenue due to the introduction of the individual rate (EUR million)



Note: Estimate, it may differ from the actual amount.

Source: IHA

The subsidy results from Act 250/2012 Coll. on energy. The conditions for obtaining an individual tariff are that companies must be directly connected to the transmission system, have low deviations and fully use the reserved capacity for up to 6800 hours per year (more than three quarters of the time). The companies receiving the reduced tariff are similar to those receiving the individual TSO - Slovalco, a.s., OFZ, a.s., Fortischem, a.s. and Duslo, a.s. (RONI, 2020).

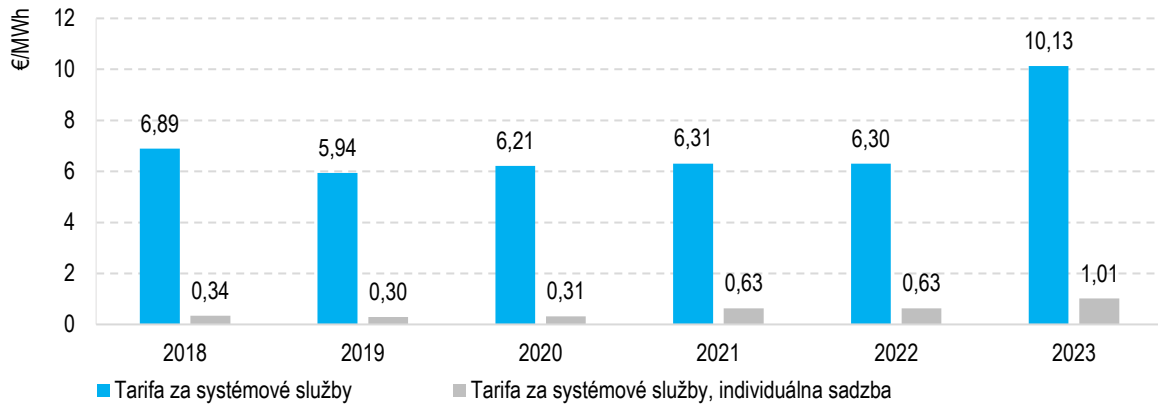
The lower payment for these customers also has a technical justification. Customers with an individual tariff represent a lower cost of system services. The tariff for system services serves to cover the costs of the state-owned SEPS, a.s. in connection with support services that ensure compliance with the quality of electricity supply and operational reliability of the electricity system of the Slovak Republic. The stability of the system is facilitated by a very low consumption deviation, which is a condition for obtaining an individual tariff and is typical for large industrial enterprises using electricity in industrial processes.

Prior to 2021, the individual rate was a 95% discount, after 2021 it is 90%. The amount of the discount is determined by the RONI. Even after the reduction of the discount, the individual tariff is cheaper by almost EUR 9/MWh (Chart 23).

⁴³ The individual TSS rate is usually not considered a subsidy as it is only received by firms representing lower system service costs for the service provider (SEPS, a.s.). However, in the review we define this measure as a subsidy since the reduced rate is the result of enacted state legislation and the review also aims to provide as complete an overview as possible of state measures in the energy sector.

⁴⁴ Neither the objectives nor the KPIs are defined in the Explanatory Memorandum (National Council of the SR, 2012).

Chart 23: TSS level and individual TSS rate level (in EUR/MWh)



Source: VFMU based on the data of the RONI

Tarifa za systémové služby	Tariff for system services
Tarifa za systémové služby, individuálna sadzba	Tariff for system services, individual rate

Similar to the individual TSO rate, the subsidy causes foregone revenue under the TSS. The volume of customers with an individual tariff is also taken into account when calculating the TSS payment. Since they pay a lower tariff, the cost of system services (which is constant regardless of the number of payers) is spread over a smaller number of customers. This means that if firms in an individual tariff system paid the full tariff, the TSS for households and other firms would be lower. However, as with the TSO, the absence of an individual TSS rate could cause the closure of these energy-intensive firms and an associated decline in electricity consumption. This would result in an even higher TSS charge for other consumers, as not even 10 % of the tariff in question would be paid for a given consumption.⁴⁵

It is appropriate to maintain the subsidy as it meets the stated objectives and has practical justification. The individual TSS rate represents an advantage for the companies involved, whose electricity consumption objectively represents a lower cost of system services compared to other customers. It would be appropriate to explicitly define objectives and KPIs and to increase the transparency of the scheme by providing annual information on the beneficiaries of the individual tariff and the volume of electricity subject to the preferential tariff⁴⁶.

⁴⁵ In this counterfactual scenario, increased electricity exports can be expected as a result of the closure of energy-intensive individual rate businesses. Exported electricity from the Slovak Republic consumed abroad is not subject to TSS.

⁴⁶ In Decree 18/2017 Coll., Article 23 it is a variable with the designation QPvdtss.

3.8. Reduction of the effective rate of the levy to the National Nuclear Fund (NNF)

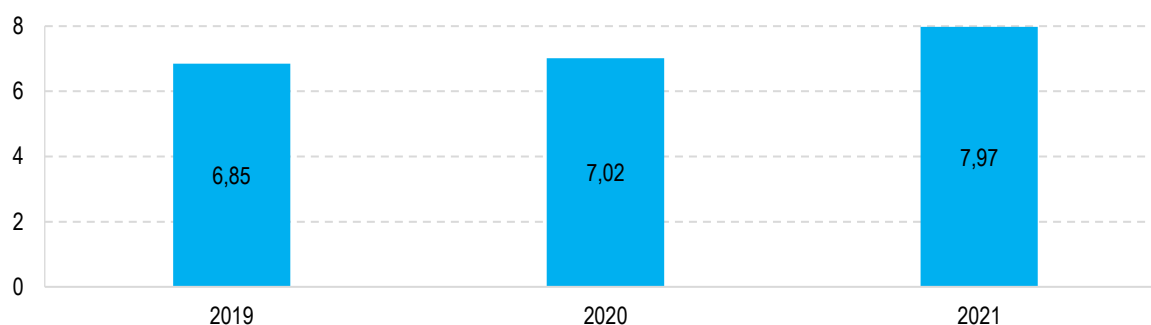
Four energy-intensive companies pay a significantly lower levy to the National Nuclear Fund (NNF) - depending on their energy intensity, the discount is 30% or 75%. The effective levy rate of EUR 3.27/MWh as a base rate forms part of the final electricity prices and is intended to cover historical debt (decommissioning of nuclear facilities).		
Objective and KPIs	The objective is to support the competitiveness of firms, KPIs are not defined.	
The need for intervention	Energy-intensive enterprises with high foreign trade intensity have a high levy to the NNF, which reduces their competitiveness. State intervention is justified by addressing the negative externalities and undesirable results of the NNF levy payment.	
Form of support	A subsidy in the form of a reduced fee is an appropriate form and helps to meet the objective. Alternative forms (e.g., refunds) would not be more appropriate and would likely incur additional administrative costs. The payment is linked to the transmission network, which is a natural monopoly controlled by the state, so state intervention is justified.	
Recommendation	Retain in its present form. It would also be appropriate to disclose information on the NNF revenue foregone due to the reduction in the effective levy rate.	

Four energy-intensive enterprises are granted a discount on the NNF levy. The effective levy rate of EUR 3.27/MWh forms part of the final electricity prices and is intended to cover historical debt (decommissioning of nuclear facilities). The objective of the subsidy is set out in the state aid notification⁴⁷ as a support to competitiveness. KPIs are not set.

The subsidy results from Government Order No. 21/2019 Coll. The condition for obtaining the subsidy for enterprises is to account for at least 50% of gross value added in one of three sectors - production of refined petroleum products; production of pig iron, steel and ferroalloys or production of aluminium⁴⁸, the choice is justified by the high energy intensity and intensity of trade in these sectors. Enterprises with an energy intensity above 60 % have a 75 % discount on the levy, other enterprises have a 30 % discount. Since the beginning of existence of this form of subsidy in 2019, four companies have been eligible each year: Slovalco, a.s., OFZ, a.s. (both 75% discount) and U.S. Steel Košice, s.r.o. and Slovnaft, a.s. (both 30% discount).

The subsidy has grown to almost EUR 8 million per year over the last three (Chart 24). As a result of declining consumption (especially Slovalco, a.s. and OFZ, a.s.), the volume of subsidy is expected to decline significantly in 2022 and beyond.

Chart 24: Subsidy volume between 2019 and 2021 (EUR million)



Source: ME SR

⁴⁷ State aid SA.50877 (2018/N).

⁴⁸ NACE codes 1920, 2410 and 2442.

The subsidy should be retained. The subsidy meets the objectives of increasing the competitiveness of the affected enterprises. A positive feature of the scheme is the annual publication of information on the beneficiaries⁴⁹. It would also be appropriate to publish information on the foregone income of the NNF due to the reduction in the effective levy rate.

3.9. Discounts on tariffs for reserved capacity and electricity transmission

Companies directly connected to the transmission system with high reserved capacity and consumption pay a lower tariff for reserved capacity and transmission tariff. The discounts are defined in three categories (30, 50 and 70%) according to the size of the consumption. According to information available to the VfMU, the only company that qualifies is Slovalco, a.s. with a 50% discount.		
Objective and KPIs	The subsidy does not have set objectives or KPIs, but it can be inferred that the objective is to increase the competitiveness of the most energy-intensive firms. The existence of the scheme may incentivise the electrification of heavy industry and the arrival of energy-intensive enterprises (battery production), which may help to meet environmental objectives.	
The need for intervention	Energy-intensive companies are losing competitiveness due to additional tariffs. The payment is linked to the transmission network, which is a natural monopoly controlled by the state, so state intervention is justified.	
Form of support	A subsidy in the form of a reduced fee is an appropriate form and helps to meet the objective. Alternative forms would not be more appropriate and would probably entail additional administrative costs. The payment is linked to the transmission network, which is a natural monopoly controlled by the state, so state intervention is justified.	
Recommendation	Retain. The continued existence of the discount is justified as it is granted on a non-discriminatory basis and increases the competitiveness of businesses. The objectives need to be defined.	

The largest consumer of electricity Slovalco, a.s. receives a discount on tariffs for reserved capacity and electricity transmission. The beneficiary of these tariffs is SEPS, a.s. The subsidy⁵⁰ does not have set targets or KPIs, but it can be deduced that the aim is to increase the competitiveness of the most energy-intensive companies. The subsidy helps to meet these objectives.

The subsidy results from Decree No. 18/2017 of the RONI. The discount is intended for any company directly connected to the transmission system that has reserved capacity (in year t-2) and electricity transmission (in year t) above a certain threshold. The discount is scaled depending on the size of the criteria given (Table 11). According to information available to the VfMU, in practice there is no other company other than Slovalco, a.s. which is or was entitled to any of these discounts.

Table 11: Overview of possible discounts on tariffs for reserved capacity and electricity transmission ⁵¹

	Min. reserved capacity in year t-2	Min. electricity transmission in year t	Discount on tariffs	Number of enterprises
Category 1 (Art. 20 (5) (a))	200 MW	1 TWh	30 %	0
Category 2 (Art. 20 (5) (b))	250 MW	2 TWh	50 %	1

⁴⁹ This obligation results from 21/2019 Coll. Article 2 (6).

⁵⁰ Tariff discounts for reserved capacity and transmitted energy are usually not considered as a subsidy, as they are only received by firms representing lower costs for the service provider (SEPS, a.s.). However, in the review we define these measures as a subsidy, since the reduced tariff is the result of enacted state legislation and the review also aims to provide as complete an overview as possible of state measures in the energy sector.

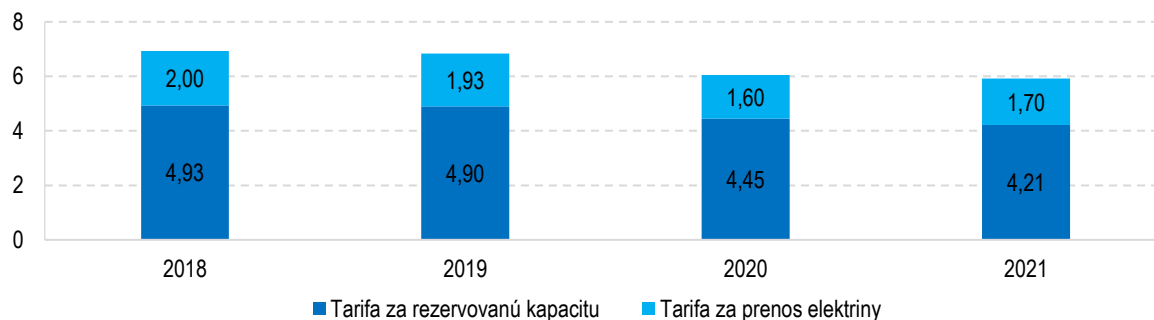
⁵¹ In 2021, the transmission tariff was EUR 1.46/MWh. The tariff for reserved capacity cannot be converted to EUR/MWh as it is quoted in EUR/MW/year. For a reserved capacity of 250 MW and a consumption of 2 TWh per year (i.e., full consumption of 8000 hours per year), this would be EUR 3.85/MWh (MF SR, 2021).

Category 3 (Art. 20 (5) (c))	350 MW	2.5 TWh	70 %	0
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Source: Decree of the RONI No. 18/2017 (Art. 20(5))

The volume of the subsidy amounts to approximately EUR 6 million and has been declining gradually in recent years (Chart 25). It is expected to decrease significantly in 2022 and 2023 due to the reduction of production at Slovalco, a.s. For the same reason, the use of the discount in 2025 may also be at risk, due to the t-2-year rule for reserved capacity.

Chart 25: Subsidy volume by tariff (EUR million)



Source: IHA

Tarifa za rezervovanú kapacitu	Tariff for reserved capacity
Tarifa za prenos elektriny	Tariff for electricity transmission

We recommend that the subsidy be retained. It motivates the electrification of industrial processes and can be a positive stimulus for the emergence of promising and highly energy-intensive industries, such as battery production. It also has the advantage of non-discriminatory awarding of the subsidy based only on objective indicators of the volume of electricity use. We recommend explicitly defining targets and KPIs and increasing the transparency of the scheme by reporting annually on the beneficiaries of the discounts and the amount of funds foregone by SEPS, a.s. as a result of the discounts.

3.10. Optional exemptions from excise duty for households, energy and transport

Certain specific uses (domestic, combined heat and power, etc.) of energy sources (natural gas, coal or electricity) are exempt from excise duty (EUR 1.32/MWh for electricity and gas and EUR 10.62/tonne for coal). The majority of the exemptions are for households. Another almost 40% are exemptions for combined heat and power (CHP) and a tenth for electricity produced from RES. The exemptions result from the legislation of the Slovak Republic.	
Objective and KPIs	Objectives are defined (fulfilment of environmental commitments) only for RES and CHP exemptions, which account for about half of the subsidy volume. For other exemptions, e.g., social support to households is an assumed objective. KPIs are not defined.
The need for intervention	For RES and partly CHP there are positive externalities (decrease of technology prices in the long run), which implies the need for intervention. For the other exemptions, the need for intervention is not justified.
Form of support	Alternative forms of support would meet the objectives (meeting environmental commitments, social support to households, etc.) more effectively.
Recommendation	Abolish and replace with more efficient methods of meeting the objectives (social transfers, increase in feed-in tariffs).

The optional exemptions have an annual volume of approximately EUR 60 million, the objectives are defined only for some of them. The aim of the RES and CHP exemptions is to increase the share of electricity

production from these sources in order to meet Slovakia's environmental objectives⁵². Other exemptions do not have defined objectives, but can be derived. This is the case, for example, for the social aid for household exemptions. All these objectives can be met more effectively by other interventions (defined below). The abolition of exemptions would simplify the tax system and remove related inefficiencies. There are no defined KPIs for any of the exemptions. An overview of the exemptions is available in Table 12.

Table 12: Optional exemptions from excise duties on energy according to 609/2007 Coll. (EUR million, ESA 2010)

	2018	2019	2020	2021
Natural gas	25.7	31.1	26.9	29.9
1. Art. 31 (1)(f) <i>used by a household end-user</i>	20.0	24.8	19,4	22,4
2. Art. 31 (1)(d) <i>used for CHP</i>	5.7	6.3	7,5	7,5
3. Art. 31 (1)(h) <i>for transport by rail</i>	0.03	0.03	0,02	0,02
Coal	26.7	21.7	16.2	16,0
4. Art. 19 (d) <i>used for CHP</i>	25.5	20.7	15,4	15,1
5. Art. 19 (h) <i>used by a household end-user</i>	1.1	1.0	0,8	0,9
Electricity	15.0	13.1	12.7	14,8
6. Art. 7 (1)(j) <i>used by a household end-user</i>	7.3	7.5	7,7	8,2
7. Art. 7 (1)(e) <i>produced from RES</i>	7.2	5.2	4,7	6,3
8. Art. 7 (1)(h) <i>used for transport by train, tram, etc.</i>	0.2	0.2	0,1	0,2
9. Art. 7 (1)(g) <i>used for CHP</i>	0.2	0.2	0,2	0,1
10. Art. 7 (1)(f) <i>produced by CHP, supplied to end-users of electricity</i>	0.13	0.01	0,02	0,01
Total	67,4	65.9	55.8	60.7
<i>of which exemptions for households</i>	28,4	33.3	27.9	31.5
<i>of which exemptions for combined heat and power generation</i>	31,4	27.2	23.1	22.7
<i>of which exemptions for electricity from RES</i>	7,2	5.2	4.7	6.3
<i>of which other exemptions</i>	0,36	0.24	0.14	0.23

Exemptions with an average annual volume of less than EUR 10,000 are not listed – Art. 7(1)(i); Art. 19(g) and (e).

Source: IFP

Exemptions for households

Households are the beneficiaries of the majority of the subsidy volume; optional exemptions favour fossil fuels. Optional exemptions for households (in Table 12 these are exemptions 1, 5 and 6) account for more than 50% of the volume of exemptions per year. The exemptions distort the market, encourage the consumption of fossil fuels and go against environmental objectives. The excise duty from which electricity and gas are exempted is the same for both commodities – EUR 1.32/MWh. However, gas heating and water heating consume more MWh of the commodity to produce a constant amount of heat than electric heating. This is due to the higher efficiency of electric heaters and heat pumps compared to gas sources⁵³. Thus, the exemptions favour a source with more emissions (gas) more than a cleaner source (electricity)⁵⁴. The situation is similar with coal. The excise duty relates to weight units (tonnes) and thus does not take into account calorific value. As a result, the optional exemption favours less efficient types of coal (e.g., lignite) with lower calorific value and higher emissions.

The abolition of optional exemptions would favour greener energy sources and have minimal social impacts. Chart 26 shows that optional tax exemptions favour dirtier fuels - as emissions increase, the amount of exemption increases. Eliminating optional subsidies would only marginally increase household energy costs,

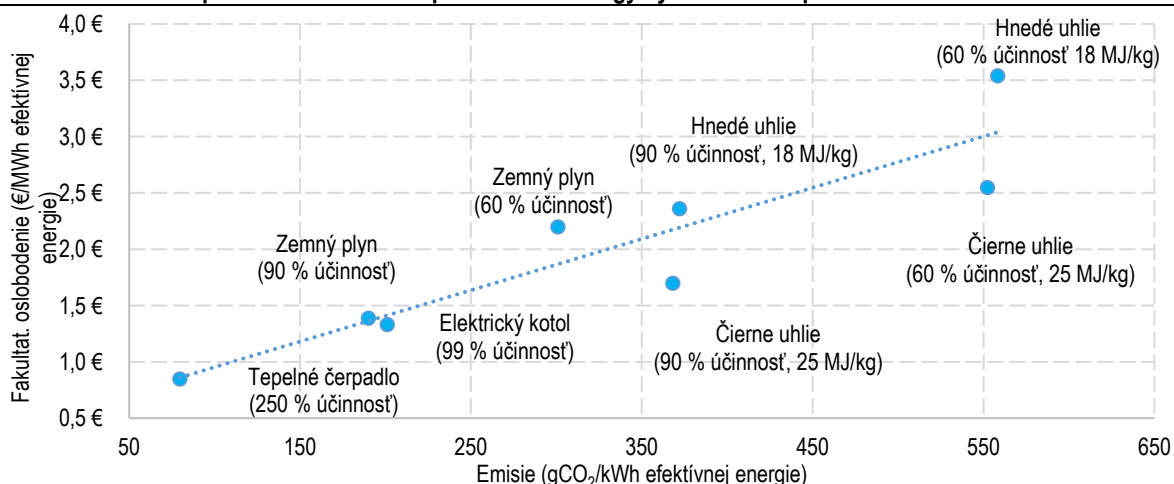
⁵² State aid SA.25172 (NN63/2009), Point 4.

⁵³ The efficiency of electricity heating equipment is close to 100%. For natural gas, it is typically significantly less, 55-98% depending on the age of the appliance (energy.gov, undated).

⁵⁴ In 2021, gas boilers with a very high efficiency of 90% produced slightly less greenhouse gas emissions than electric boilers taking into account secondary emissions from electricity generation, as shown in Chart 26. However, this situation will change after 2023 due to a decrease in the emission intensity of electricity generation in the Slovak Republic. Taking into account the life cycle of the appliance, electric boilers are significantly less emission-intensive. In addition, unlike electricity, gas boilers produce pollution (PM) at the point of installation.

including for the most poverty-prone households. With the removal of optional electricity exemptions, households in the first income decile would see their disposable income reduced by about 0.04%. For an average household, the electricity bill would increase by 30 eurocents per month. For a household in the first decile that uses gas for all purposes (heating, hot water and cooking), disposable income would fall by 0.29%⁵⁵ as a result of the removal of the exemption. The increased excise revenue could then be used to provide more targeted support to households at risk of energy poverty.

Chart 26: Tax exemptions and emissions per effective energy by model examples



For electricity, secondary emissions from generation in the Slovak Republic for the year 2021 are included.

Source: VfmU, EIA, IEA, Electricity Maps

Fakultat. oslobodenie (€/MWh efektívnej energie)	Optional exemption (€/MWh of effective energy)
Emisie (gCO ₂ /kWh efektívnej energie)	Emissions (gCO ₂ /kWh of effective energy)
Účinnosť	Efficiency
Zemný plyn	Natural gas
Tepelné čerpadlo	Heat pump
Elektrický kotol	Electric boiler
Hnedé uhlie	Brown coal
Čierne uhlie	Black coal

Exemptions for combined heat and power generation

For gas and coal CHP generation, exemptions of EUR 22.6 million per year are provided and do not take into account the level of commodity prices on the market. Coal and gas CHP generation receives subsidies in two ways - through CHP support in the form of a surcharge (subchapter **Chyba! Nenašiel sa žiaden zdroj odkazov.**) and through optional exemptions from the payment of taxes on consumed commodities (exemptions 2 and 4). A significantly larger share of the support is redistributed in the form of a surcharge. Support through the optional exemption has the disadvantage that it does not take into account the level of electricity prices on the market. It therefore supports generation even when market prices are more than sufficient to allow a reasonable profit and costs for the generator (also in the case of payment of excise duty).

The exemptions for gas and coal CHP generation should be abolished and replaced by an increase in the TSO surcharge. Once the optional exemptions are removed, the RONI could start new pricing procedures to take account of cost increases and increase the level of the unit TSO surcharge for relevant CHP producers. This measure would also create fiscal space as the support would be covered by the TSO. An alternative solution is to abolish the optional exemptions without compensation, but this would indirectly lead to an increase in heat prices for final consumers.

⁵⁵ The calculations result from extrapolation of the social impact analyses of the materials UV-44521/2022 for electricity and UV-47137/2022 for gas, which were submitted to the Government.

Exemptions for electricity from RES

Electricity from RES is exempted from excise duty to the extent of EUR 5 to 6 million per year (exemption 7). This includes electricity produced from photovoltaics, water, biomass, wind and geothermal energy. The exemption is subject to a certificate of origin. Therefore, the entity claiming the exemption must also purchase the electricity to which the certificate of origin is linked. The vast majority of producers of electricity generated from these sources make use of this optional exemption.

The electricity tax exemption is also used in times of high prices and represents an administrative burden. Similar to the optional CHP exemption, the exemption is applied regardless of the market price of electricity. This means that the state has tax expenditures even in periods when market prices are high enough for generators to cover their costs and make a reasonable profit. The existence of the optional exemption is mostly accompanied by additional administration, as it requires the issuance and control of guarantees of origin.

The exemption for electricity from RES should be abolished and replaced by an increase of the TSO surcharge by a constant value of EUR 1.32/MWh (tax level) for these sources. This would increase their competitiveness by the same level as the introduced exemptions, reduce the administrative burden and reduce the inefficiencies resulting from exemptions in the tax system. Fiscal space would also be created as the support would be paid for by the TSO. The disadvantage is that this compensation would not cover RES electricity producers who do not receive a TSO surcharge, but this is a minority of producers (about a fifth of the exemption volume). In their case, a one-off support would be an appropriate alternative, in agreement with the representatives of the affected companies. An alternative solution is to abolish the optional exemptions without compensation, which would have a relatively limited negative impact on producers, but could harm the investment climate in RES.

Other exemptions

We recommend that the other exemptions (exemptions 3, 8, 9, 10) of EUR 0.3 million be abolished. These are relatively small exemptions for specific activities with minimal practical impacts. We recommend that they be abolished without replacement in order to simplify the tax system and remove exemptions.

3.11. Optional exemptions from excise duty for industry

Some specific non-energy uses of natural gas, coal or electricity in industry (e.g. use in chemical reduction) are exempt from consumption tax (€1.32/MWh for electricity and gas and €10.62/t for coal and coke). The annual amount of exemptions is approximately 70 million. euro The vast majority are coal exemptions, a third natural gas and the rest electricity. Exemptions follow from SR legislation.		
Objective and KPIs	Goals and KPIs are not defined. The implicit goal is to support the competitiveness of domestic industrial enterprises.	
The need for intervention	Without intervention, the competitiveness of the industry would probably be reduced. Similar exemptions also exist in other EU countries, e.g. Czechia.	
Form of support	The form of support with tax credits is justified. Alternative forms of support would probably lead to additional costs (e.g. due to the need to notify the EU scheme, transaction costs for companies when filling out applications, etc.).	
Recommendation	Retain with regard to maintaining the competitiveness of the industry and support existing abroad.	

Optional exemptions from excise duty for industry have an annual volume of 60-80 million. euros per year, the majority of which is the exemption of coal and natural gas (Table 13). The exemptions do not have explicitly defined goals and KPIs, the implicit goal is to support the competitiveness of the industry. These exemptions are sometimes wrongly defined as mandatory (resulting from EU rules), as the original European directive was

ambiguous. However, it follows from court precedents that member states have the competence to unilaterally cancel these exemptions.

Table 13: Optional exemptions from excise duties on energy according to 609/2007 Coll. (in EUR million, ESA 2010).

Article	Text of the article	2018	2019	2020	2021
Coal		46,7	39,3	33,6	46,4
Art. 19 (a)	<i>for dual use (chemical reduction, electrolytic processes)</i>	23.8	19.0	16.6	23.0
Art. 19 (f)	<i>for the production of coke and semi-coke</i>	21.9	19.3	16.2	22.4
Art. 19 (b)	<i>in mineralogical processes</i>	0.3	0.5	0.5	0.6
Art. 19 (c)	<i>for a purpose other than as a propellant or as a fuel for heat production</i>	0.7	0.5	0.4	0.4
Natural gas		27,5	25,5	24,3	25,2
Art. 31 (1)(g)	<i>for operational and technological purposes in a gas company, including losses</i>	10.9	11.4	10.1	9.8
Art. 31 (1)(a)	<i>for dual use</i>	11.4	9.3	9.6	10.4
Art. 31 (1)(c)	<i>for a purpose other than as a propellant or as a fuel for heat production</i>	2.7	2.6	2.6	2.9
Art. 31 (1)(b)	<i>in mineralogical processes</i>	2.5	2.2	2.0	2.1
Electricity		4,8	4,5	4,8	5,7
Art. 7 (1)(a)	<i>for chemical reduction, electrolytic and metallurgical processes</i>	3.6	3.3	3.7	4.5
Art. 7 (1)(b)	<i>in mineralogical processes</i>	1.1	1.1	1.0	1.1
Art. 7 (1)(c)	<i>for the production of energy-intensive products</i>	0.1	0.1	0.1	0.1
Total		79	69,3	62,7	77,3

Note: Exemption Art 19 (1) i) was omitted due to the zero amount for recent years.

Source: IFP

The existence of exemptions is probably justified. One of the arguments against tax exemptions for energy carriers is the transition to cleaner fuels. Taxation incentivizes industry to replace fuels with cleaner alternatives, leading to positive environmental and health externalities. However, these optional exemptions apply mainly to the non-energy use of energy carriers. In contrast to energy use, in this case it is too expensive, or impossible to replace the taxed carrier with an alternative. A typical example is dual use (using the carrier not only as a fuel for heat production, but also for a secondary purpose). Dual use also has the largest share of exemptions.

A significant part of the subsidy is intended for the production of coke and semi-coke. Abolishing the exemption would lead to double taxation, as the use of coke and semi-coke is taxed at the standard rate. For consideration is the exemption of operational and technological use of natural gas in gas companies. Due to the ownership of gas companies by the state, however, the abolition of the exemption would probably have a neutral fiscal impact.

The abolition of obligatory exemptions for industry would have a significant negative impact on businesses due to the concentration of tax exemptions on a few industrial establishments. Similar optional exemptions also exist in many other EU countries, e.g. in the Czech Republic (Act No. 261/2007 Coll.). It is therefore appropriate to keep the exemptions and monitor the level of exemptions abroad. An appropriate step could be pan-European harmonization (reduction) of tax exemptions, which would increase state budget revenues and at the same time not disadvantage industry in Slovakia.

3.12. Obligatory exemptions from excise duty

Obligatory (mandatory) exemptions are intended for the use of energy carriers for the production of electricity. They derive from European harmonization of consumption taxes and the Slovak Republic cannot change them unilaterally. For this reason, they are not analyzed further.

In addition to optional tax exemptions, there are also obligatory (mandatory) exemptions resulting from European legislation⁵⁶. Their annual volume in 2021 was almost 10 million. euros and apply only to electricity production. The reason for their introduction is to prevent double taxation, since the resulting product (electricity) is already taxed with excise tax. Since Slovakia cannot change the exemptions themselves or the terms of their payment without reform at the EU level, we will not analyze these exemptions in more detail. An overview of their volume is available in Table 14.

Table 14: Mandatory exemptions from excise taxes on energy according to 609/2007 Coll. (in EUR million, ESA 2010).

Energetický nosič a paragraf	Paragrafové znenie	2018	2019	2020	2021
Natural gas – Art. 31 (1) e)	<i>for the production of electricity</i>	1,9	4,9	6,0	7,5
Electricity - Art 7 (1) d)	<i>for electricity production, including losses</i>	1,8	1,8	2,2	2,1
Coal - Art 19 (1) e)	<i>for the production of electricity</i>	0	0	0	0
Total		3,7	6,7	8,2	9,6

Sourcej: IFP

⁵⁶ These exemptions are contained in Directive 2003/96/EC.

4. Subsidies in sport

- The state supports sport with approximately EUR 110-150 million per year. Approximately one third goes to sports federations. Funding for sport is fragmented between several actors with similar objectives, which increases bureaucracy and complicates the pursuit of the public interest.
- Slovakia's public spending on sport is lower than the EU27 average, but it has more than doubled since 2015 (from around EUR 50 million).
- The subsidies should aim in particular at increasing the physical activity of the population, which should translate into better physical and mental health. Support for youth aims to develop talents regardless of origin or social situation.
- The state can motivate the population to participate in sport, for example by building or maintaining a reasonably dense network of publicly accessible sports grounds, or by promoting and prioritising safe cycling, which is also partly being achieved in Slovakia. However, sporting participation of the wider adult population is not directly supported by state budget expenditure.
- While sport subsidies in Slovakia are meeting their objectives appropriately, the problem may be that key performance indicators and clearly defined target values are not always sufficiently established. The Sport Support Fund should spend the current ones before the next pooling of resources.

Table 15: Subsidy schemes in sport, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
Subsidy	4.1	Recognised sports	56.8
Subsidy	4.2	Sport Support Fund	33.9*
Subsidy	4.3	National sports projects	14.1
Tax expenditure	4.4	Sports vouchers	2.4**
Total			107.2

* The average of the state's subsidy to the Fund for 2020-2021, the Fund had no expenditures in 2019. Excluding COVID expenditures.

Source: VřMÚ on the basis of data of the MF

** Estimate, expenditure on sports vouchers is not tracked separately on tax returns.

SR

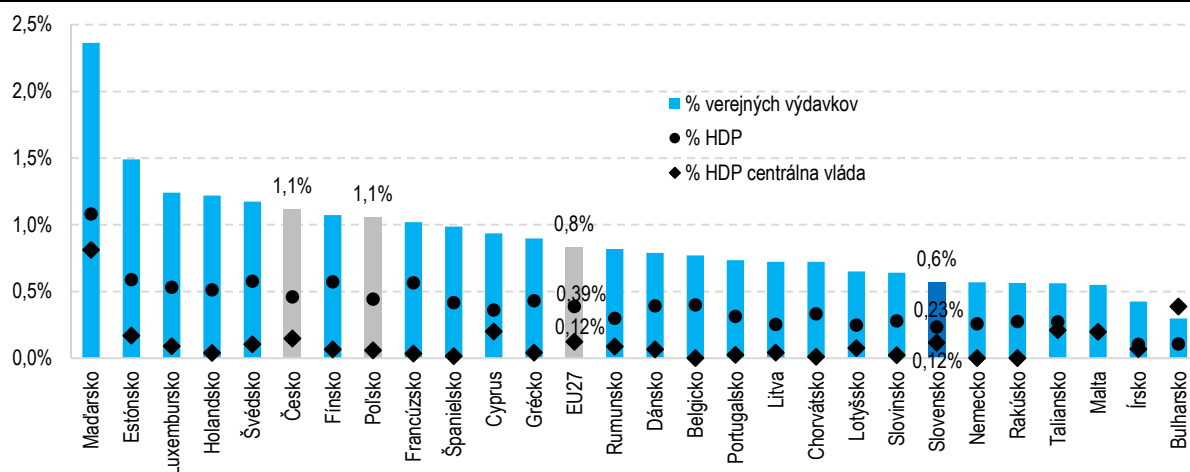
Public expenditure in support of sport

Although Slovakia's spending on sport has more than doubled since 2015 (from around EUR 50 million in 2015 to around EUR 110 million in the 2023-2025 budgets), Slovakia allocates less public expenditure to sport⁵⁷ as a proportion of both GDP (0.2% vs. 0.4%) and total public expenditure (0.6% vs. 0.8%) than the EU27 countries (2019⁵⁸). Compared to the Czech Republic and Poland, it is around half as much. A substantial part of the funds (EUR 40-60 million) in the years in question was spent on capital expenditure (e.g., the National Football Stadium). For the years 2023-2025, only minimal investments in infrastructure are foreseen so far; therefore, the budgeted state resources for 2023-2025 amount to approximately EUR 110 million per year.

⁵⁷ According to the international Classification of the Functions of Government COFOG, Group 8.1 Recreational and sporting services.

⁵⁸ Expenditure since 2020 has been affected by the COVID-19 pandemic.

Chart 27: Recreation and sport funding (COFOG 8.1) in 2019, % of public expenditure and % of GDP

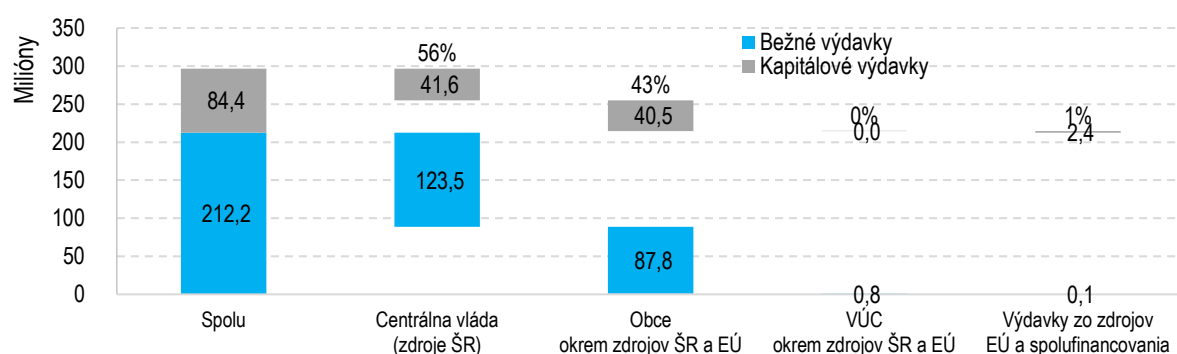


Source: Eurostat, calculations of the VfMU

Maďarsko	Hungary
Estónsko	Estonia
Luxembursko	Luxembourg
Holandsko	Netherlands
Švédsko	Sweden
Česko	Czech Republic
Fínsko	Finland
Poľsko	Poland
Francúzsko	France
Španielsko	Spain
Cyprus	Cyprus
Grécko	Greece
Rumunsko	Romania
Dánsko	Denmark
Belgicko	Belgium
Portugalsko	Portugal
Litva	Lithuania
Chorvátsko	Croatia
Lotyšsko	Latvia
Slovinsko	Slovenia
Slovensko	Slovakia
Nemecko	Germany
Rakúsko	Austria
Taliansko	Italy
Malta	Malta
Írsko	Ireland
Bulharsko	Bulgaria
% veřejných výdavkov	% of public expenditure
% HDP	% of GDP
centrálna vláda	central government

The central government invests just over half of the total public resources in recreation and sport in Slovakia from the resources of the state budget, it was 56% in 2021. Almost all of the rest of the expenditure came from municipal resources. The data suggest that in EU countries, sport is financed to a greater extent through local governments. For example, the share of central government in the Czech Republic is around 30%, roughly in line with the EU27 average, and the share of central government in Poland is only 13%. The Slovak central government allocation as a share of GDP is around the average (0.12% of GDP) of the EU countries that publish this data.

Chart 28: Recreation and sport funding actors (COFOG 8.1) in Slovakia, 2021, EUR million



Source: BIS MF SR

Milióny	Millions
Bežné výdavky	Current expenditure
Kapitálové výdavky	Capital expenditure
Spolu	Total
Centrálna vláda (zdroje ŠR)	Central government (SB resources)
Obce okrem zdrojov ŠR a EÚ	Municipalities, excluding SB or EU resources
VÚC okrem zdrojov ŠR a EÚ	HTUs, excluding SB or EU resources
Výdavky zo zdrojov EÚ a spolufinancovania	Expenditure from EU resources and co-financing

Approximately half of the current expenditure on sport (EUR 55-60 million per year) is channelled through contributions to sports federations of recognised sports, a smaller amount (about EUR 15 million) through national sports projects. Approximately one million euros per year is allocated by the state to support school and university sport. At the end of 2019, the **Sport Support Fund (SSF)** was established with an annual contribution from the SB of at least **EUR 20 million**. The latter is so far mainly **accumulating funds**.

Table 16: State budget expenditure on sport (including subsidies, EUR million)

	2015S	2017S	2019S	2020S	2021S	2022S	2023R	2024R	2025R
TOTAL	50.2	118.5	151.3	171.0	163.5	141.6	112.0	109.9	108.4
Current expenditure	41.9	61.1	91.8	120.0	122.8	124.5	111.1	108.3	107.6
Of which subsidies	31.4	47.8	75.8	100.3	101.8	101.4	91.9	88.9	88.9
MESRS SR	33.8	51.9	73.2	104.0	105.6	98.4	95.8	92.8	92.8
Recognised sports	21.6	35.6	55.5	55.2	55.2	58.3	57.4	55.0	55.0
National sports projects	7.7	10.0	12.9	14.4	14.6	13.0	13.1	12.8	12.8
To the Sport Support Fund				30.0	29.5	20.0	20.0	20.0	20.0
Other	4.5	6.2	4.8	4.4	6.2	7.1	5.3	5.1	5.1
MD SR and MI SR	7.0	8.8	12.8	15.5	15.2	16.9	15.4	15.5	14.8
GTA	1.2	0.4	5.8	0.5	2.0	9.2			
Capital expenditure	8.3	57.4	59.5	51.1	40.7	17.2	0.8	1.7	0.8
MESRS SR	5.7	54.6	26.6	8.9	31.9	13.6	0.8	0.8	0.8
Directly	5.7	54.6	26.6	6.9	6.2	6.1	0.8	0.8	0.8
To the Sport Support Fund				2.0	25.7	7.5			
GTA	1.3	2.6	32.4	34.0	0.7	0.8			
MD SR and MI SR	1.2	0.1	0.5	8.1	8.0	2.8	0.0	0.9	

Source: BIS SR

Box 6: Subsidies in sport - theoretical background

Sport is one of the areas that is supported by public funds in virtually every country. The physical activity of the population brings many health benefits to people⁵⁹, which benefit society as a whole through reduced healthcare expenditure⁶⁰. The promotion of all sport-related activities is therefore intended, in particular, to bring about a more physically active and healthier population, including positive effects on the psychological state of

⁵⁹ These include the prevention of heart disease, diabetes and obesity, as well as the prevention of mental illness (Lee et al. 2012).

⁶⁰ WHO (2018) in its Action Plan on Physical Activity 2018-2030 states that in middle- and high-income countries approximately 1-3% of expenditure on healthcare (for Slovakia EUR 60-180 million per year) can be attributed to physical inactivity, and these estimates are considered conservative.

the population. Beyond health benefits, direct economic benefits from tourism are also mentioned to a lesser extent when people travel for both active and passive sports (Mirehie et al. 2021), and environmental benefits as long as a larger proportion of the population uses walking or cycling for transport and does not burn fossil fuels (Hiselius and Svensson, 2017).

Thus, public resources for sport should primarily be directed to areas that offer the most sporting population for the euro invested (Rolfe, 2019). For example, the construction or maintenance of a reasonably dense network of publicly accessible sports facilities - for example, including through the use of school sports grounds in the afternoon - or the promotion and prioritisation of safe cycling meet such conditions. Such activities will be supported at least in part - sports infrastructure should be the main beneficiary of the Sport Support Fund from 2022 onwards, and resources will also be channelled to sports infrastructure from EU funds.

The promotion of youth sports deserves special attention. Appropriately designed policies should enable young people from all social backgrounds to play sport recreationally, but also to develop their potential talents, with a specific focus on groups that typically participate less in sport (Reis et al. 2016, Holton, 2022). According to the U.S. Department of Health and Human Services' physical activity recommendations, children and youth should get approximately 60 minutes of physical activity per day ([U.S. Department of Health and Human Services, 2018](#); Janssen and LeBlanc, 2010). Slovakia does not evaluate statistics on youth physical activity. Similar to education, resources invested in healthy lifestyles at an earlier age will return many times more than resources invested in adulthood (Bailey et al. 2013, Heckman, 2011). The proportion of youth participating in a given sport is one criterion in the allocation of resources to Recognised Sports.

Studies have not demonstrated the effect of inspiring the population to play sport through the promotion of elite sport, support for top athletes or support for the organisation of elite events (Grix and Carmichael, 2012). A meta-analysis of academic articles on the impact of famous athletes on population sporting participation concluded that most programmes that sought to promote healthy lifestyles through "role models" were not rigorously evaluated (Payne et al. 2003). For those that did evaluate the effect, the programmes that were successful were those that were able to involve teachers or parents in addition to celebrities. These are more important to girls than celebrities, for example, according to the studies. The mere existence of famous and successful athletes or teams does not seem to be effective enough. Rather, potential success acts to move already active residents to a new currently popular sport and reinforces the participation of those who were already involved in sport before (Mutter and Pawlowski, 2013).

Supporting top athletes who achieve international success can, if they perform well, strengthen a sense of belonging or national pride and also contribute to an increased sense of happiness among the population. Studies suggest that sporting achievements can induce a sense of national pride or a subjective feeling of happiness in residents (Hallmann et al., 2013). However, such feelings are unlikely to be long-lasting (Elling et al., 2012) and, for example, a study in Britain found that only 16% of participants identified athletes' achievements as a source of their national pride, with even the success of athletes at the London Olympics only increasing this proportion to around 30% in the short term (Shibli et al., 2021). It is therefore possible that the impact of athletes' achievements on national pride and feelings of happiness is very different for residents of different countries, and the situation in Slovakia cannot be assessed without research.

The final argument for supporting elite sport is that it advertises the country and promotes tourism. This argument is not specific to sport; it applies equally to cultural or other events. In the case of subsidies with such objectives, it would be ideal to specifically evaluate the effect on a case-by-case basis.

The funding of sport from the state budget is fragmented and uncoordinated ([SAO, 2021](#)). In addition to the MESRS SR, the MD SR and the MI SR also finance their own sports clubs. Part of the money for sport should flow through the Sport Support Fund, but it is not clear how this differs from the funding through the MESRS SR chapter - activities overlap mainly with National Sports Projects.

Table 17: Purposes of the use of subsidies from individual schemes

	Recognised sports	SSF	SSF after an amendment	National sports projects	Ad hoc support (government reserves, MF SR)
Activities of sports federations and clubs	x				x
Youth sporting activities	x	x			x
Training of national sports representatives	x	x		x	
Organisation of competitions		x	x	x	x
Participation in competitions		x		x	
Construction and maintenance of infrastructure		x	x	x	x
School and university sport				x	x
Hiking and cycling trails and infrastructure				x	x
Pandemic aid		x			

Source: VFMU

Money for sports also comes from various reserves (of the government or the Prime Minister), some of which are allocated in the General Treasury Administration chapter. These funds are both budgeted and spent outside of the National Sports Development Programme, making it difficult to track overall expenditure on sport. Some of these funds are also not allocated on the basis of a transparent call for proposals to which similar projects could apply and compete. For example, subsidies from the subsidy programme of the MF SR were allocated on the basis of a general call to which almost any entity could apply and compete with each other for a variety of purposes ranging from flood protection through social service homes to sports clubs. At the same time, the method of selecting the entities that receive the subsidy is not made public. **If the allowance to finance leisure activities for children is reintroduced, the challenge will be to integrate it into the system and identify duplication of support for the same activities in the existing system or possible consolidation of different supports.**

Box 7: Amendment to the Act on Sport

After the **amendment to the Act on the Sport Support Fund**, which narrowed its scope to the financing of sports infrastructure and the organisation of top sporting events, an amendment to the Act on Sport is also in the legislative process. This, as proposed, **reorganises the financing of sport completely**. State budget funds earmarked for sport will be provided in the form of

- a) a contribution to a national sports federation,
- b) a contribution to a national sports organisation,
- c) a contribution to a top athlete,
- d) a subsidy,
- e) a contribution for the performance of public interest tasks in sport.

The contribution to a national sports federation is an upgraded contribution to a recognised sport, which will now also apply to football and hockey, but also to sports that were not on the list of recognised sports and used to receive a contribution through the National Sports Projects. The formula remains the same, but a fixed portion of the contribution for each sport has been added.

The contribution to a national sports organisation - in particular the Olympic or Paralympic Committee - is set the same for the Olympic Committee as it is currently, but for the Paralympic Committee it separates the activities of the Committee from the training of athletes. This seems to be a step in the right direction.

The contributions for the top team will separate the top team of healthy athletes from the contributions for the training of disabled athletes; the allocation of funds for them will also be shared. The rules for inclusion in the Top Team will continue to be published by the MESRS SR.

The Ministry allocates 2% of the funds for school and university sport and retains 3.5% of the budgeted

funds for the performance of the tasks of the MESRS SR in the field of sport. The MESRS SR can also launch a call for proposals and distribute funds for subsidies, but these are so far only minimally defined in law - the funds are to be used for the promotion and development of sport or to mitigate the consequences of an emergency situation. The law is similarly vague in the area of public interest tasks in sport - the contribution is provided by the MESRS SR or the government, the contribution is provided on the basis of a contract. The law does not specify more precise rules.

Indicators and measurement of results

State support for sport should mainly follow the sporting activities of the general public and youth and to a lesser extent the achievements of professional athletes. It should therefore mainly measure how often people of different age groups participate in sport. However, the indicators in the programme budget currently measure more the achievements of athletes at top level events.

In recent years, the MESRS SR has improved the indicators in the programme budget and tries to measure the share of the population involved in regular physical activity and sport or the share of students involved in school sports competitions instead of the number of supported competitions or the number of people registered in the Sports Information System. The plan is to increase the proportion of the population participating in sport to 26% and the proportion of students participating in sport to 20% by 2025. However, the actual figures for recent years are not evaluated, so it is not possible to assess how ambitious or realistic the plan is.

However, there are still indicators in the programme budget such as the number of medals won at the ECh, World Championships, OG, PG and DG, which are at least to some extent coincidental. It is therefore worth considering to measure the international success of Slovak athletes in a way that fairly takes into account the lower, while still excellent placements, as well as the difficulty of obtaining a placement in that sport, similarly to the formula for calculating the Recognised Sport Share.

Monitoring of the public interest in sport, for example by monitoring the proportion of restored hiking and cycling trails or their signposting, is currently not happening, some of which are also proposed to be monitored in the Concept of Sport or the Action Plan for Physical Activity. The only objective of the MESRS SR for the Sport Support Fund is to ensure the provision of resources for the Fund.

Box 8: Sport strategies and funding in other countries

Sport is one of the areas of public policy attention in almost every country. Countries are trying to motivate their citizens to adopt an active lifestyle in order to improve their physical and mental health. They are also trying to support the sports industry, which is growing and becoming an important part of the economy, but also to promote top-level sport and thereby build the national awareness of their populations.

Ireland's Sport Strategy 2018-2027 has focused on both grassroots participation and elite sport. They estimate that inactivity is the cause of over 14% of deaths. Ireland has therefore set specific targets to increase the proportion of adults taking part in sport from 43% to 50%, but also to close the participation gap between men and women. Specific targets have also been set in the area of professional sport, for example to be in the top 50 countries in the Olympic Games and the top 20 in the PG. Although Slovakia mentions key performance indicators in its concept of sport, the document does not include their current values and targets for the future. Therefore, it will not be possible to assess to what extent the objectives are being met.

In its strategy, Ireland has outlined 57 concrete steps to achieve the objectives. One of these was the review of spending on sport, which Ireland published in 2021. In the area of funding, among others, they aimed to attract non-public resources.

New Zealand has separate agencies, one dealing with grassroots sport, the other with elite sport. The "Every Body Active" strategy focuses particularly on youth and disadvantaged groups, with a strong emphasis on

addressing the decline in physical activity among young adults, especially girls. Like Ireland, New Zealand has set specific targets for indicators and will therefore be able to assess whether the strategy is being implemented. Funding for individual sports is no longer primarily determined by popularity and participation in general, as it has been in the past and as is the case in Slovakia, but is focused on the ability of individual sports to target specific populations. New Zealand has also come up with the “Balance is Better” initiative, which seeks to reduce the over-specialisation of children too early. In professional sport, New Zealand seeks to support athletes to maximise their chances of success

The main aim of the United Kingdom is to increase the proportion of the population that is physically active. It also aims to increase the number of children who can swim and cycle, or to increase the proportion of people who have a positive attitude to sport and active living overall. The aim is to deliver these outcomes for people of different characteristics, including those who are traditionally under-represented - women, socially disadvantaged groups, the disabled or the elderly. The material⁶¹ explicitly addresses the measurement of both the baseline position and the indicators during the implementation of the strategy. In the area of funding, as in Ireland, one of the objectives is to attract non-public resources to sport.

⁶¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486622/Sporting_Future_ACCESSIBLE.pdf

4.1. Recognised sports

<p>The largest scheme supporting sport from the state budget is the contribution to recognised sports, with over EUR 55 million allocated annually from 2019. Through a redistribution formula, the scheme combines the achievement of several objectives - active sports participation (especially) of young people, but also the achievement of success in competitions, with greater weight given to success in popular sports. Federations are then obliged to spend part of the contribution on youth, talent and representation. The new legislation plans to integrate football, hockey and other sports into the formula. The legislation is currently after an inter-ministerial comment procedure.</p>		
Objective and KPIs	The objectives and KPIs are implicitly derived mainly from the formula for the distribution of funds - support for youth sport, talent and representation through sports federations, with an emphasis on the more popular sports. It is not specified what is considered to be the optimum achievement of the objective (e.g., what proportion of youth participation in sport is ideal).	
The need for intervention	Intervention is also common in other countries. It ensures both equality of opportunity - i.e., the possibility for poorer people to play sport - and better health for the population, which saves resources in the health sector.	
Form of support	The form of support through subsidies is also standard abroad. In Slovakia, support for youth through a kind of vouchers (allowance to finance leisure activities for children) was planned, but this is just a different mechanism for the distribution of funds. Some aspects of sport could be supported more through sponsorship and therefore tax expenditure, but this is only in those areas where there would be an interest in sponsorship from businesses.	
Recommendation	Retain , set clear objectives and for KPIs set target values for each objective. Align payout formula across sports (legislation already under preparation, inter-ministerial comment procedure).	

The largest scheme supporting sport from the state budget is the contribution to recognised sports, with over EUR 55 million allocated annually from 2019. This is a subsidy for sports federations, the amount of which is determined on the basis of the popularity of the sport⁶², the success of young and adult athletes in international competitions and also the number of young people up to the age of 23 who are actively involved in the sport. For these objectives, key performance indicators with target values for the coming years are set within the programme budget of the chapter of the MESRS SR. The resulting impact on increasing the physical activity of the population is questionable, as the results of expert studies are ambiguous in this respect.

The distribution of money is competitive, based on the mechanical application of a formula that is part of the Act on Sport. The underlying data (numbers of athletes, individual achievements) along with calculations are published on the website of the MESRS SR⁶³. In 2021, 74 sports federations received a contribution, the lowest amount was approximately 30 thousand euros, the median 139 thousand euros, the average 766 thousand euros. The football federation received the largest amount, more than 12 million euros, for its activities, for which, together with the hockey federation, the contribution is not calculated according to a general formula, but the share is determined directly by law⁶⁴. However, the MESRS SR proposes to unify the funding of all sports⁶⁵, the change is already in the inter-ministerial comment procedure.

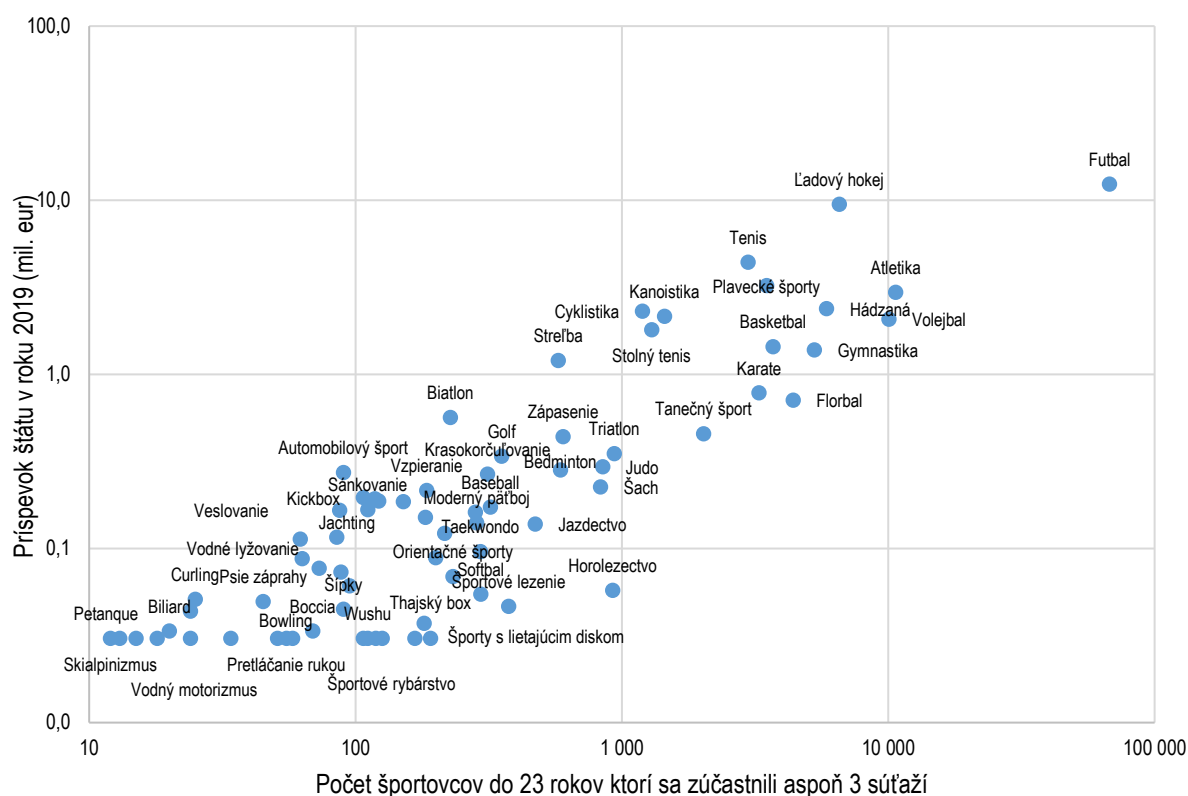
⁶² The interest in sport for Slovakia is calculated on the basis of public opinion polls, internationally on the basis of surveys in mass media abroad. Both are updated and published every two years by the MESRS SR.

⁶³ For the years 2021 and 2022, due to the COVID-19 pandemic, the shares of the individual sports federations were not recalculated, therefore only the final amount for the individual sports federations is published for these years.

⁶⁴ The change was proposed by an amendment from a Member of Parliament.

⁶⁵ The unification of funding is also anchored in the Manifesto of the Government ([Government of the SR, 2021](#)).

Chart 29: Contribution to recognised sports (2021, EUR million) and number of young athletes (logarithmic axes)



Source: MESRS SR

Príspevok štátu v roku 2019 (mil. Eur)		State contribution in 2019 (EUR million)	
Počet športovcov do 23 rokov, ktorí sa zúčastnili aspoň 3 súťaží		Number of athletes under 23 years of age who participated in at least 3 competitions	
Vodný motorizmus	Water motoring	Vzpieranie	Weightlifting
Športové rybárstvo	Sport fishing	Krasokorčuľovanie	Figure skating
Skialpinizmus	Ski mountaineering	Bedminton	Badminton
Pretláčanie rukou	Arm wrestling	Triatlon	Triathlon
Športy s lietajúcim diskom	Flying disc sports	Biatlon	Biathlon
Biliard	Billiards	Zápasenie	Wrestling
Thajský box	Thai boxing	Tanečný šport	Dance sport
Psie záprahy	Dog sledding	Florbal	Floorball
Šípky	Darts	Stolný tenis	Table tennis
Športové lezenie	Sport climbing	Karate	Karate
Softbal	Softball	Gymnastika	Gymnastics
Horolezectvo	Mountain climbing	Cyklistika	Cycling
Vodné lyžovanie	Water skiing	Kanoistika	Canoeing
Orientečné športy	Orienteering	Plavecké športy	Swimming sports
Veslovanie	Rowing	Basketbal	Basketball
Jachting	Yachting	Hádzaná	Handball
Jazdectvo	Horse riding	Volejbal	Volleyball
Sánkovanie	Sledding	Tenis	Tennis
Moderný päťboj	Modern pentathlon	Atletika	Athletics
Kickbox	Kickboxing	Ladový hokej	Ice hockey
Šach	Chess	Futbal	Football
Automobilový šport	Motor sport		

The federations are then obliged to spend part of the contribution for predefined purposes (15% for youth, to clubs according to the number of members, 20% for talent development, 25% for representation), which to a large extent fulfils the attributes of appropriate support for sport mentioned above. This should ensure that all the objectives of a given contribution are supported at least to the minimum specified extent and thus, for example, not all of it is spent on representation alone. For example, as with education, resources invested in healthy lifestyles at an earlier age will return many times more than those invested in adulthood, and therefore support for youth sport is key. According to the SAO report (SAO, 2021, pp. 8-9), this obligation is being met.

4.2. Sport Support Fund

Established in late 2019, the Fund's original purpose until recently largely overlapped with the National Sports Projects. During the pandemic, it mainly accumulated funds. Despite this, funding in both 2020 and 2021 has been increased over the amount required by law. In 2022, the Fund expected a surplus of over EUR 70 million at the end of the year.	
Objective and KPIs	The original aim was only to promote the sport in a broad-based way. After the modification of 06/2022, the activity is now mainly defined as infrastructure and support for the organisation of events. However, indicators are not set and therefore success cannot be measured.
The need for intervention	State support for the infrastructure and organisation of events is needed and supported in other countries. A market-based solution would not provide sufficient services.
Form of support	Support in the form of subsidies is one of the appropriate solutions (foreign practice). Part of infrastructure construction could also be supported by tax relief.
Recommendation	Suspend contributions, make their further payment conditional on the exhaustion of accumulated reserves. Set the scope of the Fund's activities so that they do not overlap with other subsidy schemes. Set the objectives and the system for selecting the events supported in such a way that they are transparent and compete on the basis of quality.

Part of the support for sport should be administered through the Sport Support Fund, but it is still looking for its place in the system. When the Fund was set up, its activities were not sufficiently differentiated from those of the MESRS SR itself, which provides funding for similar purposes through the National Sports Projects sub-programme. Even for high balances, plans for new areas to be supported by the Fund - pandemic aid or leisure vouchers for students - were often forthcoming.

Since 2022, the Fund's activities have been narrowed down to supporting the construction or reconstruction of sports infrastructure, both of national importance and smaller projects. **As a second objective, the Fund will support the organisation of major competitions in Slovakia,** which has its justification mainly in terms of the development of sports tourism (Mirehie et al. 2021). Such an arrangement could bring a clearer separation of which activities are funded by which organisation. Recent calls for support for the construction, reconstruction or modernisation of infrastructure have focused on sports organisations, municipalities and HTUs, with the infrastructure supported to be used by the wider public. On the other hand, funding for major competitions is to be done without calls for proposals based on the proposal of the MESRS SR, which reduces the transparency of resource allocation.

The Fund had very broadly defined objectives during the 2020-2022 period ("to support youth sport, elite sport, representation, sport for all and sport for the disabled"), **but did not measure their fulfilment by any indicators.** Since June 2022, the Fund's activities have been narrowed down to support for the construction and reconstruction of sports infrastructure and support for the organisation of international sports events in the SR. However, it would be useful to quantify the objectives (e.g., how dense the network of sports infrastructure and in what structure is optimal, or how many events per year Slovakia should organise) and measure their fulfilment so that it is clear whether the scope of the Fund's activities corresponds to the desired results.

From 2020, the Fund should distribute at least EUR 20 million per year, which is provided by the MESRS SR on the basis of the Act on the SSF. During 2020 and 2021, the amount provided by the state was even increased, despite the fact that the Fund largely only accumulated resources. The Fund ended 2021 with a surplus of more than EUR 70 million and expects to end 2022 with a surplus of more than EUR 70 million. During the COVID-19 pandemic, the Fund distributed around EUR 15 million for pandemic aid in the field of sport.

Table 18: Revenues and expenditure of the Sport Support Fund (EUR million)

	2020S	2021S	2022 OS	2023N	2024N
Total revenue	32.0	86.8	99.0	96.7	NA
Subsidy by law	20.0	20.0	20.0	20.0	20.0
Subsidy in excess of the law - current	10.0	9.5			
Subsidy in excess of the law - capital	2.0	25.7	7.5		
Balance from previous years		31.6	71.5	76.7	NA
Total expenditure	0.4	15.4	22.3	30.9	NA
Wages and insurance premiums	0.1	0.2	0.5	0.5	0.5
Goods and services	0.3	0.3	0.6	0.6	0.6
Current transfers, of which	0.0	14.8			
<i>Exceptional support for professional sports clubs II</i>		9.9			
<i>Exceptional support for professional sports clubs I</i>		3.4			
<i>Exceptional support for amateur sports clubs and organisations</i>		1.6			
Capital expenditure		0.0	21.3	13.9	19.5
<i>Construction, reconstruction and modernisation of sports infrastructure</i>			19.3	13.9	19.5
<i>Modernisation, reconstruction and construction of sports infrastructure of national importance</i>			2.0		
<i>Other</i>		0.0			
<i>Further calls planned for 2023 and 2024</i>				NA	NA
Balance	31.6	71.5	76.7	NA	NA

Source: SSF

Box 9: Financing of sport in the Czech Republic

In 2019, the Czech Republic established the National Sports Agency, which has gradually taken over all of the sports funding work. Organisationally, it is a chapter of the state budget, which is independent of the chapter of the Ministry of Education, Youth and Sports. The Ministry's Department of Sport gradually ceased to exist.

The Agency allocates budgetary resources in a number of calls. It focuses on funding for clubs as well as for major events, representation and infrastructure. Thus, it launches many calls annually - the last open call in 2022 has the number 33. It issues specific calls for clubs, representation, support for the organisation of events, Paralympic athletes, preparation for the Olympic Games or university sport.

The Agency employed a total of 52 employees as of 31 December 2021, the expenditure on the Agency's activities alone accounted for only 2.2% of its total expenditure in 2021 (CZK 136 million out of the total expenditure of almost CZK 6.2 billion). Unlike the Sport Support Fund, which has a minimum subsidy amount determined by legislation, the National Sports Agency has no such provision in the law. It therefore has to rely on the fact that money for sport will be allocated during budget negotiations.

The Czech Republic also lacks a clear link between the lottery levy and sports spending. While in Slovakia the levy accounts for about half of sports expenditure⁶⁶, in the CR it is shared between municipalities and the state budget, but its use is not legislatively determined. Nevertheless, the CR spends more on sport than the SR. In 2021, about CZK 6 billion was spent on sport (over EUR 240 million), the expenditure of the entire public sector in 2020 was about EUR 1 billion, which is about twice as much as the public sector in the SR spent on sport.

⁶⁶ The levy forms the lower limit of expenditure, it does not go to sport directly but through the budget of the MESRS SR.

4.3. National sports projects

<p>Several subsidy schemes grouped under the National Sports Projects budget sub-programme include funding for a variety of activities - from allowances for Top Team athletes, through contributions for the organisation of sporting events, to the marking of walking trails and the organisation of university sporting competitions. The diversity of contributions is not reflected in the setting of objectives, which focus only on athletes' achievements at the Olympic, Paralympic and Deaflympic Games. It is therefore not clear what the objectives of the other contributions are and whether they are succeeding in meeting them.</p> <p>The Top Team scheme is being evaluated, supporting top athletes who have achieved success particularly in sports that are included in the Olympic Games, Paralympic Games and Deaflympics. In 2021, this involved 231 athletes or teams. The money is earmarked for the athlete's preparation, material equipment, training camps, medical care or participation in preparatory competitions.</p>		
Objective and KPIs	The objective is to prepare elite athletes for competition – a questionable determination of the level of support for the national team. Key performance indicators are not set. Programme budget tracks medal counts from top events and sets specific targets.	
The need for intervention	A smaller number of athletes would prepare without the help of the state, but many would certainly not. The subsidy is useful in supporting athletes in various fields, even those less attractive to sponsors. Supporting top athletes who achieve international success can, in the case of quality results, strengthen a sense of belonging or national pride and also contribute to an increased sense of happiness among the population.	
Form of support	Financial support is an appropriate support tool. A possible change could also be the formal introduction of co-funding of the athletes themselves, which would save some resources. However, this would then have to be accompanied by support for those who could not afford such co-funding.	
Recommendation	Retain, set clear objectives and KPIs. Set measurable objectives and their evaluation so that the benefits of the scheme are evident. Monitor and publish key performance indicators.	

The MESRS distributes approximately EUR 15 million per year through the National Sports Projects sub-programme, the allocation also depends on the Olympic cycle, as part of it is used for preparation for the Olympic or Paralympic Games and rewards for results at the Games. The sub-programme combines several separate subsidy schemes, both competitive and non-competitive. The Act on Sport sets minimum amounts for some of the included schemes.

The sub-programme objectives presented in the budget documentation are only partly related to the activities financed. The main objective of the sub-programme is the successful representation at the Olympic, Paralympic and Deaflympic Games (OG, PG and DG), this objective is reflected in the indicators, which are the number of medals from the OG, PG and DG. However, a large part of the funds is allocated to activities not directly related to representation, such as the organisation of sporting events, participation in events other than the OG, PG and DG, or the pursuit of the public interest in sport.

More than EUR 6 million has been allocated in 2021 to competition schemes with clear criteria and transparent publication of results (Top Team athletes' contribution for preparation for top events, rewards for successful participation in the Olympic and Paralympic Games, and contributions for unrecognised sports). The non-competitive activities financed under the National Sports Projects also include the financing of umbrella organisations - the Slovak Olympic and Sports Committee (approx. EUR 1.5 million) and the Slovak Paralympic Committee (approx. EUR 2.5 million, but including a contribution for the preparation of disabled athletes) - the

amount of which is enshrined in the Act on Sport⁶⁷. Through the National Sports Projects, the MESRS SR also contributes to the signposting of hiking and cycling routes.

Table 19: Distribution of contributions from National Sports Projects (2021)

Contribution	Contribution amount
Contribution to Top Team athletes (231 athletes/teams)	4 632 520
Organisation of a major competition or preparation for and participation in a major competition (17 activities)	4 002 908
Preparation of disabled athletes and fulfilling the tasks of the Slovak Paralympic Committee	2 542 745
Ensuring the fulfilment of the tasks of the Slovak Olympic and Sports Committee	1 452 997
Development of sports that are not recognised (16 federations)	923 330
Fulfilling public interest tasks in sport (17 organisations)	802 503
Rewards to sports representatives and members of the implementation team for their results at the OG a PG	656 115
Marking of hiking trails	139 500
Marking of cycling routes	110 500
TOTAL	15 263 118

Source: MESRS SR

The largest area supported through the National Sports Projects are the athletes of the TOP Team, in 2021 there were 231 athletes or teams, the largest amount (124 thousand euros) was given to the kayak four, then about half of the downhill skiing team or Paralympic skiers together with their guides. In 2022, 244 athletes or teams received support, with Zuzana Reháková Štefečeková receiving the most (104 thousand euros). The lowest support in both years was approximately 5,000 euros.

The criteria for membership in the TOP Team are published by the MESRS SR on its website, it is mainly athletes who have achieved success in sports that are included in the OG, PG and DG, but a smaller contribution can also be received for success in non-Olympic sports. The money is intended for the athlete's preparation, material equipment, training camps, medical care or participation in preparatory competitions, but not for participation in the top event itself. The athlete's preparation plan is reviewed by a committee composed mainly of former athletes and the contracts with the sports federations are published through the CRC.

However, National Sports Projects also include ad hoc contributions for the public interest in sport (e.g., to the Slovak University Sports Association for the provision of university sports competitions, or for the Olympic Badge of Versatility competition), as well as for the organisation of top events (e.g., the European Handball Championships in 2022), where the list of beneficiaries is published but the selection mechanism is not sufficiently transparent.

Studies do not show a clear impact of organising major sporting events on increasing physical activity in non-sporting people, although there may be some effects. For example, Kokolakis and Lera Lopez (2020) found a positive effect on the number of new participants for selected sports (such as martial arts) but not for others (such as athletics or swimming) after the London Olympics. A positive effect of the organisation of top events can be expected in the tourism sector.

In terms of effectiveness, it is activities such as the signposting of hiking and cycling routes or part of the public interest contributions in sport that seem to be of the greatest public interest. Contributions to Top Team members may then, to the extent that they bring sporting success, bring a sense of national pride or happiness to residents, but the magnitude of this effect is not clear from the literature. The minimum level of contributions to Top Team members is currently set in the Act on Sport.

⁶⁷ For the activities of the SOSOC at least 2% and for the training of disabled athletes and the fulfilment of the tasks of the SPC at least 3.5% of the budgeted contributions as defined in Article 77 of the Act on Sport.

4.4. Sports vouchers

<p>Since 2020, a tax instrument has been used to support a child's participation in sport (so-called Sports Vouchers). Employers provide a voluntary contribution to a child's sporting activity of 55% of eligible expenses (maximum EUR 275 per calendar year for all children of the employee). The amount of the support was initially estimated at EUR 2.4 million and was based on available data from the sports register of the MESRS SR, supplemented by data for parents who meet the eligibility conditions. This is an estimate as no information is available on the actual cost of the scheme or its effectiveness. The originally approved allowance to finance leisure activities of children was also to be used to support sport, if it were to be re-approved it would create a duplication in the funding of children and young people's sporting activities. At the same time, some sports activities are also included among the purposes for which the currently existing education vouchers can be used.</p>	
<p>Objective and KPIs</p>	<p>The objective of the instrument is to promote sport for children and young people and to increase the number of children who participate in sport on a regular basis. The form of the tax relief is modelled on holiday vouchers, except that it is a voluntary contribution by employers, who contribute proportionally to the sporting activities of their employees' children. The scheme has no set KPIs.</p>
<p>The need for intervention</p>	<p>The need for intervention is consistent with economic theory, as it ensures both equality of opportunity - i.e., the opportunity for poorer people to play sport - and better health for the population, which saves resources in healthcare.</p>
<p>Form of support</p>	<p>Funding based on voluntary contributions from employers is not a systemic solution, as it is not a contribution for all children. The system of providing funding for children's sporting activities is also used in other countries, but support for sport through vouchers is normally publicly funded abroad.</p>
<p>Recommendation</p>	<p>Abolish. The contribution is not a systemic support of sporting activities for children and young people, it is not clear whether it fulfils the desired purpose, as the state does not monitor who is benefiting from the allowance, in what amount and which group of the population is benefiting from it. After the eventual introduction of the allowance to finance leisure activities of children, it loses its meaningfulness.</p>

Since 2020, a tax instrument has been used to support a child's participation in sport (so-called Sports Vouchers). Employers provide a voluntary contribution to a child's sporting activity⁶⁸ of 55% of eligible expenses (maximum EUR 275 per calendar year for all children of the employee). The employee must meet the statutory conditions following the pattern of holiday vouchers⁶⁹. The allowance provided in this way is exempt from income tax and levies of the employee and employer (it is a so-called tax expenditure).

The objective of the instrument is to promote sport for children and young people and to increase the number of children who participate in sport on a regular basis. The form of the relief is modelled on holiday vouchers, except that it is a voluntary contribution by employers, who contribute proportionally to the sporting activities of their employees' children. The allowance is primarily directed towards physical activities of children under 18 in sports organisations, not professional athletes.

The amount of support was originally estimated at EUR 2.4 million and was based on the available data from the Sports Register of the Ministry of Education, supplemented by data for parents who meet the eligibility conditions. Actual fulfilment is not available because employers/employees do not report this figure in any available sources (e.g., tax returns like the holiday vouchers).

⁶⁸ Under the age of 18 who has been a member of a sports organisation for at least 6 months.

⁶⁹ An employee who has been in permanent employment for at least 24 months.

Funding based on voluntary contributions from employers is not a systemic solution, as it is not a contribution for all children. The system of providing funding for children's sporting activities is also used in other countries, but support for sport through vouchers is normally publicly funded abroad. For example, in the case of Australia, it is a one-off contribution to a selected sporting activity, provided by the local government⁷⁰. In practice, this is not the predominant method of funding through vouchers; childcare vouchers are more common. Abroad, the emphasis is on quality sports infrastructure (through the supply side of sports venues) and not specifically on increasing the availability of organised sports activities as in the case of sports vouchers. In Slovakia, education vouchers can be used to part-finance some sports clubs within schools, and each pupil in a school where education is considered to be continuous preparation for a profession receives EUR 32 per year.

The stated aim of the sports vouchers was to increase the number of children playing sport on a regular basis. For this reason, it is not appropriate to link eligibility to the employment status of the parents, i.e., the requirement to be employed and to have at least 2 years' service. The allowance is not a systematic promotion of sport for children and young people and it is not clear that it fulfils the desired purpose, as the State does not monitor who receives the relief, how much and which group of the population is benefiting.

⁷⁰ Australia: <https://www.service.nsw.gov.au/transaction/apply-active-kids-voucher>

5. Subsidies in agriculture

- Subsidies in agriculture provided from the state budget amount to an average of EUR 64 million per year (2019-2021) and account for less than a tenth of total support. Most of the support is provided from EU sources (EUR 580 million, including co-financing), through Common Agricultural Policy measures.
- The average per hectare support in 2019 was comparable to EU countries. Subsidies amounted to EUR 376 per hectare, 94% of the EU median. However, the productivity of Slovak agriculture is low despite the comparable level of support in the EU. Slovak agriculture is not very competitive and depends on subsidies to a greater extent than in other EU Member States. Support for investment in the sector is the lowest in the EU.
- Agricultural subsidies increase the profitability of the sector and stabilise farmers' incomes. Their justification depends to a large extent on the approach of neighbouring countries to subsidy policy and the resulting competitive pressures on domestic farmers. Like direct payments from EU sources, subsidies provided from the state budget are predominantly oriented towards supporting farmers' incomes, rather than more targeted productivity-enhancing projects.
- There is a concentration of support for large farms, weak support for organic farming, redundant administration or indirect aid through filling questionnaires instead of standard subsidy calls. The impacts of the subsidies granted are not evaluated separately. It is not clear what effect the funds have had and whether they have achieved the objectives for which they were intended.
- Because of the lack of transparency, the review proposes to abolish about a tenth of the state budget subsidies. Removing Slovak subsidies would have little or no effect on the price of agricultural goods, as this is mainly determined by the international market.

Table 20: Subsidy schemes in agriculture, EUR million, 2019-2021

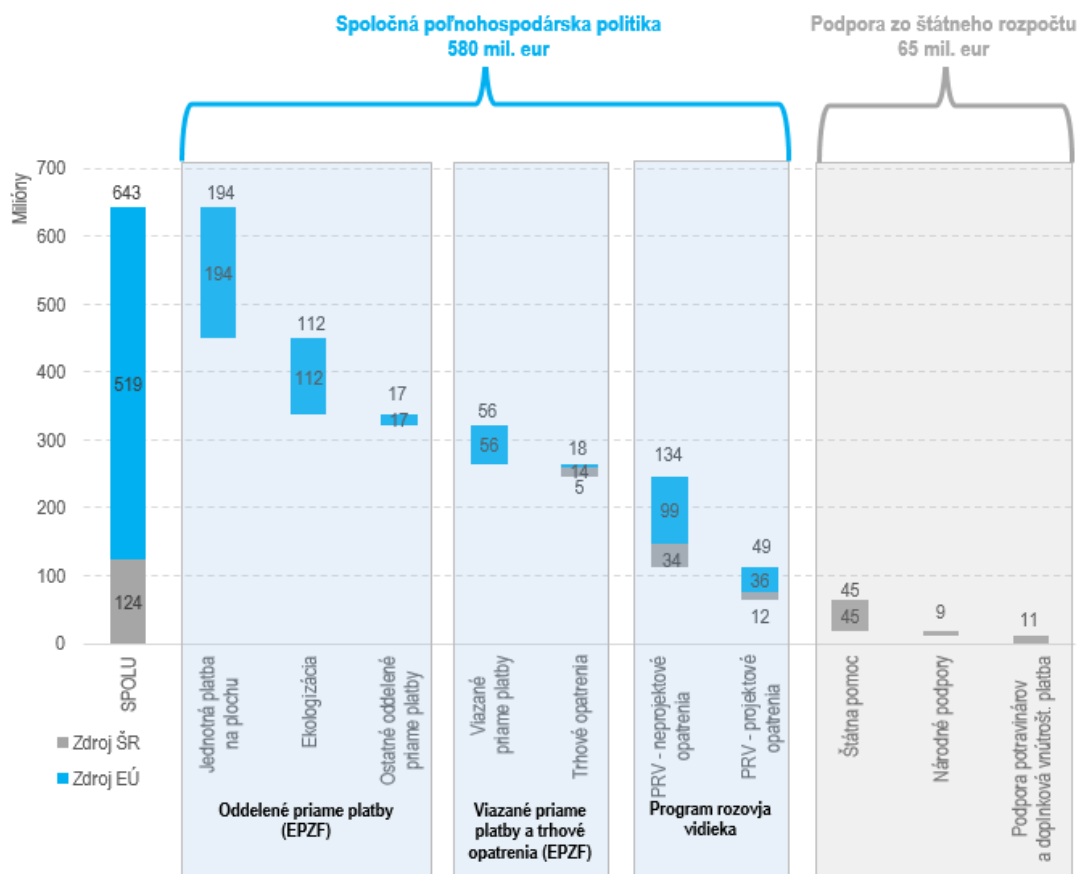
Form	Subchapter	Name of the scheme	Expenditure
Subsidy	5.1	State aid	43.3
Subsidy	5.2	National support	7.5
Subsidy	5.3	Support for food producers	5.8
Subsidy	5.4	Complementary national payments (livestock units)	3.8
Subsidy	5.5	Military Forest Administration	3.0
Total			63.4

Source: VFMU based on the data of the MF SR

Public spending on agriculture

Slovak farmers and other producers in the agricultural sector were supported by subsidies totalling EUR 643 million in 2021, of which state budget subsidies accounted for only a tenth. Most of the support was provided through Common Agricultural Policy measures (Annex 4:) - from EU sources farmers can receive support through direct payments, Rural Development Programme measures and market measures. In addition to co-financing from EU sources, the state budget also provides other support options - state aid schemes, national support, national payments and support for food producers.

Chart 30: Support in the agricultural sector (2021, EUR million)

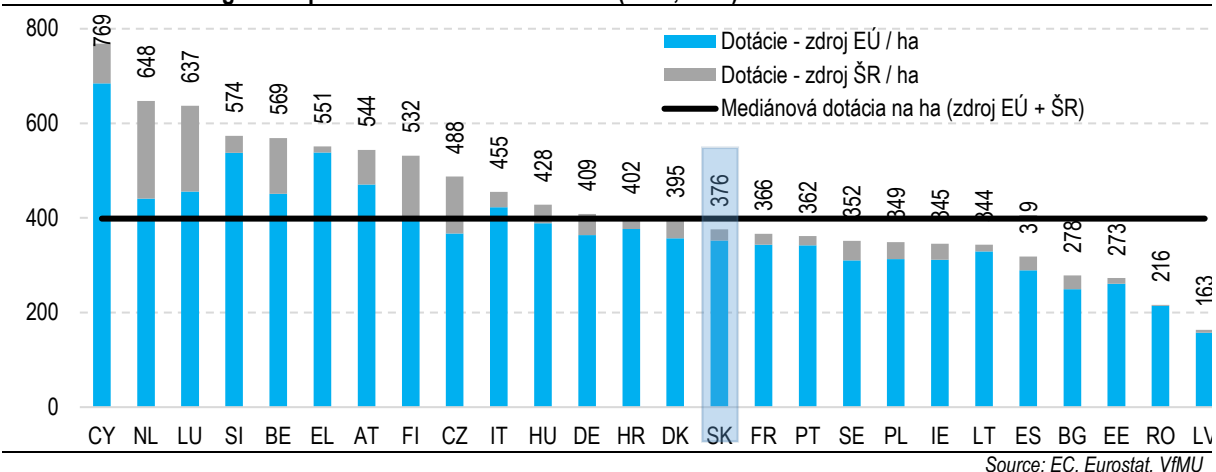


Source: Agricultural Paying Agency, MARD SR, VÍMU

Spoločná poľnohospodárska politika 580 mil. eur	Common Agricultural Policy EUR 580 million
Podpora zo štátneho rozpočtu 65 mil. eur	State budget support EUR 65 million
Milióny	Millions
SPOLU	TOTAL
Zdroj ŠR	SB source
Zdroj EÚ	EU source
Jednotná platba na plochu	Single area payment
Ekologizácia	Greening
Ostatné oddelené priame platby	Other decoupled direct payments
Oddelené priame platby (EPZF)	Decoupled direct payments (EAGF)
Viazané priame platby	Coupled direct payments
Trhové opatrenia	Market measures
Viazané priame platby a trhové opatrenia (EPZF)	Decoupled direct payments and market measures (EAGF)
PRV – neprojektové opatrenia	RDP – non-project measures
PRV – projektové opatrenia	RDP - project measures
Program rozvoja vidieka	Rural Development Programme (RDP)
Štátna pomoc	State aid
Národné podpory	National support
Podpora potravinárov a doplnková vnútrošt. platba	Support for food producers and complementary national payment

The average amount of subsidies in Slovakia in 2019 was EUR 376 per hectare, which is 94% of the EU median. It is difficult to assess and compare the actual level of support between EU countries. Countries are obliged to have new measures approved by the European Commission before introducing them (so-called notification), but not all forms of support are actually notified. An example is the support paid to food producers in Slovakia for completing questionnaires. A farmer who receives support from the state gains an advantage over his competitors. The EU therefore generally prohibits state aid unless it is justified on the grounds of economic development.

Chart 31: Subsidies granted per hectare of cultivated land (2019, EUR)



Source: EC, Eurostat, VřMU

Dotácie – zdroj EÚ / ha	Subsidies – EU source / ha
Dotácie – zdroj ŠR / ha	Subsidies – SB source / ha
Mediánová dotácia na ha (zdroj EÚ + ŠR)	Median subsidy per ha (EU + SB source)

The justification for supporting agriculture depends to a large extent on the approach of neighbouring countries to subsidy policy and the resulting competitive pressures on domestic farmers. However, the effect of support in general often remains questionable. Although subsidies stabilise farmers' income, they also cause efficiency losses. These include concentration of payments to beneficiaries, reduced incentives to innovate, reduce costs and diversify land use. The setting of subsidies would ideally take into account, for example, farming with an emphasis on climate change mitigation or biodiversity conservation (Scown, Brady and Nicholas, 2020).

Box 10: Subsidies in agriculture - theoretical background

Removing Slovak subsidies would have little or no effect on the price of agricultural goods. Most developed countries subsidise agricultural producers. However, they often complain about subsidies in other countries that harm their own producers (Edwards, 2018). The agricultural sector is often regarded as a market close to perfect competition (Mansfield and Yohe, 2004), with a high number of firms with no influence on price, low barriers to entry, and homogeneity of agricultural goods (Dever, 2008). Since the supply of most agricultural goods is global and their price is determined by the international market (Babcock, 2007), removing Slovak subsidies would have little or no effect on price.

Economists advocating the need for government intervention in the agricultural sector argue for low profitability, low and unstable incomes for farmers, and the need to promote rural development (Gardner 1992). Other reasons include stabilising agricultural commodity markets, increasing low returns on farm investments, ensuring food security, and compensation for agricultural support provided by other countries (Johnson 1991; Wright 1995). The most common forms of support are direct payments to farmers, government purchases, minimum price regulations, risk management subsidies, and other import and export interventions.

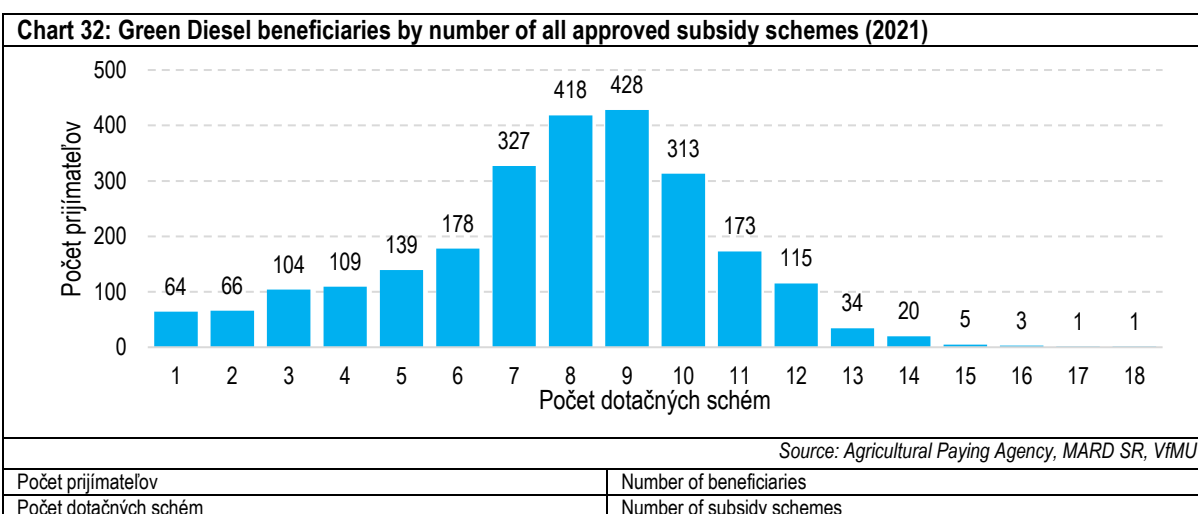
Criticisms of agricultural subsidies point to the distortion of open international trade (Sykes, 2005), discouraging farmers from innovating, reducing costs, diversifying land use and other measures that promote competitiveness in the economy (Edwards, 2018). Subsidies are often paid to entities that would be well off without support (e.g., income support in highly productive agricultural regions). On the other hand, entities that generate positive externalities through management with an emphasis on climate change mitigation or biodiversity conservation are under-rewarded for providing these services (Scown, Brady, & Nicholas, 2020).

The ultimate effect of interventions often remains questionable. A study examining subsidies to Italian farmers finds a positive impact of direct payments on income stabilisation, but also suggests room for efficiency gains (Severini et al., 2016). Other research mentions the reduction of income inequalities among farmers, but

also mentions regional disparities and high concentration of payments (Benni and Finger, 2013; Ciliberti and Frascarelli, 2018).

An interesting example of farmers thriving without subsidies is New Zealand. In 1984, the country ended state aid, despite its high dependence on agriculture (four times higher than in the USA). The changes were initially met with resistance, but New Zealand's farm productivity, income, and output all increased in the years following the reform. New Zealand farmers reduced costs, diversified land use, sought non-agricultural income and developed specialty markets such as the kiwifruit market (Edwards, 2018).

Farmers can benefit from several subsidy schemes at the same time. An example is the beneficiaries of Green Diesel, the largest subsidy scheme financed from the state budget. Up to 80% of Green Diesel beneficiaries received support from more than 5 subsidy schemes in 2021. 14% of beneficiaries received more than 10 subsidies (Chart 32).



The top ten beneficiaries of Green Diesel in 2021 also received support from 12 other subsidy schemes. In total, they received EUR 13.8 million, with Green Diesel accounting for a quarter (Table 21). For a number of beneficiaries, it was only a supplement to EU funding.

Table 21: Beneficiaries of agricultural subsidies (top 10 beneficiaries of Green Diesel, 2021, thousands of euros)

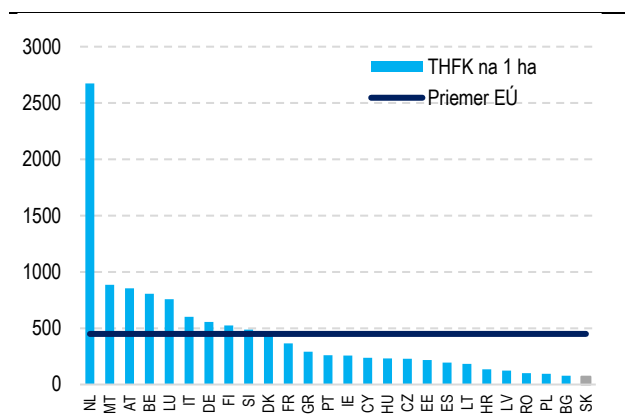
Beneficiary	Subsidies from the SB				Subsidies from EU sources						Total	Green Diesel share
	Green Diesel	Insurance premiums	Support for food producers	Support for animal living conditions	Single area payment	Milk production	Greening	Sugar beet	Beef cattle	Other*		
Dan-Slovakia Agrar, a.s.	957	219	0	1455	468	0	281	0	0	18	3 397	28 %
PIGAGRO, s.r.o.	601	158	0	338	116	0	67	0	0	64	1 343	45 %
AGROVÝKRM, a.s.	293	43	0	554	0	0	0	0	0	0	890	33 %
FARMA MAJČICHOV, a.s.	270	7	15	399	522	841	314	0	1	52	2 421	11 %
FirstFarms Agra M. s. r. o.	265	51	0	325	328	709	195	173	0	81	2 127	12 %
FirstFarms Gabčíkovo, s.r.o.	244	54	0	268	181	0	106	0	0	7	860	28 %
PAVEX s.r.o.	215	0	0	0	0	0	0	0	0	0	215	100 %
Polnohospodárske družstvo DEVIO Nové Sady	196	20	0	179	503	251	302	158	66	49	1 724	11 %
Rybárova farma	185	5	0	51	0	56	0	0	110	0	407	46 %
ProOvo, a.s.	160	54	38	225	0	0	0	0	0	0	476	34 %
TOTAL	3 385	611	53	3 791	2 118	1 857	1 265	331	177	274	13 860	24 %

Effectiveness of subsidies

The productivity of the Slovak agricultural sector is low, despite comparable levels of support in the EU. While the amount of support per hectare is at the median level of EU countries, the gross value added per hectare is among the lowest (Chart 33). The low value added is a consequence of the production structure, relative yields and selling prices of agricultural products in the SR compared to other countries. Cereals and industrial crops (mainly oilseeds) dominate in Slovakia, while they play a lesser role in the EU. Conversely, we lag behind the EU in higher value-added production, especially in vegetable, fruit and livestock production⁷¹.

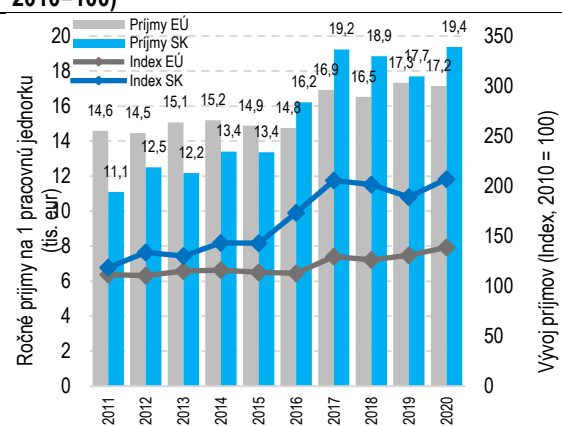
Slovakia is also lagging behind in agricultural productivity due to low investment support. State budget subsidies, like EU direct payments, are primarily aimed at supporting farmers' incomes rather than more targeted projects. The European Investment Bank has identified Slovakia as the country with the lowest support for investment in the agricultural sector in the EU⁷⁴. Investments in buildings, machinery and technical equipment increase productivity and lead to growth and profitability for the sector as a whole. Subsidies provided from the state budget, like direct payments from EU sources, are primarily aimed at supporting farmers' incomes, not at more targeted projects (e.g., support for climate-friendly irrigation infrastructure, productivity-enhancing technologies or renewable energies, supported by the Rural Development Programme - RDP). Meanwhile, the real income of Slovak farmers has almost doubled in the last 10 years. It has also grown significantly faster compared to the EU (Chart 34). Slovakia was one of the few Member States to shift part of the EU's RDP funding to direct payments in the 2014-2020 period, partially undermining the incentive for farmers to invest in innovation. In the 2023-2027 programming period, it plans to increase support for the RDP while shifting part of the funds for direct payments to it.

Chart 33: Gross fixed capital formation (GFCF) in agriculture per ha of cultivated land (2020)



Source: EC, Eurostat, VFMU

Chart 34: Evolution of real incomes and hours worked by farmers - Slovakia and EU (index, 2010=100)



Source: EC, Eurostat, VFMU

THFK na 1 ha	GFCF per ha
Priemer EÚ	EU average
Prijmy EÚ, SK	Incomes EU, SK
Index EÚ, SK	Index EU, SK
Ročné príjmy na 1 pracovnú jednotku (tis. eur)	Annual income per work unit (thousands of euros)
Vývoj príjmov (Index, 2010 = 100)	Evolution of incomes (Index, 2010 = 100)

Slovak agriculture is not very competitive and depends on subsidies to a greater extent than agriculture in other EU Member States⁷². The share of subsidies in profits was in Slovakia in 2020 2nd highest among EU countries. The share was greater than 100%, which means that without subsidies Slovak farms would be making

⁷¹ Interim report of the Agriculture Spending Review, 2018

⁷² Interim report of the Agriculture Spending Review, 2018

a loss, similar to 5 other EU countries. Farms in other Member States are able to make a profit without subsidies (Chart 36).

Chart 35: Gross value added per hectare of cultivated land (2021)

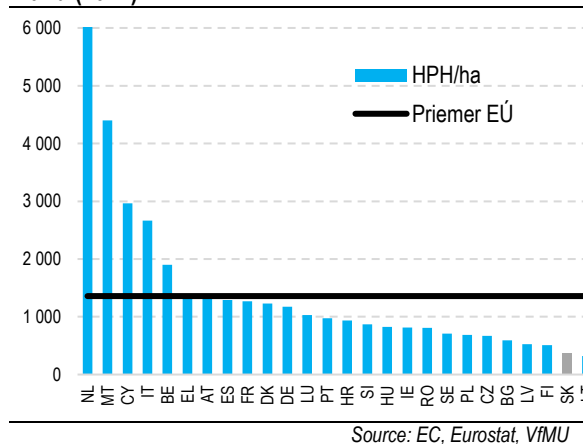
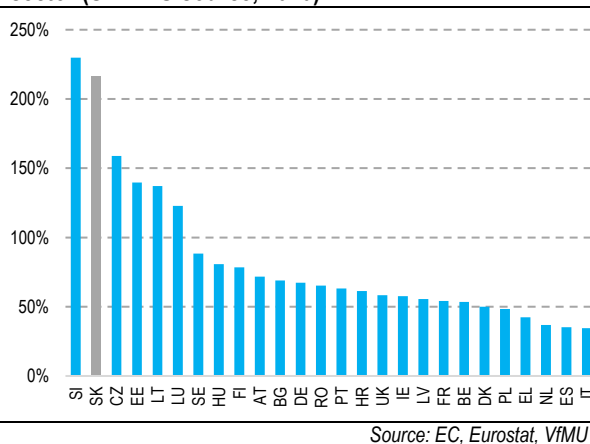


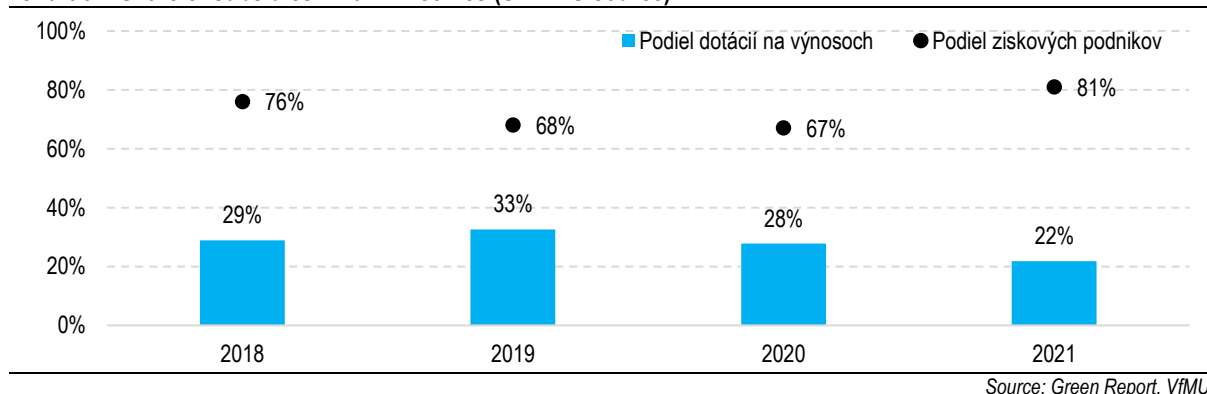
Chart 36: Share of subsidies in profits in the agricultural sector (SB + EU source, 2020)



HPH/ha	GVA/ha
Priemer EÚ	EU average

According to the MARD SR, most farms would be loss-making in 2021 without support. In 2021, support played a decisive role in the farm economy, without which most farms would have been loss-making. The share of total support in agricultural income was 22%⁷³. In 2021, 81% of farms were profitable. The same rules do not apply in agriculture as in free market sectors. Farmers' profitability often depends on the ability to administer subsidies, whereas in the free market it depends on the ability to satisfy customers.

Chart 37: Share of subsidies in farm incomes (SB + EU source)



Podiel dotácií na výnosoch	Share of subsidies in incomes
Podiel ziskových podnikov	Share of profitable farms

Financial support from the state budget for Slovak farmers is increasing, but its results are unclear. The performance of Slovak agriculture and the food sector is assessed annually in the Green Report⁷⁴, and an evaluation and monitoring framework has been set up to assess the performance of the Common Agricultural Policy⁷⁵. However, the impact of the subsidies provided from the state budget is not evaluated separately - it is not clear what effect the funds have had and whether they have met the objectives for which they were intended. However, the high shares of subsidies in profits and low productivity compared to abroad suggest that the desired results are not being achieved.

⁷³ Green Report, 2022

⁷⁴ Available online: <https://www.mpsr.sk/polnohospodarstvo-a-potravinarstvo/122>

⁷⁵ https://agriculture.ec.europa.eu/common-agricultural-policy/cap-overview/cmef_sk

Beneficiaries are supported irrespective of their productivity, environmentally friendly management or proactivity and innovation in the sector. Subsidies are mostly granted across the board, with the amount of aid depending on the size of production or the number of units farmed.

5.1. State aid in agriculture

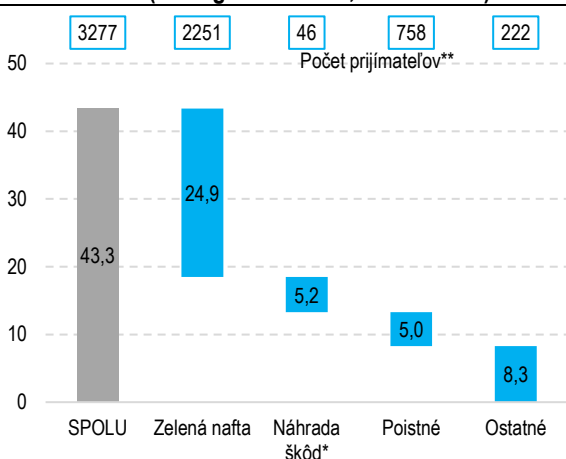
State aid supports primary agricultural production, food sector, forestry and fisheries through 15 schemes. This is the largest support, with an average expenditure of EUR 43 million per year. It is not clear what results are achieved through the support. There is a lack of a clear measurable objective, key performance indicators and their systematic evaluation. Beneficiaries are supported regardless of productivity, environmental performance or innovation in the sector. Part of the support is redistributed on the basis of the size of production or the area farmed, without any assessment of the need for the support to enterprises.

State aid is used to support primary agricultural production, food sector, forestry and fisheries. It consists of 15 schemes with different focuses. Examples are Green Diesel supporting agricultural production or schemes covering risks in agriculture. The support is complementary to Pillar I and Pillar II of the Common Agricultural Policy. The purposes and conditions for eligibility are governed by European Commission standards.

It is not clear what results are achieved through state aid. There is a lack of a clearly defined objective, key key performance indicators and their systematic evaluation. The indicators and targets currently monitored through the programme budget⁷⁹ are not sufficient to assess effectiveness.

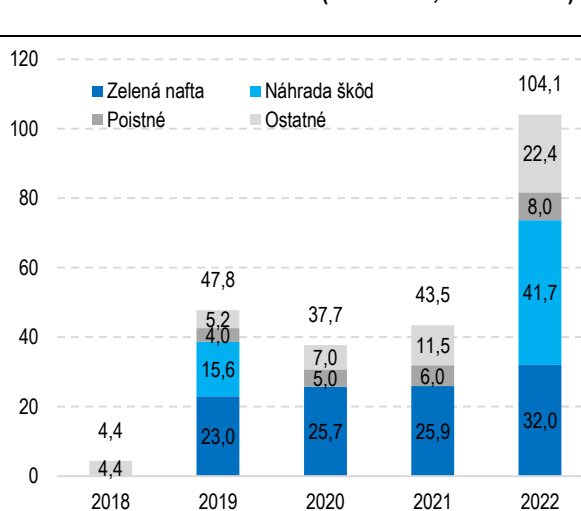
State aid, with an average expenditure of EUR 43 million per year (2019-2021), is the largest subsidy scheme in the agricultural sector. Most of the funds go to Green Diesel (57% of expenditure), compensation for damage caused by adverse weather conditions⁷⁶ (12% of expenditure) and insurance premiums in primary agricultural production (11.5% of expenditure). In 2022, the amount of aid has more than doubled, mainly due to compensation for drought damage.

Chart 38: State aid disbursed and number of beneficiaries (average 2019-2021, EUR million)



Source: Monitoring reports of the MARD SR, Overview of subsidies granted under state and minimum aid

Chart 39: State aid disbursed (2018-2022, EUR million)



Source: MARD SR

Počet prijímateľov	Number of beneficiaries
SPOLU	TOTAL
Zelená nafta	Green Diesel
Náhrada škôd	Compensation for damages
Poistné	Insurance premiums
Ostatné	Other

⁷⁶ The scheme is implemented irregularly, the last payment was made in 2019.

* Compensation was paid in a lump sum of EUR 15.5 million in the period under review in 2019.

** The total number of beneficiaries is potentially lower, due to the fact that one beneficiary could receive several calls for state aid.

On average, 3 thousand beneficiaries are supported annually, the average subsidy per beneficiary is 13 thousand euros per year. Agricultural producers are supported regardless of their productivity, environmentally friendly management or innovation in the sector.

Green Diesel

<p>Green Diesel is the largest state aid scheme. It serves to support agricultural production by subsidising part of the excise duty on mineral oils. On the positive side, the scheme supports specific agricultural activities - special crop and livestock production in line with the objectives of Slovak agricultural policy. The support provides farmers with an income irrespective of their efforts to reduce costs, motivation to innovate, environmentally friendly management, efforts to diversify land use or behaviour promoting competitiveness in agriculture. The impact of the aid is not monitored, and there is also a concentration of aid to large foreign-owned firms.</p>	
<p>Objective and KPIs</p>	<p>The objective is broadly defined as the promotion of agricultural production. On the positive side, however, the scheme supports specific agricultural activities - special crop and livestock production in line with the objectives of the Slovak agricultural policy. KPIs are not set. There is no assessment of how the scheme contributes to the achievement of the objective.</p>
<p>The need for intervention</p>	<p>Without support, the international competitiveness of producers is likely to be reduced. The justification for support depends to a large extent on the approach of neighbouring countries to subsidy policy and the resulting competitive pressures on domestic farmers.</p> <p>For consumers, the removal of the subsidy would have no or minimal impact (product prices would remain unchanged). The subsidy provides income to farmers regardless of their efforts to reduce costs, their incentive to innovate, to diversify land use or to behave in a way that promotes agricultural competitiveness.</p>
<p>Form of support</p>	<p>The agricultural sector is also supported abroad through direct subsidies as a standard practice. The sector is intensively supported, in particular by the EU through CAP instruments. Green Diesel accounts for only a minimal share compared to EU support (4% of total support in 2021). Aid in the form of state-guaranteed bank loans or soft loans is also appropriate. Beneficiaries thus have a greater incentive to ensure efficiency and return on management.</p>
<p>Recommendation</p>	<p>Suspend. Continuation of funding to be conditional on modification of the terms of the scheme in order to increase agricultural productivity. Take into account the currently insufficient conditionality of support to strive for more efficient behaviour of beneficiaries, consistency with the crops and animals supported in the CAP, high concentration of support. There is a need to set outcome indicators and to regularly evaluate the impact of support.</p>

Green Diesel is the largest state aid scheme, with an average of EUR 25 million per year (2019-2021). It serves to support agricultural production by subsidising part of the excise duty on mineral oils. The amount of aid is determined on the basis of standardised fuel consumption per hectare of a specific agricultural crop and per livestock unit. The scheme supports special crop and livestock production by subsidising inputs. In line with the objectives of Slovak agricultural policy, it does not support, for example, the production of cereals and oilseeds, which are more profitable.

Similar support is also provided in neighbouring countries and without it the international competitiveness of producers would probably be reduced. Poland, the Czech Republic, Hungary support farmers through refunds of excise duties on mineral oils. In Austria, Green Diesel provides farmers with a tax relief depending on the land farmed.

Chart 40: Amount of subsidy (EUR million) and number of beneficiaries in 2019-2022

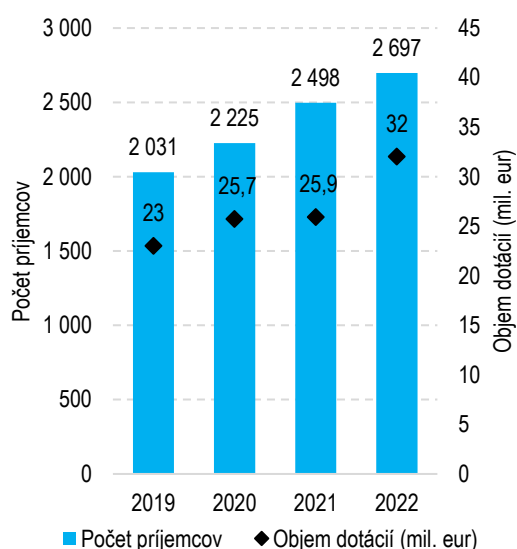
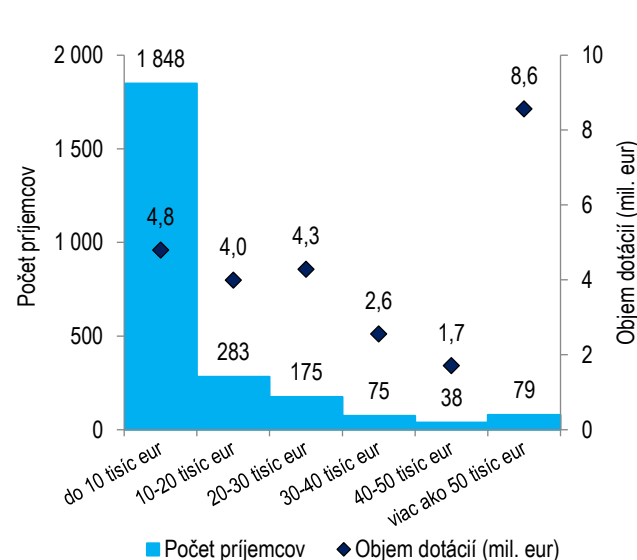


Chart 41: Green Diesel beneficiaries by subsidy level in 2021 (in thousands of euros)



Source: MARD SR

Source: [Overview of subsidies granted under state aid](#)

Počet příjemcov	Number of beneficiaries
Objem dotáčí (mil. eur)	Volume of subsidies (EUR million)
Do 10 tisíc eur	Up to 10 thousand euros
x-y tisíc eur	x-y thousand euros
Viac ako 50 tisíc eur	More than 50 thousand euros

Although Green Diesel supports declining livestock and specialty crop production, which have positive economic, social and environmental benefits (e.g., rural employment), the scheme has a number of negatives:

- **The support provides farmers with an income regardless of their efforts to reduce costs**, their motivation to innovate, to manage in an environmentally friendly way, to diversify their land use or to behave in a way that promotes agricultural competitiveness. The scheme is designed to support farmers' income. Income support does little to improve competitiveness and productivity in the agricultural sector.
- **The analysis of beneficiaries indicates a concentration of aid to large enterprises, with foreign-owned firms being the largest beneficiaries.** Danish pig farming firms received EUR 1.5 million per year in the period 2020-2021, representing 7% of the total subsidy. The average amount of subsidy across the 10 largest beneficiaries was EUR 340 thousand, with the remaining beneficiaries receiving EUR 9 600, indicating a high concentration of aid.
- **There is no impact assessment.** The volume of support paid and the number of beneficiaries is increasing each year, but the results achieved are unclear.
- **Green Diesel directs resources where they are already going through other programmes.** Examples are coupled payments from EU sources supporting the cultivation of selected crops or animal husbandry. Beneficiaries can benefit from different schemes at the same time. Up to 80% of Green Diesel beneficiaries received support from more than 5 subsidy schemes in 2021. 14% of beneficiaries received more than 10 subsidies (Chart 32).

The need for diesel subsidies could disappear, also thanks to the upcoming REPowerEU initiative. According to the data of the MARD SR,⁷⁷ fuel costs in agriculture amount to EUR 120-130 million per year. The

⁷⁷ Radela, IL MARD SR

European Commission’s forthcoming REPowerEU initiative may reduce them. Its aim is to reduce energy dependence on Russia by investing in the use of renewable sources for fuel production or replacing technologies with more economical and energy-efficient ones (e.g., modernisation of the machinery fleet, elimination of heavy tractor equipment and its switch to other types of propulsion - biofuels or electricity). Replacing technologies for crop production will be challenging and many solutions are still under development.

Schemes covering risks in agriculture

A number of state aid schemes cover risks in the agricultural sector. The largest in terms of expenditure are compensation for damage caused by adverse weather events (EUR 5.2 million on average, paid irregularly) and agricultural insurance premiums (EUR 5 million per year). The risks in agriculture are generally greater than in other sectors of the economy. Extreme natural phenomena, plant and animal diseases and climate change have a more frequent and intense impact on agricultural production⁷⁸.

Support for the management of insurable risk is provided through state aid of EUR 5 million per year. The state compensates farmers for part of the premiums paid (up to 65 % of the amount paid), thus motivating many to take out insurance. It thus seeks to increase the long-standing low share of farmers with commercial insurance in Slovakia. Interest is rising, with the number of applicants almost doubling since 2019, according to data from the MARD SR. From 2023, the support will be complemented by a new intervention under the CAP (EU resources) with an allocation of EUR 8 million per year. In future, it is advisable to consider a switch to support premiums entirely from EU resources.		
Objective and KPIs	The formally defined objective is to provide support to agricultural enterprises through the payment of insurance premiums. Increasing the number of insured farmers is a relevant objective. KPIs are not defined. There is insufficient evaluation of how the scheme contributes to the objective.	
The need for intervention	The market failure is not unambiguous. Ensuring that as many farmers as possible are insured is desirable, but the product exists regardless of the subsidy - farmers have the opportunity to insure themselves. However, at present the insurance conditions are unfavourable (high prices, high deductibles).	
Form of support	The state co-finances insurance premiums, for example in neighbouring V3 countries, but there are also systemic solutions for risk management in agriculture (e.g., a fund for uninsurable risks).	
Recommendation	Retain and modify. There is a need to regularly and systematically monitor and evaluate the impact of support. Gradually reduce/eliminate funding from the state budget when EU support is secured. Consider developing systemic tools to address risks in agriculture, as recommended by several strategic documents (Green Report, Agriculture Spending Review).	

Purely commercial insurance markets do not work perfectly in terms of the public interest for agriculture. Most EU Member States therefore support risk management in agriculture from public sources, either by promoting commercial insurance, supporting mutual insurance funds, or ex ante or ex post compensation for the costs of recovering from catastrophic losses and damages, where such catastrophic risks are either difficult to insure or uninsurable on a commercial basis (Pokrivčák, Tóth, 2020).

The proportion of farmers with commercial insurance is low in Slovakia. According to estimates, the farm insurance rate in Slovakia is 35%, compared to 55% in the Czech Republic and around 80% in Austria. The low level of commercial insurance is the result of high prices, inadequate supply of insurance products or non-coverage

⁷⁸ Agriculture Spending Review, 2019

of some important risks by commercial insurance in Slovakia, high deductibles, unstable agricultural policy in relation to insurance and low awareness⁷⁹ (Pokrivčák, Tóth, 2020).

The state is trying to increase the rate of insurance. It compensates farmers for part of the premiums paid (up to 65% of the amount paid), thus motivating many to take out insurance. Support for the management of insurable risk has been provided in the form of support for commercial premiums paid (EUR 5 million per year) in the period 2007-2012 and from 2019 to date. The number of applicants is increasing every year, almost doubling since 2019. Almost 100% of the budgeted expenditure of the scheme has been paid each year. The insured value is also increasing due to rising commodity prices, which even at the same rate means higher premiums paid. The scheme compensates farmers for premiums paid up to a maximum of 65%. From 2024, the support will be complemented by a new CAP intervention with an allocation of EUR 8 million per year. It aims to use EU funds to support farmers' income stabilisation in the event of damage caused by insurable risks exceeding a threshold of at least 20% of the farmer's average annual production⁸⁰. In future, it is appropriate to consider shifting to support for insurance premiums entirely from EU resources.

There is still no systemic solution to the uninsurable risk, which the state addresses through ad hoc payments. In 2022, it compensated farmers for extreme drought with EUR 42 million. In the case of uninsurable risk - high crop or livestock damage not covered by commercial insurance (drought, waterlogging, animal diseases) - the state provides aid in the form of ad hoc compensation for losses, thus creating volatility in public spending. In 2019, the state paid EUR 15.6 million for drought damage, rising to EUR 42 million in 2022. Climate change and more frequent occurrence of weather extremes may pose a problem in the future and increase demands for financial coverage of damages. The creation of a systemic instrument to manage uninsurable risks has already been proposed by the Agriculture Spending Review (2019) in the form of an uninsurable risk fund or an insurance product on the private market. Solutions would require high upfront costs and are difficult to prepare, but if managed effectively can provide a flexible solution to the riskiness of agriculture in Slovakia.

5.2. National support in agriculture

National support is the second largest subsidy of the MARD SR (EUR 7.5 million), mainly used to ensure public service purposes of the state enterprises of the Ministry (horse breeding, care of watercourses, etc.). The National Stud Topoľčianky, Hydromeliorácie, Závodisko, Lesy SR (Forests of the SR) and Lesopolnohospodársky majetok Ulič receive 70 % of the expenditure (5 out of 8 subsidies) for ensuring public service activities. Various presentation activities or compensation for animal losses due to veterinary regulations are also supported through subsidies to other entities (individuals, non-profit organisations, etc.).

Chart 42: National support paid and number of beneficiaries (average 2019-2021, EUR million)



Source: National support granted 2019-2021 MARD SR

Počet prijímateľov	Number of beneficiaries
--------------------	-------------------------

⁸⁰ <https://eur-lex.europa.eu/legal-content/SK/TXT/PDF/?uri=CELEX:32021R2115&from=EN>, Article 76

SPOLU	TOTAL
ŠP	State-owned enterprise
Prezentačné, publikačné, organizačné a iné činnosti	Presentation, publication, organisation and other activities
Kompenzácia strát na zvieratách	Compensation for animal losses

The majority of the national support is drawn by the state-owned enterprises of the MARD SR (EUR 5.7 million per year), thus compensated for the provision of various public services (horse breeding, care of watercourses, etc.). A number of enterprises are not self-sufficient and depend on state subsidies. The support also finances some activities for which subsidy financing is not supported by the literature. For example, support for participation in animal exhibitions or the organisation of horse races is questionable. Supporting state-owned enterprises through subsidy schemes appears to be redundant administration. There is a lack of a clearly defined measurable objective, key performance indicators and their systematic evaluation. Enterprises, their support and their management need to be analysed in detail.

Objective and KPIs	Some of the objectives are relevant - the companies provide public services (e.g., maintenance of watercourses), the relevance of some objectives is questionable (e.g., organisation of horse races). There is a lack of a clearly defined measurable objective, key performance indicators and their systematic evaluation.	
The need for intervention	Part of the calls are for public services that the market is unlikely to be able to provide. However, some activities are also funded for which subsidy funding is not supported by the literature. For example, the rate of production of goods and services associated with positive externalities is unclear for the state-owned enterprise Závodisko š.p.	
Form of support	Services are provided directly by the state - through state-owned enterprises; support through separate subsidy calls represents redundant administration.	
Recommendation	Suspend. Make the continuation of funding conditional on the modification of disbursement conditions, based on an analysis focused on the scope and justification of services provided by state-owned enterprises, the possibility of generating own revenues, the possibility of simplifying administration, and the setting of indicators to monitor the impact of the support. Enterprises also need to be subjected to audits, which have been recommended by previous spending reviews.	

The majority of expenditure is spent by enterprises that are not self-sufficient and depend on state subsidies. Subsidies account on average for 67 % of the revenues of the state-owned enterprises Hydromeliorácie, Závodisko and National Stud Topoľčianky. Lesy SR and Lesopoľnohospodársky majetok Ulič are self-sufficient, subsidies from the MARD SR accounted for less than 1% of their total revenues in the period 2018-2021.

Table 22: Subsidies to state-owned enterprises

State-owned enterprise	2018		2019		2020		2021	
	Subsidy paid (EUR million)	Share of SOE's revenue (%)	Subsidy paid (EUR million)	Share of SOE's revenue (%)	Subsidy paid (EUR million)	Share of SOE's revenue (%)	Subsidy paid (EUR million)	Share of SOE's revenue (%)
Hydromeliorácie	1.5	62	1.6	53	1.8	68	2.6	72
Topoľčianky	1.5	57	1.8	67	1.9	71	2	69
Závodisko	1.3	62	1.7	69	1.5	87	1.3	66
Lesy SR	0	0	0	0	0	0	0.6	0.3
Lesopoľnohosp. Majetok Ulič	0	0	0	0	0.1	2	0	0
TOTAL	4.3		5.1		5.3		6.6	

Source: National support granted 2018-2021 MARD SR, finstat.sk

Reducing the dependence of state-owned enterprises on public resources could be ensured by optimising their management. The development of strategies, streamlining of operations and audits of state-owned

enterprises have already been proposed in the Agriculture Spending Review ([MARD SR, MF SR, 2019](#)), but there has been no progress in the implementation of measures so far⁸¹. On the contrary, the amount of subsidies is increasing year-on-year, also due to legislative changes (e.g., increase in the minimum labour and related costs of the enterprise). It is necessary to analyse the potential for generating own resources for the services provided.

An additional resource of the state-owned enterprise Hydromeliorácie will be from 2026 the funds of the Common Agricultural Policy (EUR 25 million for the years 2026-2029). The resources are earmarked for investments in the reconstruction and modernisation of existing irrigation infrastructure and investments in water retention measures. In addition to the state-owned enterprise Hydromeliorácie š.p., the beneficiaries may also be the Slovak University of Agriculture (as the administrator of hydrotechnical melioration facilities) or legal entities that have hydrotechnical melioration facilities under their management. Drawing on EU funds will reduce the need for support from the state budget.

Support in the form of a subsidy scheme appears to be redundant administration in the case of state-owned enterprises; the need for state-owned enterprises to provide selected services needs to be examined. Individual calls are made directly to a particular state-owned enterprise and are made several times a year in varying numbers⁸².

National supports fund some activities for which subsidy funding is not supported in the literature (Box 11). It is not clear what societal benefits are derived from supporting, for example, participation in an animal exhibition or the organisation of a horse race. There is a need to analyse and reassess the need for the scale and justification of the services provided. There is also a lack of a clear measurable objective for the schemes, key performance indicators and their systematic evaluation.

Box 11: Services provided by state-owned enterprises

One of the main reasons for the existence of state-owned enterprises is the provision of specific public goods and services that would not otherwise be available on the market ([Derzanoskiene et al., 2017](#)). State-owned enterprises of the MARD SR provide a large number of different services; the need for state provision is questionable for some services.

Hydromeliorácie, š.p. manages irrigation and drainage systems in the public interest. **Závodisko, š.p.** organises horse races and manages horse racing betting activities. **Národný žrebčín "Topoľčianky", š.p.** (National Stud Topoľčianky) focuses on horse breeding.

LESY SR, š.p. and Lesopoľnohospodársky majetok Ulič, š.p. focus on the management of state-owned forestry and land assets. Within the framework of national support, the state subsidises protected horse breeding in Lesy SR and flood control measures in Lesopoľnohospodársky majetok Ulič.

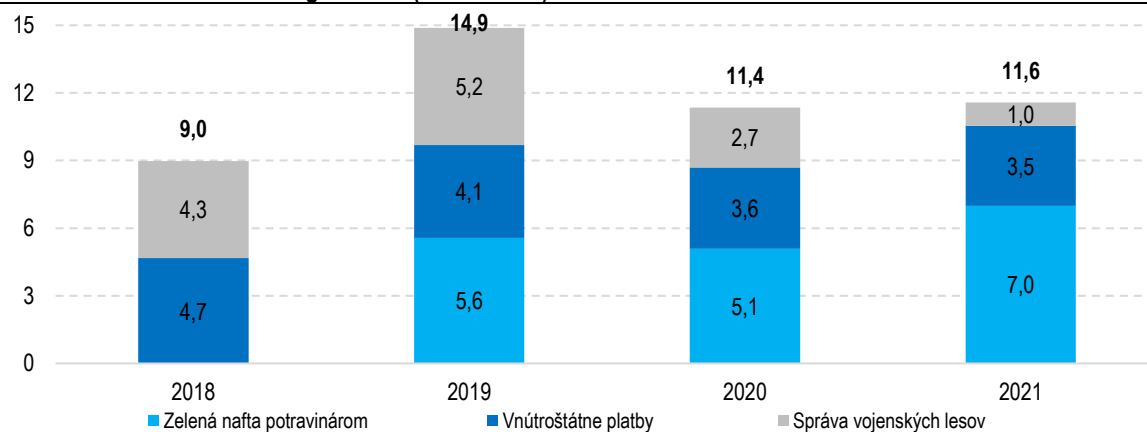
Other subsidies in agriculture

Other subsidies for food producers (EUR 5.9 million), livestock breeders (EUR 3.8 million) and the Military Forests of the Slovak Republic (EUR 3 million) account for a further EUR 12.6 million per year. Similarly to state aid and national support, the subsidies do not have a clear measurable objective, key performance indicators and there is no systematic evaluation of the results of the support.

⁸¹ Interim implementation report 2021 ([MF SR, 2021](#))

⁸²E.g., in 2019, 4 supports were granted to the state-owned enterprise Závodisko š.p., in 2020: 5 supports, in 2021: 2 supports.

Chart 43: Other subsidies in agriculture (EUR million)



Source: MF SR

Zelená nafta potravinárom	Green Diesel for food producers
Vnútroštátne platby	National payments
Správa vojenských lesov	Administration of military forests

5.3. Support for food producers

<p>The support for food producers (EUR 5.8 million per year) is not among the official schemes of the MARD SR; it is paid through the National Agricultural and Food Centre. Food producers receive support for completing a questionnaire, not for targeted and sustainable projects or activities⁸³. The support is non-transparent, does not have a set objective or publicly available data, which makes it impossible to determine its social benefits.</p> <p>Payment based on questionnaires on the food production sector was supposed to be a temporary solution, but since the start of the subsidy (2019) there has been no change. Approval by the European Commission would be required for inclusion as an official scheme of the MARD SR.</p>		
Objective and KPIs	<p>The scheme does not have an officially set objective. Food producers receive support for completing a questionnaire, not for targeted and sustainable projects or activities (SAO, 2023). The aim of the questionnaire data acquisition is to create/update a comprehensive information database, its processing and evaluation for the purpose of streamlining food production, improving the processing of agricultural products and increasing competitiveness. KPIs are not set.</p>	
The need for intervention	<p>Removing the support would have little or no impact on consumers (the supply of most food commodities is global; their price is determined by the international market). There may be an impact on specific Slovak products - due to the unavailability of data it is not possible to determine the potential impact.</p>	
Form of support	<p>The food sector is also supported abroad through direct subsidies. Assistance in the form of state-guaranteed or soft bank loans is also appropriate. Beneficiaries thus have a greater incentive to ensure efficiency and return on management.</p>	
Recommendation	<p>Abolish due to non-transparency, form of payment (reward for completing questionnaires), unclear objective and KPIs. An alternative to abolition would be to make the scheme more transparent - approval by the European Commission (notification) is required for inclusion in the official support schemes of the MARD SR.</p>	

⁸³ https://www.nku.gov.sk/aktuality/-/asset_publisher/9A3u/content/zavazne-zistenia-o-zlyhaniach-v-zdravotnictve-posiela-nku-najvyssim-ustavnym-cinitelom

5.4. Complementary national payments (livestock units)

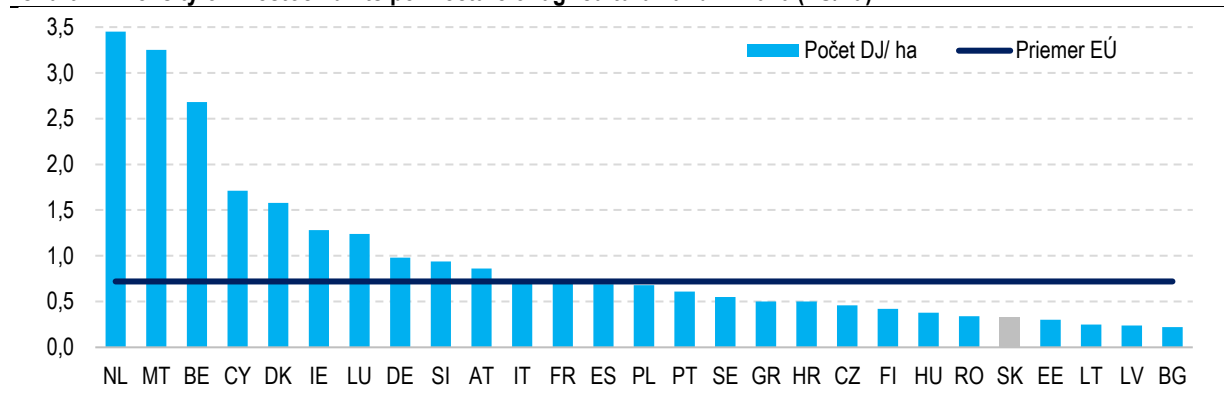
<p>Complementary national payments (EUR 3.8 million per year) for area, hops and livestock units operate on top of the subsidies from the European Agricultural Guarantee Fund. They serve to equalise farmers' incomes across EU countries and are also granted by other Member States (e.g., the Czech Republic, Hungary and Poland). Currently, the MARD SR only makes payments per livestock unit, thus supporting the declining livestock production.</p> <p>The support was supposed to be temporary, but the MARD SR decided to extend it. The maximum possible amount decreases annually in line with EU legislation. Suspension would probably weaken Slovakia's position as neighbouring countries also provide aid.</p> <p>For several parts, the support is linked to the old reference period and does not take account of current production - its fairness is therefore not ideal, it is directed at an area already supported by other sources and, given the small amount, high transaction costs can be expected for its distribution.</p>		
Objective and KPIs	<p>The objective of the scheme is to contribute to the equalisation of farmers' incomes in those EU Member States whose level of direct payments is below 90% of the Union average. KPIs are not set. There is no assessment of how the scheme contributes to the objective.</p>	
The need for intervention	<p>Without support, the international competitiveness of producers is likely to be reduced. The justification for support depends to a large extent on the approach of neighbouring countries to subsidy policy and the resulting competitive pressures on domestic farmers.</p> <p>Support provides income to farmers irrespective of their efforts to reduce costs, their incentives to innovate, to diversify land use, or to engage in behaviours that promote agricultural competitiveness.</p> <p>For consumers, the removal of the subsidy would have no or minimal impact (product prices would remain unchanged).</p>	
Form of support	<p>The agricultural sector is also supported abroad through direct subsidies as a standard practice. The agricultural sector is intensively supported, in particular by the EU, through the instruments of the Common Agricultural Policy. National payments account for only a minimal share compared to EU support.</p> <p>Assistance in the form of state-guaranteed bank loans, also soft loans, is also appropriate. Beneficiaries thus have a greater incentive to ensure efficiency and return on management.</p>	
Recommendation	<p>Suspend. Make the continuation of funding conditional on adjusting the disbursement conditions, based on an analysis aimed at assessing the impact of the scheme and the transaction costs, concentration of payments, targeting and environmental impact of the support. Gradually reduce funding in line with EU legislation, extending up to 2027. Not extend to additional forms of support (area support, hops and payments for animals).</p>	

The complementary national payments are intended to help balance the incomes of farmers in EU countries whose level of direct payments is below 90% of the EU average. They allow the state budget to provide additional payments to direct payments in the crop (payment for area and hops) and livestock areas. In Slovakia, in the period 2015-2022, the payment is granted exclusively for the livestock area, the other schemes have not been implemented.

Slovakia uses national payments to support cattle, sheep and goat farming. On average, a farmer receives EUR 1 543 per year. The financial envelope is distributed on the basis of the number of animals registered in the Central Livestock Register or on the basis of an individual quota. Livestock production in Slovakia has been

declining for a long time and is not very profitable, but it brings social and economic benefits in the form of employment in primary production and in the whole food vertical (milk production, milk processing, milk sales), as well as in the form of the provision of organic fertiliser. The downside is the production of greenhouse gases. However, Slovakia has low and declining numbers of dairy cows, sheep and goats and stable consumption of dairy products and beef. A decline in domestic production would lead to an increase in imports from countries with a high density of livestock units per hectare of land (Chart 44) (Pokrivčák, Tóth, 2023).

Chart 44: Density of livestock units per hectare of agricultural land in 2020 (LU/ha)



Source: Institute for Agricultural Policy, MARD SR, Eurostat

Počet DJ/ha	Number of LU/ha
Priemer EÚ	EU average

The maximum possible amount of support decreases each year. It is linked to a gradual increase in the direct payment envelope in line with EU legislation. Currently supported livestock production (sheep, goats and cows without market production) can be supported at a maximum of EUR 4.1 million in 2023 and EUR 2.4 million in 2027 (end of CAP 23-27). The maximum possible total transitional national aid (including other supports) is EUR 54.5 million in 2023 (MARD SR, 2022).

The support needs to be analysed additionally. The analysis should take into account:

- The motivation for support is competitive pressure from abroad.
- The scheme serves to support farmers' income. Income support does little to improve competitiveness and productivity in the agricultural sector. There is a lack of incentive for beneficiaries to behave innovatively/ecologically/efficiently.
- Part of the support is decoupled from production (payments are linked to the old reference period and do not take account of current production) - its fairness is thus not ideal; it is directed to an area already supported by other sources (especially the EU).
- Given the small amount, high transaction costs for its distribution can be expected.

5.5. Military Forest Administration

<p>Support for the administration of military forests (EUR 3 million per year) is a subsidy of the MD SR for the state-owned enterprise Vojenské lesy a majetky SR (Military forests and estates of the SR) for the administration of military forests. The objective is to maintain and improve the condition of military forests (afforestation and thinning of forest stands), construction of access roads to prevent natural disasters and to promote the environment. The supported projects represent a positive externality. Supporting a state-owned enterprise through a subsidy scheme appears to be redundant administration. There is a lack of a clearly defined measurable objective, key performance indicators and their systematic evaluation. A detailed analysis of the state-owned enterprise is needed to assess the justification and amount of the subsidy.</p>		
Objective and KPIs	The objective is relevant (maintaining and improving the condition of military forests), but insufficiently SMART defined. KPIs are not set. There is no evaluation of how the scheme contributes to the objective.	
The need for intervention	The supported projects represent a positive externality - the maintenance and restoration of forest cover. Similar state-owned enterprises exist abroad (e.g., Czech Republic, but the proportion of state funding is many times lower). In the period 2019-2021, subsidies accounted for an average of 14% of the revenues of the state-owned enterprise.	
Form of support	Services are provided directly by the state - through the state-owned enterprise, support through separate subsidy calls represents redundant administration.	
Recommendation	Suspend. Condition the continuation of funding on the modification of the conditions of disbursement on the basis of an analysis focusing on the possibility of obtaining other sources of funding following the example of similar state-owned enterprises abroad, the possibility of simplifying the administration, and the setting of indicators to monitor the impact of the support. The enterprise should also be subjected to audits, already recommended by the Spending Review of Wage.	

6. Subsidies in culture

- The average amount of subsidies for culture is around EUR 60 million per year, of which EUR 15 million is channelled through the subsidy system of the Ministry of Culture of the Slovak Republic (MC SR) and EUR 40 million through independent subsidy funds. Tax expenditure in the form of a reduced tax on books and print media amounts to EUR 3 million. The subsidy for the Slovak Matica (Matica slovenská) amounts to EUR 1.6 million.
- Total spending on culture (EUR 884 million, 0.96% of GDP) is higher than the EU27 average (0.83%). The expenditure gap with the V3 average (1.19% of GDP) is strongly influenced by high spending in Hungary.
- Culture subsidies should support in particular those types of art that are not commercially self-sufficient and would not be accessible to the public without public funding, which is also true to a large extent for the promotion of culture in Slovakia.
- Promoting culture has additional positive externalities - for example, the experience of enjoying different cultural goods improves the social behaviour of citizens, increases their openness, sensitivity and tolerance, and thus contributes to a better functioning society. Preserved cultural heritage creates a sense of belonging and national identity. However, these benefits are more difficult to track with key performance indicators.
- Culture is one of the areas where performance is more difficult to measure. A first step towards a solution could be to implement the measures proposed by the Culture Spending Review. Improving data collection on supported projects would allow for an assessment of results and an overall evaluation of the effectiveness of support activities. The measures of the Review have not yet been implemented.
- Subsidy schemes in culture lack analytical objectives, key performance indicators and their subsequent evaluation. Even basic indicators such as the number of visitors to supported events are often not published.

Table 23: Average expenditure on subsidy schemes in culture, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
Subsidy	6.1	Art Support Fund	20.2*
Subsidy	6.2	Audiovisual Fund	12.5
Subsidy	6.3	Fund for the Support of National Minority Culture	7.6
Subsidy	6.4	Let's renovate our house	11.9
Subsidy	6.5	Promoting attendance at cultural events (Cultural vouchers)	2.0*
Subsidy	6.6	Support for the activities of the Slovak Matica (Matica slovenská)	1.6
Subsidy	6.7	Culture of disadvantaged population groups	0.9
Tax expenditure	6.8	Reduced VAT on print media	3.3
Total			60.0

* Average for 2018-2020 (2021 increase of COVID in the ASF, suspension of cultural vouchers)

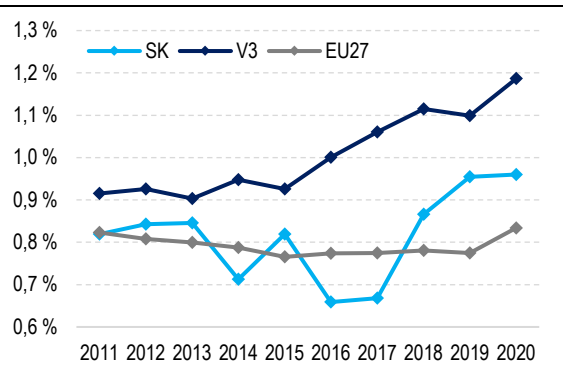
Source: VřMU on the basis of data of the MF SR

Note: Total expenditure on subsidies, including subsidies provided to general government and scholarships to natural persons, which are not the primary focus of the review. Operating costs of subsidy funds have not been included.

Public spending on culture

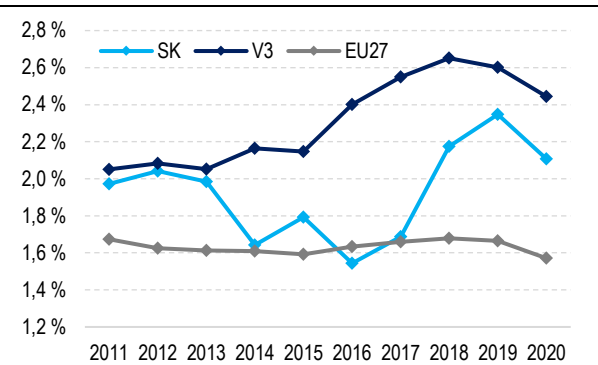
The latest available international data show that Slovakia's spending on culture (EUR 884 million) is higher than the EU27 average. Public spending on culture lags behind the V3 average. However, this is strongly influenced by the high spending in Hungary. Slovakia's lag behind the Czech Republic is significantly smaller, with comparable spending on culture in Poland.

Chart 45: Public spending on culture 2011-2020 (% of GDP)



Source: Eurostat⁸⁴

Chart 46: Public spending on culture 2011-2020 (% of public spending)

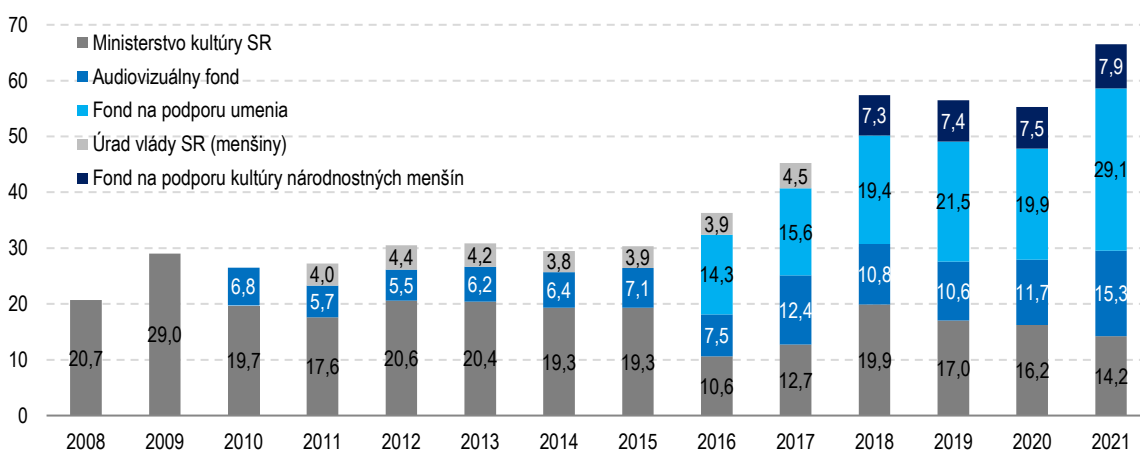


Source: Eurostat

Of the total public spending on culture (EUR 884 million), subsidies accounted for EUR 61.8 million in 2020. Subsidies provided directly through the subsidy system of the Ministry of Culture amounted to EUR 14.4 million,⁸⁵ and the subsidy for the Slovak Matica amounted to EUR 1.7 million. Subsidies provided through independent subsidy funds amounted to EUR 39.1 million. Reduced VAT on print media amounted to EUR 3.3 million. Most of the remaining expenditure is for direct support to cultural institutions set up by the state and local government, which is not the subject of this review. Local governments have their own subsidy schemes to support culture, which are not the subject of the review either.

The primary objective of the review is to assess subsidies provided to the private and non-profit sectors, not the public sector. In the case of culture subsidies, however, it is not quite possible to separate these worlds. In the subsidy schemes covered by the review, the sectors are often competing together at the same time. In addition to private individuals and non-profit organisations, the beneficiaries of subsidies are also municipalities, HTUs and the organisations set up by them, or public universities. Although the review focuses mainly on subsidies to the private and third sector, the effectiveness of the schemes will nevertheless be assessed comprehensively in a number of cases.

Chart 47: Volume of subsidy support provided by subsidy mechanisms in 2008-2021 (EUR million)



Note: The Art Support Fund had an increased transfer from the SB in 2021 due to the covid.

Source: ICP, VIMU according to the BIS MF SR

Ministerstvo kultúry SR	Ministry of Culture of the SR
Audiovizuálny fond	Audiovisual Fund
Fond na podporu umenia	Art Support Fund
Úrad vlády SR (menšiny)	Government Office of the SR (minorities)

⁸⁴ Data reporting to Eurostat can be inaccurate across countries, for example in the field of culture due to the large number of actors.

⁸⁵ The schemes are Let's renovate our house (renovation of national cultural monuments), Promoting attendance at cultural events (Cultural vouchers) and Culture of disadvantaged population groups.

The data on the amount of support is inclusive of subsidies provided to the general government and scholarships for natural persons, which are not the primary focus of the review. The subsidy for the Slovak Matica is shown under the support of the MC SR since 2011, older data from the same source is not available.

Box 12: Subsidies for culture - theoretical background

Cultural participation brings many social and economic benefits, but the overall impact of culture is difficult to measure.

Culture should be funded because of the positive externalities it brings. For example, the enjoyment of various cultural goods improves citizens' social behaviour, increases their openness, sensitivity and tolerance and thus contributes to a better functioning society. Preserved cultural heritage creates a sense of belonging and national identity. However, the impact of these positive externalities is difficult to quantify and measure.

Cultural activities can thus be described as merit goods,⁸⁶ which help to achieve generally accepted social goals. This type of market failure assumes that the market will not provide cultural activities to a sufficient extent because consumers cannot appreciate their importance and value in advance (i.e., they do not have enough information about the experience of a given cultural activity in advance). Therefore, the promotion of culture should be subsidised if only for its merit (Toepler and Zimmer, 2002). In particular, support should be directed to commercially non-self-sufficient areas of culture.

An economic argument in favour of cultural funding is also the additional revenue that cultural institutions bring in. Visits to theatres or museums, especially in larger cities, also generate profits for the tourism sector (Toepler and Zimmer, 2002).

Hillman Chartrand and McCaughey (1989) describe four types of funding for arts and culture according to the state's approach:

- *Facilitator* provides tax relief for individual donors.
- *Patron* uses independent art funds.
- *Architect* funds art through ministry rather than as part of social policy.
- *Engineer* supports only such art as suits their political aims.

While the first two approaches support the creative process, the second two focus more on the production of specific types of art. In practice, most countries combine several approaches⁸⁷.

Van der Ploeg (2006) distinguishes three systems of cultural subsidy allocation within Europe:

- **State-led:** politicians and bureaucrats make decisions (French and Italian models). The system is non-transparent, provides room for lobbying.
- **Independent arts fund:** the state leaves the decision on the allocation of subsidies to the independent arts fund. The disadvantage is that the state has little scope to influence the direction of cultural policy. A typical example is the British Arts Council.
- **Synthesis of the two:** combines an arts fund that provides expert opinions on artistic value and how the budget should be distributed, but the final decision is up to the Minister of Culture (Dutch model).

⁸⁶ (Cwi, 1980) defines merit goods as goods whose social importance is too important to leave their provision to the market. (Ver Eecke, 1998) argues that support for the provision of merit goods is justified if their dissemination is conducive to or necessary for the fulfilment of generally accepted social goals.

⁸⁷ For a more detailed description, advantages and disadvantages of each type see Chartrand and McCaughey (1989).

A good practice in cultural support is the existence of independent subsidy funds in which the decision on the subsidies provided is independent of the ministry⁸⁸. Three independent funds have been gradually separated from the subsidy system of the Ministry of Culture of the SR - Art Support Fund, Audiovisual Fund and Fund for the Support of National Minority Culture. The Ministry plans to continue this trend in the future with the establishment of a Fund for the Support of Cultural Heritage, which would cover both tangible and intangible cultural heritage. Following the transformation of the Ministry's subsidy schemes into subsidy funds, the volume of available support has gradually increased and its quality has also been broadened. While in 2015 the total support amounted to EUR 30 million, it reached EUR 55 million in 2020 due to the gradual increase in transfers to the funds (Chart 47). The creation of the funds has led to an expansion of the areas supported through the creation of new sub-programmes as well as an expansion of the forms of support to include creation scholarships.

In addition to subsidy funds, there are also public art funds - the Literary Fund, the Music Fund and the Fine Arts Fund⁸⁹ – which redistribute to artists mostly their own contributions. They support creative, scientific and artistic activity in the form of scholarships, creative rewards, travel grants, loans, etc. Their source of income is the compulsory artists' contributions - 2 % of the income from royalties and performers' remunerations - contributions for the use of works and part of the concession fees. The success rate in collecting the contributions has been low in the long term. In 2018, on average, the funds distributed less than half of the collected contributions for support activities - EUR 1.1 million out of EUR 2.3 million (MF SR, MC SR, 2020, p. 106). The Culture Spending Review recommended a modification of their functioning or a complete transformation. The result should be the so-called Chamber of Artists (TASR, 2022).

The introduction of a systematic collection of structured data on supported projects would contribute to increasing the efficiency of subsidy systems in culture. In addition, a cross-cutting measure of the Culture Spending Review for subsidy systems would bring new possibilities for evaluating results and better possibilities for defining future objectives. The measure has not yet been implemented.

6.1. Art Support Fund

The Art Support Fund (ASF) provides support for the arts, culture and creative industries in the form of competitive subsidies for both non-established culture (non-state cultural institutions and persons) and culture established by local government. Beneficiaries, for example, organise cultural festivals, publish magazines, write theatre scripts or create computer games. The ASF's expenditure on subsidies averages EUR 20.2 million a year. The objective of the fund is to support artistic activities, culture and the creative industries, according to the focus of the individual sub-programmes. Beyond the long-term objectives, priority areas of support are set each year.		
Objective and KPIs	The Fund has relatively general objectives for which it has not defined relevant indicators to monitor the impact of the support.	
The need for intervention	Cultural experiences bring positive externalities. Support for independent culture (or local government-established culture) is necessary because without it the market would probably provide these services to a lesser extent and/or at a higher price. The area is also supported abroad.	
Form of support	A competitive subsidy redistributed through an independent fund is an appropriate form of intervention.	
Additional information	The transfer of the Fund is set by law at a minimum level of EUR 20 million. It is appropriate to index this transfer over the years.	

⁸⁸ The model is based on the arm's length principle, which is commonly used around the world in the design of cultural subsidy instruments (Hillman Chartrand and Caughey, 1989; Towse, 2010). Based on this principle, although the funds may be financially linked to a central government body, they are fully self-governing units with their own authorities and decision-making power. The total amount of their income is determined by law and so the funds cannot come under direct financial pressure from any government authority. The arm's length principle thus ensures the independence of the artists and cultural workers supported from political representatives, as the public fund bodies are made up of representatives from the cultural community.

⁸⁹ They are established by Act No. 13/1993 Coll. on art funds.

Recommendation	Retain and modify. Set measurable objectives and their evaluation so that the benefit of the Fund is evident. Monitor and publish, at a minimum, the number of visitors to supported events and other key performance indicators.	
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Since 2016, the Art Support Fund (ASF) has been supporting artistic activities mainly through subsidies, and to a lesser extent through scholarships. The ASF provides funding through seven programmes aimed at supporting different types of art. These include, for example, support for the production and staging of plays, the organisation of cultural events and the operation of cultural centres, support for traditional culture, the acquisition of libraries, museums and galleries, as well as support for research in the field of arts and culture.

The Fund has a relatively general objective - to support artistic activities, culture and the creative industries. Beyond the long-term objectives, priority areas of support are set each year (e.g., in 2022, support for translations of Italian literature), part of which is also determined by the MC SR. It is necessary to set performance indicators to measure the achievement of these priorities and the Fund's long-term objectives. The Culture Spending Review recommended tracking the number of visitors or audiences attending a supported activity and also tracking the locations of these events, which would allow both a better assessment of the impact of arts and culture support, but also consideration of areas where support should be focused in future. The Fund monitors the ratio of supported and unsupported applications by region, but it could be interesting to evaluate the number of events held by location of implementation and thus their accessibility to the inhabitants of different regions in the relevant sub-programmes. Although they do not directly track the Fund's activities, proxy indicators for the performance of the ASF could also be some of the objectives from the general government budget ledger (Table 24).

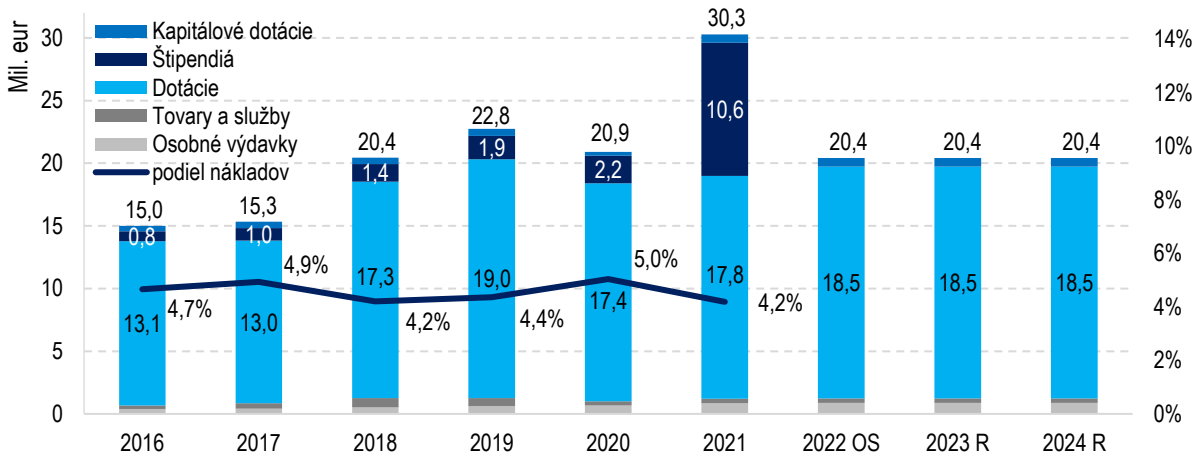
Table 24: Selected indicators from the general government budget ledger

Indicator	2018	2019	2020	2021	Objective 2025	Objective 2030
Share of the added value of culture and creative industries in the added value of the economy	1.83 %	1.84 %	-	-	1.84 %	1.93 %
Attendance at museums and galleries, in mill.	5.71	5.90	3.09	-	5.90	6.76
Attendance at theatre and music and dance performances, in mill.	2.25	2.16	0.59	-	2.48	2.66
Attendance at festivals, in mill.	2.44	2.40	0.37	-	2.44	2.59
Percentage of citizens with an SK library admission card	7.15 %	7.35 %	5.94 %	-	12.9 %	17.8 %

Source: MF SR, General Government Budget Ledger

The Fund provides an average of EUR 20.2 million per year in subsidies. The Fund's total expenditure was roughly EUR 21.4 million between 2018 and 2020, rising to EUR 30.3 million in the short term (2021) due to the pandemic. The difference between total expenditure and subsidies is made up of the Fund's operating expenditure (EUR 1.2 million). Subsidies, which are the primary target of the review, account for EUR 12.7 million, with the remaining support made up of scholarships for individuals (EUR 1.8 million), subsidies for general government bodies (EUR 5.2 million) and subsidies provided in the form of capital transfers (EUR 460 thousand). The conditions for obtaining them are no different from the subsidies covered by the review. The largest part of the package is distributed in the Arts programme.

Chart 48: ASF expenditure (left axis, EUR million) and share of admin. costs in approved support (right axis, %)



Note: Total expenditure on subsidies, including subsidies granted to general government, scholarships to individuals and subsidies granted in the form of capital transfers, which are not the primary focus of the review.

Source: BIS MF SR

Kapitálové dotácie	Capital subsidies
Štipendiá	Scholarships
Dotácie	Subsidies
Tovary a služby	Goods and services
Osobné výdavky	Personnel expenses
Podiel nákladov	Share of costs
Mil. eur	EUR million

By law, the Fund has a minimum contribution from the State Budget of EUR 20 million, and can use a maximum of 5% of the contribution for its own operations. Prior to 2018, the contribution was EUR 15 million⁹⁰. It is advisable to index this transfer over the years so that it is not necessary to amend the law repeatedly to increase the minimum amount. Most of the Fund's expenditure consists of current transfers in the form of subsidies and scholarships. In 2020, the Fund's transfer has been increased by an extra EUR 9,5 million. Thus, in 2021, in order to bridge the loss of revenue in the cultural sector, the Fund provided significantly more scholarships for creative work available to a wider range of beneficiaries through special calls.

Table 25: Average allocated support in the form of subsidy by programme (2019-2021)

Programme	Amount allocated (EUR million)	Number of beneficiaries	Amount of support (EUR)	Success rate of applicants (%)
1. Art	7.3	946	7 671	57 %
2. Events, cultural centres and magazines	3.3	111	30 196	67 %
3. Research and educational activities	1.5	260	5 640	49 %
4. Traditional culture and cultural outreach activities	3.1	583	5 383	50 %
5. Memory and heritage institutions	2.9	678	4 304	66 %
6. City of Culture - winning city	0.2	1	245 873	56 %
7. Public Art Activities of Universities*				
Total	18.3	2579		

Note: The data on the amount of support are inclusive of subsidies granted to general government and subsidies granted in the form of capital transfers, which are not the primary focus of the review. Scholarships for individuals are not included.

Source: ASF, annual reports

Preparatory projects by the applicant cities and the organisation of accompanying activities by organisations other than the winning city have not been included in the City of Culture programme. The Public Art Activities of Universities programme was established in 2023.

⁹⁰ Following the increase in the contribution, there has been an increase in the support available across the programmes, as well as the creation of a new City of Culture programme, under which the Fund provides support for year-round cultural and artistic activities in a city that is awarded the title of City of Culture for a given year..

The subsidies are competitive, the beneficiaries are municipalities and their established organisations, civic associations, non-profit organisations, natural and legal persons who implement activities in the field of art, culture or creative industry specified in the call. Applications for subsidies are assessed by the relevant committees in the light of predetermined criteria. Between 2019 and 2021, an average of 2 579 beneficiaries received a subsidy, with the average amount varying according to the sub-programme (Table 25).

The minimum required co-financing rate for a project by the applicant is usually 5%, with 10 to 20% in more market-attractive areas. Applicants often do not receive the full amount of support requested and the project budget has to be adjusted as a result. Some supported activities, such as arts research or museum and gallery acquisition activities, have limited possibilities of obtaining support outside the ASF. On the other hand, activities that have the potential to generate some additional income, e.g., through ticket sales or other project outputs, are also supported. However, explicitly commercial activities are not supported. Other sources of funding for supported activities may be private endowment funds or subsidy schemes of local governments, but these are less significant in terms of the amount of funding available.

6.2. Audiovisual Fund

The Audiovisual Fund (AVF) provides support for film projects through competitive subsidies and cash rebates divided into five programmes. Beneficiaries are producers and filmmakers, cinemas and film festival organisers. The AVF's expenditure on subsidies averages EUR 12.5 million per year. The aim of the Fund is to develop audiovisual culture and the film industry in Slovakia and to stimulate investment in film production.		
Objective and KPIs	The Fund has relatively general objectives for which it has appropriate outcome indicators, but it would be appropriate to adjust these by setting target values and putting them in context using foreign benchmarks.	
The need for intervention	Films are among the most accessible types of culture, so they have a strong potential to spread positive externalities. Without support, fewer Slovak films were likely to be made, and support also has an impact on the development of the film industry. Cash rebates bring additional investment. The area is also supported abroad.	
Form of support	A competitive subsidy redistributed through an independent fund is an appropriate form of intervention.	
Recommendation	Retain and modify. Set measurable objectives and their evaluation so that the benefits of the Fund are evident. Improve the KPIs monitored.	

The Audiovisual Fund provides support for film projects through competitive subsidies and cash rebates, and to a lesser extent through scholarships and loans. The AVF provides support through five programmes. The first four focus on the development of audiovisual culture - they support the development and production of Slovak audiovisual works and their distribution, festivals and film shows, as well as research, education and publication in the field of cinematography. The programme aimed at supporting the development of audiovisual technologies, which supports the digitisation and modernisation of cinemas, is also important. Support for the audiovisual industry through the cash rebate system is covered by the latest fifth programme.

The objective is to stimulate investment in film production and the development of the film industry in Slovakia. More specific priorities are set for each part of the support activity. Supporting the Slovak film industry is a relevant objective of cultural policy, as cash rebates in particular generate additional investment, e.g., in the form of rental accommodation or the use of various services related to the film industry. In 2021, the Fund estimates that rebates generated additional investment of almost EUR 17 million (AVF, 2021). The Fund monitors indicators such as the number of premieres and viewers of Slovak films, as well as their revenues and market share (Table 26). It calculates public support for audiovisual production per capita (EUR 2.81 in 2021), but this figure remains without

any context or comparison with foreign countries. An indicator for the development of the Slovak film industry in the form of rebates is additional investment. The indicator itself is appropriate, but it would be good to monitor employment in the film industry, awards won by Slovak films or their participation in foreign film festivals. Therefore, there is a need to re-set the KPIs, to set their target values and to better put them in context by comparing them with foreign countries.

Table 26: Audiovisual culture and industry indicators 2015-2021

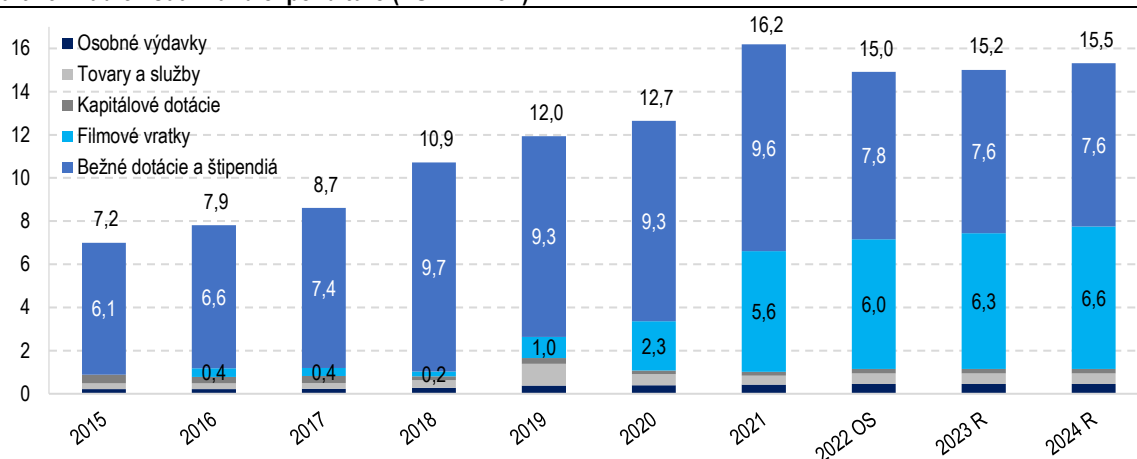
Indicator	2015	2016	2017	2018	2019	2020	2021	Objective 2025*	Objective 2030*
Number of premieres of Slovak films	25	29	33	31	43	20	30	43	75
Number of viewers of Slovak films (thousands)	303	377	1 431	251	1 075	776	192	-	-
Revenues of Slovak films (EUR million)	1.40	1.67	7.20	1.22	5.97	4.74	1.15	-	-
Share of Slovak film sales on the market	5.9 %	5.7 %	20.9 %	3.7 %	16.0 %	34.0 %	9.4 %	-	-
Additional investment induced by cash rebates (EUR million)	-	-	-	1.09	4.85	8.64	16.92*	-	-

Note: The data on the amount of additional investment for 2021 is an estimate. The number of film premieres includes minority co-productions (with a minority Slovak share). Source: AVF, MC SR, MF SR

The objectives for the number of film premieres for 2025 and 2030 were set by the Ministry of Culture of the Slovak Republic, not by the Audiovisual Fund, on the basis of past trends.

The AVF distributes an average of EUR 12.5 million in subsidies and rebates. The total expenditure of the Fund in 2019-2021 was around EUR 13.6 million. The difference is made up of the Fund's operating expenditure (EUR 1.1 million). Subsidies, which are the primary target of the review, account for EUR 12 million, with the remainder of the support being scholarships for individuals (EUR 155 thousand), subsidies for general government entities (EUR 115 thousand) and subsidies provided in the form of capital transfers (EUR 200 thousand). The conditions for obtaining these are no different from the subsidies covered by the review.

Chart 49: Audiovisual Fund expenditure (EUR million)



Note: Total expenditure on subsidies, including subsidies granted to general government, scholarships to individuals and subsidies granted in the form of capital transfers, which are not the primary focus of the review.

Source: BIS MF SR

Osobné výdavky	Personnel expenses
Tovary a služby	Goods and services
Kapitálové dotácie	Capital subsidies
Filmové vratky	Cash rebates
Bežné dotácie a štipendiá	Current subsidies and scholarships

The AVF has a statutory contribution from the SB of a minimum of EUR 6 million to support audiovisual culture (the first four support programmes) and a separate contribution for cash rebates (the fifth

programme). Another source is contributions from entities that use audiovisual works in their business⁹¹. A maximum of 5 % of these contributions may be used for operations. Revenue from contributors amounted to around EUR 2.9 million in 2019-2021. In 2021, the transfer from the state budget intended to support audiovisual culture was increased by an extra EUR 1 million. It is advisable to index this transfer over the years so that it is not necessary to amend the law repeatedly to increase its minimum amount.

Table 27: Average support allocated in the form of a subsidy by programme (2019-2021)

Programme	Amount allocated (EUR million)	Number of beneficiaries	Amount of support (EUR)	Success rate of applicants
1 Creation and production of Slovak audiovisual works	7.4	119	58 602	47 %
2 Distribution and other public performance of audiovisual works	1.9	173	18 045	89 %
3 Research, education and editorial activities in the field of audiovisual culture	0.3	22	12 563	83 %
4 Development of audiovisual technologies in the SR	0.2	15	15 546	67 %
5 Support for the audiovisual industry in the SR (cash rebates)	2.9	24	112 540	-
Total	12.7	353		

Note: The data on the amount of support are inclusive of subsidies granted to general government and subsidies granted in the form of capital transfers, which are not the primary focus of the review. Scholarships for individuals are not included. *Source: AVF, annual reports*

The subsidies are competitive, the beneficiaries are producers and authors of films, cinemas, film festival organisers or publishers of thematic magazines. Applications for subsidies under the call for proposals are assessed by the relevant committees against predetermined criteria. Between 2019 and 2021, there was an average of 353 subsidy beneficiaries and the average amount of the subsidy varied across programmes (Table 27). The co-financing rate varies considerably across sub-programmes, ranging from 1 to 50%, in most cases 10 or 20%.

The Fund provides the largest amount of support for the programme “Creation and production of Slovak audiovisual works” (EUR 5 million in 2021). It supports the development and production of films with a majority Slovak creative and production share, or co-productions with a minority Slovak share, student films and educational activities. Maximum subsidy amounts are set according to the length of the work, as opposed to cash rebates, which do not have a maximum amount of support set.

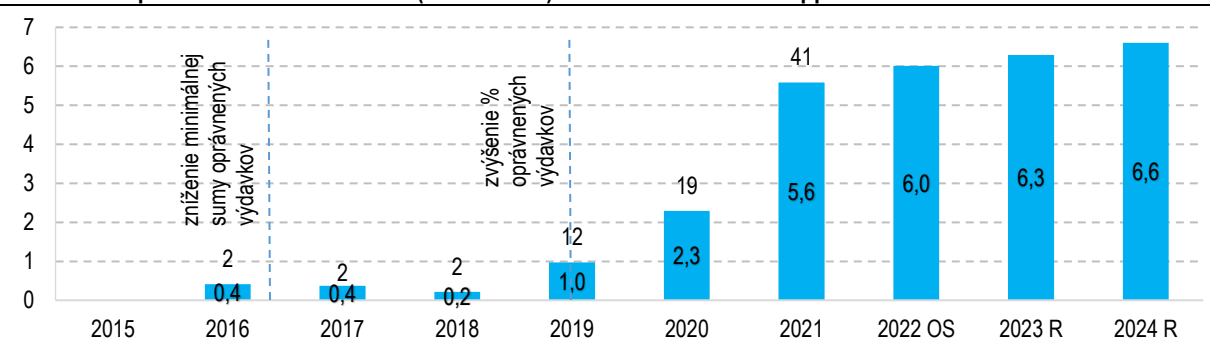
Since their creation, cash rebates have been an increasingly popular tool to support the film industry. The Fund started providing them in 2015 in the form of reimbursement of 20 per cent of eligible expenses spent on filming a movie in Slovakia. The minimum amount of eligible expenses claimed was initially EUR 2 million, but in 2017 it was reduced to EUR 300 thousand (or EUR 150 thousand for certain types of film works) by an amendment to the Film Project Decree. By amending the AVF Act, the amount of reimbursed eligible costs was increased to 33 per cent as of 2020. A 2019 analysis by the Institute for Cultural Policy indicated that the impact of increasing the percentage of eligible cash rebate expenses would lead to reduced profits for the state, but the overall economic impact and the impact on the film industry would remain positive ([Bieščad et al, 2019](#)).

The number and volume of cash rebates paid out after the modifications to this instrument is gradually increasing (from EUR 400 thousand and 2 projects in 2016 to EUR 5.6 million and 41 projects in 2021). The average amount of support is EUR 113 thousand per project (in 2019-2021). The number of applications for registration of a film project (for payment of the rebate) has been increasing significantly since the creation of the rebates. Once certain criteria are met, the subsidy is eligible - in addition to a minimum amount of eligible expenses spent and a time subsidy, the work must meet a so-called cultural test. Cash rebates do not have a pre-determined package of money - the Fund notifies the MC SR each year of the expected amount of eligible costs in the following

⁹¹ E.g., televisions, operators of cinemas and retransmissions.

year, based on applications for rebates. The appropriate amount of money to be spent for this purpose needs to be assessed.

Chart 50: Expenditure on cash rebates (EUR million) and number of films supported



Note: The number of applications for film project registration for 2022 is as of August.

Source: BIS MF SR, MC SR

Zníženie minimálnej sumy oprávnených výdavkov	Reduction of the minimum amount of eligible expenses
Zvýšenie % oprávnených výdavkov	Increase in the percentage of eligible expenses

The Audiovisual Fund has the potential to complement existing forms of support with new innovative instruments, e.g., expanding the provision of loans. A more in-depth analysis is needed to assess the impact of cash rebates on the development of the Slovak film industry, including adjustments to the basic parameters of the system. The way KPIs are monitored in support of audiovisual culture and industry needs to be improved.

6.3. Fund for the Support of National Minority Culture

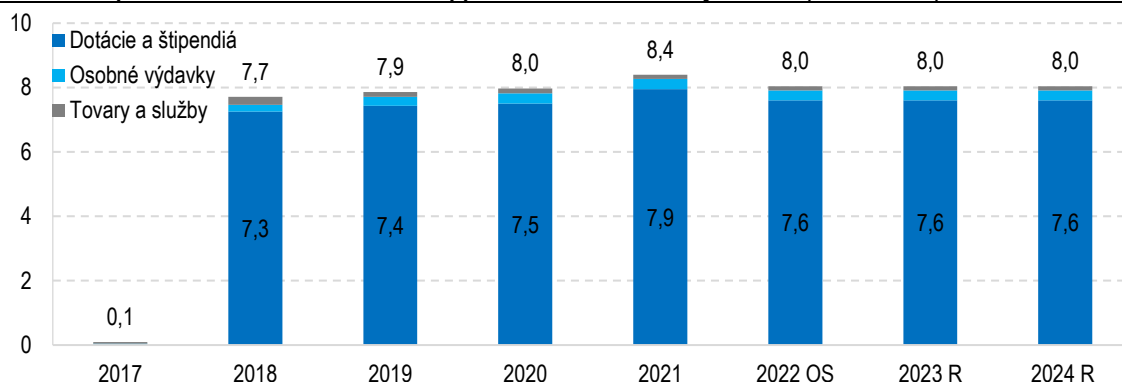
The Fund for the Support of National Minority Culture (CULT MINOR) supports the implementation of cultural activities of national minorities and ethnic groups. The objective is to preserve and develop the cultural values of minorities, to educate them about their rights and to promote intercultural dialogue. CULT MINOR's expenditure on subsidies averages EUR 7.6 million per year.		
Objective and KPIs	The Fund has a relatively general objective for which no relevant indicators are defined to monitor the impact of the support.	
The need for intervention	Without support from the Fund, it is very likely that significantly fewer supported events/activities would have taken place. Positive cultural externalities are also available to members of minorities thanks to the subsidies; in one of the sub-programmes, the Fund also focuses on intercultural dialogue.	
Form of support	The competitive subsidy redistributed through an independent fund is an appropriate form of intervention.	
Recommendation	Retain and modify. Set measurable objectives and their evaluation. Establish a transparent system for redistributing contributions among minorities in line with their representation in the population. Consider merging administrative support activities with the Art Support Fund.	

The Fund provides support for similar types of activities as the other two subsidy funds (ASF and AVF), but specifically for national minorities. The Fund has a total of 14 expert councils, 13 for each minority and one for intercultural dialogue. The Fund distributes funds through four programmes on the basis of calls for proposals, usually addressed to all minorities at the same time. The support programmes focus, for example, on supporting literary activities, music, theatre and audiovisual arts, but also education and research and ensuring understanding between the minority and majority populations in Slovakia.

The objective is to preserve, protect and develop the identity and cultural values of national minorities, to educate about minority rights and to promote intercultural dialogue. Beyond the long-term objectives, priority areas of support are set each year (e.g., in 2021, preparing for the census), while national councils can set their

own priorities. KPIs need to be set for these priorities and for the long-term objectives of the Fund to measure their achievement. For example, the number of citizens participating in supported activities or the locations where they take place could be tracked to better assess their impact, but also to consider where support should be focused in future. In promoting intercultural dialogue and understanding between majority and minorities, the degree of openness of Slovaks to other cultures could be monitored as a proxy indicator. Although they do not specifically track minority culture, as with the ASF, some of the objectives from the general government budget ledger could be examples of proxy indicators for the performance of the CULT MINOR Fund (Table 28).

Chart 51: Expenditure of the Fund for the Support of National Minority Culture (EUR million)



Note: Total expenditure on subsidies, including subsidies granted to general government and scholarships to individuals, which are not the primary focus of the review.

Source: BIS MF SR

Dotácie a štipendiá	Subsidies and scholarships
Osobné výdavky	Personnel expenses
Tovary a služby	Goods and services

The Fund receives a statutory contribution of EUR 8.3 million from the SB and can use a maximum of 6% of the contribution for its operations. Most of the Fund's expenditure consists of current transfers in the form of subsidies and scholarships. In 2021, the transfer from the state budget has been increased by an extra EUR 1.4 million. It is advisable to index this transfer over the years so that it is not necessary to amend the law repeatedly to increase its minimum amount.

On average, the Fund distributes EUR 7.6 million in subsidies. Total expenditure between 2019 and 2021 is EUR 8.1 million. The difference is made up by the Fund's operating expenditure (EUR 450 thousand on average). Subsidies, which are the primary objective of the review, account for EUR 6.3 million, the rest of the support is made up by scholarships for individuals (EUR 720 thousand) or subsidies for general government entities (EUR 650 thousand). The conditions for obtaining them are no different from the subsidies covered by the review. The funds earmarked for support activities are divided among the various national councils according to the proportions established by law - the majority of the allocation goes to the Hungarian (53% of the allocation, EUR 4.3 million in 2021) and Roma minorities (22.4% of the allocation, EUR 1.7 million in 2021).

Table 28: Average allocated support per programme (2019-2021)

Programme	Amount allocated (EUR million)	Number of beneficiaries	Amount of support (EUR)
1. Promotion of cultural, educational, scientific and research activities	3.4	877	3 910
2. Promotion of literary, publishing and editorial activities	2.1	258	8 024
3. Promotion of theatre, music, dance, visual and audiovisual arts	2.3	309	7 349
4. Promotion of intercultural dialogue and understanding	0.2	44	5 615
Total	8.0	1 487	

Note: Data on the amount of support are inclusive of subsidies provided to general government and scholarships for individuals, which are not the primary focus of the review. Source: CULT MINOR, annual reports

In the Czech Republic, the culture of national minorities is also supported through subsidies under the Ministry of Culture. Between 2019 and 2021, almost EUR 1.5 million have been granted. The largest amount of funds is earmarked to support the publication of periodicals and broadcasting in minority languages, which corresponds to part of the second CULT MINOR programme.

The subsidies are competitive, the beneficiaries are local governments, civic associations and non-profit organisations, natural and legal persons who implement cultural or other activities specified in the call. Applications are assessed by individual expert councils, but the subsidy is decided by the director on the basis of their recommendation. Between 2019 and 2021, an average of 1 487 projects were supported, with the average amount of support varying across programmes (Table 28). Co-funding rates for projects range from 5% to 10%.

However, competitiveness, especially for smaller minorities, is almost non-existent. Some programmes repeatedly support a few organisations representing the cultural activities of a given minority, in extreme cases only one organisation. Providing funding directly to minorities is the right thing to do when trying to support and preserve their cultural habits, but in the long term, support provided in a less competitive way can have a negative impact on the quality of the activities supported. A link with the Arts Support Fund could also help to increase the competitive pressure and therefore the quality of the projects supported. At the same time, however, it could happen that fewer minority projects would receive support compared to the current situation. A suitable model for supporting minority culture should be considered for the future.

The distribution of funds among minorities has no set adjustment mechanism. The law that created the Fund specifies a percentage for the distribution of the funds for support among the various minorities, but it is not clear on what basis this is based and the provision contains no mechanism for future adjustment. All 13 minorities that could be registered in the 2011 census are represented in the Fund. The ranking of minorities roughly corresponds to their representation in the overall minority population at that time, with the actual proportions being slightly reduced for the larger minorities in favour of the smaller ones. In the most recent census of 2021, it was possible to register for 28 minorities and also to register for another nationality in addition to the Slovak minority. The proportional representation of minorities has changed slightly, with minorities not yet represented in the Fund getting among the more numerous ones⁹². It is therefore necessary to set the allocation key in a transparent manner and to review it in future.

Table 29: Proportion of national minorities in censuses and allocation of resources

Minority	Proportion (2011)	Proportion (2021) *	Allocation	Average allocation 2019-21 (EUR thousand)
Hungarian	69.28 %	57.00 %	53.0 %	4 203
Roma	15.98 %	19.00 %	22.4 %	1 754
Ruthenian	5.06 %	7.93 %	6.4 %	508
Czech	4.59 %	5.70 %	3.7 %	295
Ukrainian	1.12 %	1.38 %	2.0 %	160
German	0.71 %	1.07 %	1.8 %	143
Russian	0.30 %	1.01 %	1.1 %	88
Polish	0.47 %	0.66 %	1.4 %	112
Vietnamese		0.41 %		
Italian		0.31 %		
Moravian	0.50 %	0.26 %	1.4 %	111
Croatian	0.15 %	0.25 %	1.0 %	80
Serbian	0.11 %	0.23 %	0.7 %	56
Jewish	0.10 %	0.23 %	1.1 %	88
Romanian		0.22 %		
English		0.21 %		
Bulgarian	0.16 %	0.19 %	1.0 %	78

⁹² In particular, the Vietnamese minority is actively seeking official national minority status. A proposal for its recognition is currently under comment procedure. The procedure for recognising a national minority as officially recognised in Slovakia is not formalised.

Minority	Proportion (2011)	Proportion (2021) *	Allocation	Average allocation 2019-21 (EUR thousand)
Other minority	1.48 %	3.52 %**		

Note: Minority proportions in 2021 were determined by adding those who declared themselves to be of a minority nationality with those who declared themselves to be of a minority nationality as an additional nationality. For 2021, the Other Minority category also includes Austrian, Chinese, French, Albanian, Greek, Irish, Canadian, Turkish, Korean, Silesian and Iranian minorities.

Source: SO SR, CULT MINOR

6.4. Let's renovate our house

The objective of the scheme is to support the restoration, protection and development of the cultural heritage in the field of the monuments fund. It is the only instrument by which the state compensates owners for the increased costs of restoring listed buildings. The five sub-programmes mainly support the restoration and reconstruction of national cultural monuments (NCMs). Expenditure on the scheme averages EUR 12 million per year. The beneficiaries of the competitive subsidy are the owners and administrators of monuments - private and natural persons, the church, local governments and non-profit organisations.		
Objective and KPIs	The objective is relevant, but could be better linked to the structural and technical condition of the monuments fund. The outcome indicator monitored - to support at least 500 owners per year - does not allow for a more analytical assessment of the impact of the scheme.	
The need for intervention	Intervention is necessary because the restoration of monuments is more costly compared to conventional buildings. Roughly 25 % of the monuments are in a poor to dilapidated condition. The scheme contributes to improving the condition of the monuments fund, but its benefit and impact on the overall condition of the monuments fund is unclear. The restoration of monuments is also supported abroad.	
Form of support	The appropriate form of support depends on the type of beneficiary. For local governments and the church, subsidies are a suitable instrument, for private owners, tax relief could be applied. If set up appropriately, owners could be motivated to make subsequent community-wide use of the monument.	
Recommendation	Retain and modify. Implement the measures of the Culture Spending Review relating both directly to the subsidy scheme and to the protection of the monuments fund overall. Establish a more specific target and its evaluation so that the benefits of the scheme are evident.	

The Let's renovate our house (OSSD) scheme is designed to support the preparation and implementation of the renovation of national cultural monuments. An undeclared aim of the scheme is also to build a positive public relationship with it and preserve its value for future generations. The support is divided into six sub-programmes according to the type of monument (historical buildings; castles, manor houses and historical parks; monuments at UNESCO sites), with one also dedicated to editorial activities and education in the field of monuments fund (Table 31). Specific priorities for support, such as roof restoration or moisture remediation, are usually set out in the annual calls for proposals of each sub-programme. It would be appropriate to evaluate the number of projects supported according to these priorities. The KPI monitored - to support at least 500 owners per year - is being met beyond the plan. In order to assess the benefits of the support scheme, it would be more appropriate to monitor, for example, the overall development of the state of the monuments fund and the proportion of preserved monuments, the proportion of monuments made accessible to the public after restoration, the number of ongoing and comprehensive repairs, including the share of funding.

The preserved cultural heritage creates conditions for the development of tourism, and the restoration of monuments has the potential to help less developed regions in particular. The promotion of monuments in

the least developed regions is a priority in all relevant sub-programmes. In the most recent sub-programme focusing on the restoration of monuments, the restoration of medieval wall paintings in churches in the Gemer and Malohont regions is a priority for 2023.

According to the records of the Monuments Authority of the SR, approximately 25% (almost 4400) of the monuments⁹³ are in a disturbed and dilapidated structural and technical condition (Monuments Authority of the SR, 2021). However, it is highly probable that this is an overly optimistic figure. The Monuments Authority does not have a database in which all changes in the structural and technical condition are regularly updated. The structural and technical condition recorded in the database reflects the condition of the monument at the time of the declaration of the building as a cultural monument or after the reported restoration of the monument and does not necessarily reflect the current state. The introduction of systematic monitoring of the condition of monuments is one of the measures recommended in the Culture Spending Review.

The restoration of monuments is more costly compared to conventional buildings. Non-claimable subsidy is the only form of compensation for the additional costs of owners, but the state subsidises most of the restoration through the scheme. The obligations of owners of monuments are regulated by the Act on the Protection of the Monuments Fund. Restoration is more costly due to the need to use special techniques and materials. The minimum required co-financing rate for restoration is 5 %. However, in reality it tends to be higher, at 14.8% in 2018. The extent to which conservation requirements make restorations more expensive should be considered, while also taking into account the financial capacity of owners. Most of the freely accessible monuments have the character of public goods and are subject to the phenomenon of freeriding - anyone can see the monument for free. In this way, the owner of the monument is not able to earn an income approaching the level of its social value. At the same time, however, even monuments that are open to the public for a fee may not be able to cover the costs of restoration with this income.

The total investment debt on the Monuments Fund was estimated at EUR 5.4 billion as of 2018. The private sector has the largest share (EUR 2.2 billion). This is followed by local government (EUR 1.3 billion), the church (EUR 1.1 billion) and the state (EUR 0.8 billion) (MF SR, MC SR, 2020). In the last three years, almost 70% of the approved subsidies were for churches and local governments (Table 30). According to the amount requested, the interest of the private sector has been higher than that of churches in this period, and there is no simple explanation for the lower share of subsidies received⁹⁴. Thus, the introduction of a different form of support for private owners could help to reduce their debt related to monuments. The Culture Spending Review has suggested the introduction of tax relief as one option, which would encourage owners to invest more private capital in monuments and would also represent a fair form of compensation for increased costs.

Table 30: Beneficiaries by average allocation (2020-2022), amount requested and status of monuments

Type of beneficiary	Amount allocated (EUR million)	Proportion of the amount allocated (%)	Amount requested (EUR million)	Proportion of the amount requested (%)	Proportion of monuments in disturbed and dilapidated condition (2018)	Number of monuments (2021)
Church	4.9	38 %	18.0	26 %	22 %	4 507
Local government	3.9	31 %	25.9	37 %	27 %	4 800
Legal persons*	2.3	18 %	18.5	26 %	27 %	1 734
Natural persons	1.6	13 %	7.7	11 %	26 %	4 768
Total	12.7		70.1			

Note: Legal entities, including civic associations, non-profit organisations and universities.

Source: MC SR

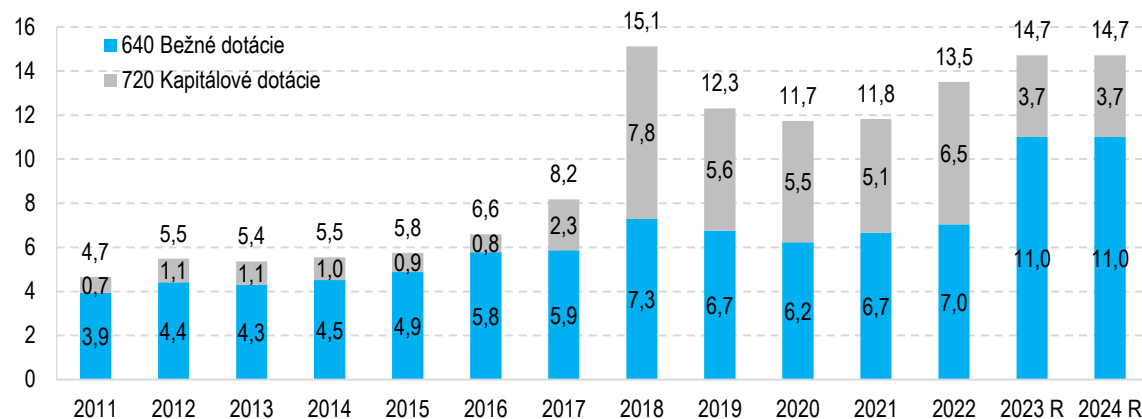
Expenditure on the subsidies provided amounted to around EUR 12.7 million between 2018 and 2021. Subsidies, which are the primary target of the review, accounted for EUR 5.2 million, with the remainder of the

⁹³ Not every monument is necessarily a building, they can also be statues or tombstones.

⁹⁴ This may be due to the lower quality of the applications or the lower rate of fulfilment of other evaluation criteria. Application scores are not publicly available.

support coming from subsidies to general government entities (EUR 1.5 million) and subsidies provided in the form of capital transfers (EUR 6 million). The conditions for obtaining them are no different from those covered by the review. In the previous period (2011 to 2017), the total expenditure was around EUR 5.9 million. In 2018, the volume of subsidies granted almost doubled compared to the previous year.

Chart 52: Expenditure of the subsidy scheme – Let's renovate our house (EUR million)



Note: Total expenditure on subsidies, including subsidies granted to general government and subsidies granted in the form of capital transfers, which are not the primary focus of the review. Source: BIS MF SR

Bežné dotácie	Current subsidies
Kapitálové dotácie	Capital subsidies

Expenditure on the subsidies provided amounted to around EUR 12.7 million between 2018 and 2021. Subsidies, which are the primary target of the review, accounted for EUR 5.2 million, with the remainder of the support coming from subsidies to general government entities (EUR 1.5 million) and subsidies provided in the form of capital transfers (EUR 6 million). The conditions for obtaining them are no different from those covered by the review. In the previous period (2011 to 2017), the total expenditure was around EUR 5.9 million. In 2018, the volume of subsidies granted almost doubled compared to the previous year.

Compared to the Czech Republic, the amount of support for the restoration of monuments in the form of subsidies is comparable due to the size of the monuments fund. Between 2019 and 2021, EUR 28 million were used for this purpose, while the Czech Republic has roughly 40 thousand monuments. It differs in the structure of the support programmes, for example, one is specifically for monuments in disrepair.

Table 31: Average support per sub-programme (2020-2022)

Sub-programme	Amount paid (EUR million)	Number of beneficiaries	Amount of support (EUR)	Success rate of applicants (%)
1.1 Renovation of cultural monuments	5.0	321	15 735	53 %
1.2 Renovation of cultural monuments at World Cultural Heritage sites	1.7	115	15 045	69 %
1.3 Cultural policy and editorial activities in the field of conservation of the monuments fund	0.3	38	7 486	73 %
1.4 Renovation of historical parks and architectural areas in critical structural and technical condition	0.8	40	21 434	75 %
1.5 Comprehensive reconstruction of national cultural monuments with priority for protection and restoration	4.8	9	527 888	19 %
1.6 Restoration of national cultural monuments*				
Total	12.7	523		

Note: The data on the amount of support are inclusive of subsidies granted to general government and subsidies granted in the form of capital transfers, which are not the primary focus of the review. Source: MC SR

Sub-programme 1.6 was established in 2023.

The subsidies are competitive, the beneficiaries are the owners or administrators of national cultural monuments (NCMs). In practice, these are private owners, but also churches and local governments, or non-profit

organisations. Applications for subsidies are assessed by the relevant committees on the basis of a call for proposals against predetermined criteria. There are more than 500 beneficiaries per year and the average amount of subsidy received in the first four sub-programmes is EUR 15 000. In the Comprehensive Reconstruction of NCM sub-programme, the average amount exceeds EUR 500 000.

The “Let's renovate our house (OSSD)” subsidy scheme can be made more effective by implementing the measures of the Culture Spending Review. In order to improve the conditions for the conservation of monuments, the review proposes measures that should lead to a reduction in the cost of renovating monuments and stimulate support for quality renovation projects:

- analyse the most appropriate instrument to support the conservation of monuments by private owners (e.g., introduction of a tax advantage for private owners, financed by a reduction in the financial allocation of the OSSD subsidy programme),
- increase the co-financing rate in the OSSD subsidy programme and introduce multi-year support, which would lead to support for higher quality projects,
- finance the renovation of state monuments from EU funds - this measure has already been fulfilled, EUR 234 million have been allocated for this purpose ([MC SR, 2022](#)),
- the categorisation of monuments according to their significance would make it possible to prioritise funding for the renovation of state-owned monuments, while it would also be possible to prioritise subsidies provided through the OSSD scheme.

Meeting all the measures of the Culture Spending Review would allow privately owned monuments to be excluded from the OSSD subsidy scheme, which would increase the financial allocation available to other eligible applicants. The introduction of a higher level of co-financing would also allow for the support of genuinely high-quality projects by motivated owners. Once EU funding is allocated, it will also be possible to restore state-owned monuments beyond the scope of the OSSD scheme.

Box 13: Financing the renovation of state-owned monuments

The state owns a small part of the monuments (less than 10% of the structures), but often these are the most important monuments. Roughly 30 % of them are in a disturbed to dilapidated condition, and state monuments are not part of the OSSD subsidy scheme. In the new programming period, EUR 234 million of EU funds have been earmarked for the restoration of state-owned monuments. According to the not yet approved proposal, EUR 220 million should be allocated for the restoration of 24 monuments, mostly administered by the Ministry of Culture. Under the recovery plan, EUR 240 million has been earmarked for the restoration of historical and listed buildings. The aim is to improve the energy efficiency of the buildings while preserving the monumental value of the buildings. Eligible applicants are managers of state property, local governments and organisations established by them, and public institutions. Compared to the OSSD scheme, the support is intended not only for NCMs, but also for buildings with monumental value, listed in the Lists of Monuments of Towns and Municipalities, in the Register of Modern Architecture and buildings registered in the Land Registry before 1980. In the past, restoration projects have also been financed by Norwegian funds. Grants from private foundations are another option for support, but are less significant in terms of the amount of support available.

6.5. Promoting attendance at cultural events (Cultural vouchers)

Cultural vouchers are intended for primary and secondary school pupils and their teachers to pay for admission to cultural institutions for which it is a competitive subsidy. The objective of the scheme is to improve children and young people's relationship with culture. It is one of the few schemes that directly supports the demand for culture. It is an administratively demanding scheme which would be improved by the measures of the Culture Spending Review. Annual expenditure on the scheme is at the level of EUR 2 million.

Objective and KPIs	The scheme has a relatively general objective. One output KPI is monitored - the number of vouchers used (amount paid) - which does not allow a sufficient assessment of the extent to which vouchers contribute to improving children's relationship with culture. Indicators tracking the types of activities for which the vouchers are used, broken down by age of children and region, would make it easier to assess the impact of the scheme.	
The need for intervention	The scheme brings positive cultural externalities to children and young people and has the potential to contribute to them becoming regular visitors to cultural institutions in the future. The impact of the scheme on young people's relationship with culture cannot be evaluated, also due to the unavailability of data on voucher usage.	
Form of support	Paper vouchers are administratively demanding. There are e.g., electronic vouchers abroad. The unit amount of vouchers (EUR 3) is currently not sufficiently motivating to meet the goal of improving children's relationship to culture.	
Recommendation	Retain and modify. Implement the measures of the Culture Spending Review aimed at reducing the operating costs of the scheme, enabling its effectiveness to be evaluated and removing the requirement for schools to re-register.	

Cultural vouchers are a form of financial relief for primary and secondary school pupils from the admission fees to selected cultural institutions. The objective of the scheme is to improve children and young people's relationship with cultural values. The potential benefit of regular visits to cultural institutions is that children will later become paying visitors to cultural events, which would contribute both to an overall increase in passive cultural participation and to an increase in the institutions' income. A scheme directly encouraging demand for culture from a young age may at least partially address the problem of lack of information in the consumption of cultural activities (Box 12). Children can use the vouchers either on their own or as part of an organised school activity. Visiting new cultural activities with the school and some guidance can help children discover new activities. When using on their own, there is a risk that they will only repeat activities they already know. One output KPI is monitored: the number of cultural vouchers used (in fact, the total amount paid). The indicator does not allow to evaluate the impact of the scheme in a relevant way. It would be more meaningful to track what types of activities children use the vouchers for, broken down by age and region, whether their relationship with culture is actually improving and whether they seek out culture later on as paying customers.

Expenditure on cultural vouchers averaged EUR 2 million per year between 2018 and 2020. Vouchers are provided for primary and secondary school pupils and their teachers for a total of EUR 3 (previously EUR 6, later EUR 4). The unit value of the vouchers is not sufficiently motivating to achieve the objective of improving children's relationship with culture. In 2019, vouchers worth a total of EUR 2.8 million were issued and EUR 2.3 million were used. **For cultural institutions as voucher beneficiaries, the subsidy is competitive,** for schools it is a claimable subsidy. In addition to the established organisations of the Ministry of Culture, 311 beneficiaries received vouchers in 2019. The amounts paid ranged from 13 to 160 thousand euros with a median subsidy of 2 250 euros.

This is an administratively demanding scheme, particularly with regard to the amount of funds to be reallocated. When vouchers worth 2.3 million are distributed, the costs of printing, distribution and the necessary information systems account for approximately 7 % of the amount ([MF SR, MC SR](#), 2020, p. 105). Another cost is the personnel expenses of the staff involved in the work with vouchers. Schools have to register electronically each year to receive vouchers, paper vouchers are then distributed by the Ministry, and vouchers can be used once they are activated by the school. Cultural institutions must also register and meet the criteria to be eligible for voucher reimbursement.

Spending review measures aimed at reducing the operating costs of the scheme, enabling an assessment of its effectiveness and removing the obligation to re-register schools have not yet been implemented. In

order to implement the measures, a new information system with improved functionalities needs to be procured to allow for the computerisation of the system, the abolition of the annual registration of schools and the evaluation of the effectiveness of the programme. The possibility of linking the scheme with the so-called education vouchers under the responsibility of the Ministry of Education and procuring a common information system is also offered, while a more in-depth analysis is needed to explore the possibilities of linking the two schemes. Following the possible introduction of the allowance to finance leisure activities for children, which was originally also intended to support cultural activities, this instrument would need to be adapted so that it could actually be used for activities supported by vouchers.

Box 14: Cultural vouchers abroad

France uses a mixed system of individual vouchers of EUR 20 to 30 for children aged 15 to 17 and a collective part of vouchers of a similar amount to be used within a school group with a teacher. From May 2021, 18-year-olds are entitled to a voucher of EUR 300 to be used via an app for two years to buy books, tickets and music lessons, for example. Activity offers are available directly on the app, some of them such as films or podcasts are free of charge.⁹⁵

Spain launched a similar scheme in 2022 for 18-year-olds, who are entitled to EUR 400 with pre-set limits on use for attending performances (EUR 200), purchasing e.g. books and other products in physical form (EUR 100) and for digital products and subscriptions (EUR 100).⁹⁶

6.6. Support for the activities of the Slovak Matica (Matica slovenská)

The objective of the Matica is to systematically develop the spiritual, national, cultural and social life of all members of the Slovak nation, as well as other fellow citizens living in the territory of the Slovak Republic. The subsidy for the Matica constitutes the majority of its income and serves for the fulfilment of the tasks which are imposed on it by law. A more analytical evaluation of the fulfilment of these tasks has been absent until recently. The tasks entrusted to the Matica could be carried out by other, already existing organisations. The transfer to the Matica amounts to EUR 1.6 million per year.		
Objective and KPIs	The Slovak Matica has a very broadly defined goal. In the transfer agreement for 2023, for the first time, key performance indicators of the outcomes of the supported activity were set.	
The need for intervention	Without the subsidy, the Matica would probably not function. The share of its own income in its budget is declining and the market would not be able to provide the services performed by the Matica to the same extent. The state legally imposes certain tasks on the Matica, for the fulfilment of which it provides funding. However, some of the tasks could be carried out by other organisations.	
Form of support	The state imposes certain tasks on the Matica by law, for the fulfilment of which it provides funding through a transfer from the budget of the Ministry of Culture. However, the Matica could try to apply for competitive subsidies, e.g., from the ASF, which would contribute to improving the quality of its outputs.	
Recommendation	Suspend. Make continuation of funding conditional on an analysis. Examine which tasks entrusted to the Matica by law could be carried out by other institutions, or for which tasks the Matica could try to apply for competitive subsidies, e.g. from the ASF, which would contribute to increasing the quality of its outputs.	

The Matica is a beneficiary of a subsidy (from the state budget) in the form of a transfer provided through the chapter of the Ministry of Culture. The subsidy has long constituted the majority of the Matica’s income,

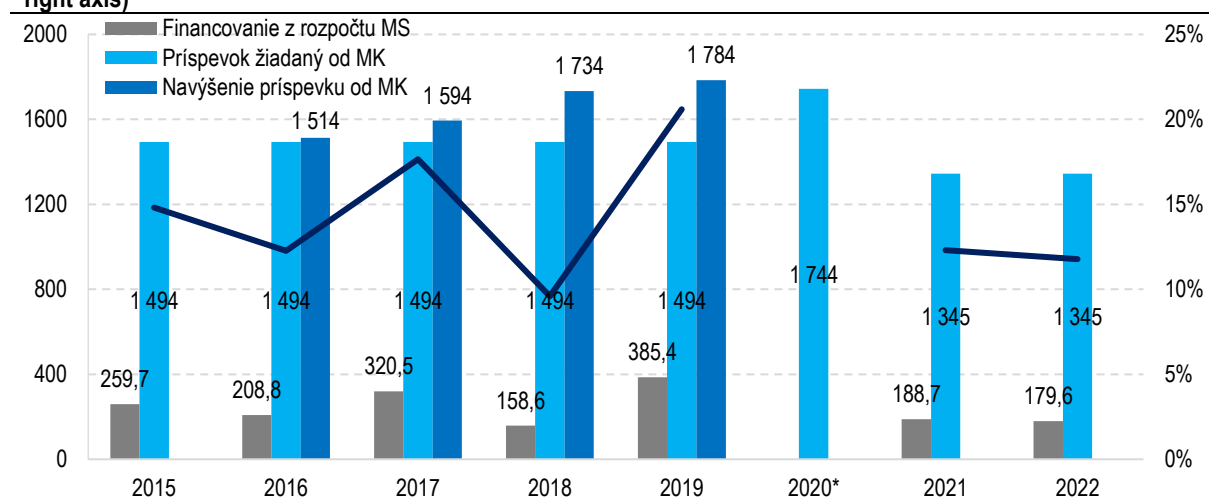
⁹⁵ Available online: <https://pass.culture.fr/>
⁹⁶ Available online: <https://bonoculturajoven.gob.es/>

while its ability to generate its own income has been decreasing in recent years. Between 2019 and 2021, own income accounted for roughly 11% of the Matica's total income. Co-financing from the Matica's sources was at 12% in 2021. More than half of the transfer (53%) covered labour costs. The contribution serves to ensure the tasks that the Matica is required by law to perform. The Matica itself distributes part of the income in the form of subsidies to local Matica branches.

The transfer is intended to finance projects that represent the regular annual activities of the Matica, such as the implementation of cultural activities, the publication of literature or the activities of the archive. The transfer has been increased in the years 2016 to 2019 by amendments. According to the original budgets of the transfer, the Matica participates in the co-financing of the projects with approximately 14%.

In addition to the tasks imposed by law,⁹⁷ the Matica also sets goals and objectives in its own strategic documents. However, the evaluation of their fulfilment takes place only formally - as a bill of events organised or publications issued. For the first time, in the contract on the provision of funds⁹⁸ for 2022, output indicators with target values were also set for the supported projects, e.g., an increase in sales of periodicals and book publications published by the Matica or the number of catalogued books in the archive.

Chart 53: Transfers from the SB (EUR thousand, left axis) and co-financing of projects by the Slovak Matica (in %, right axis)



No data is available for 2020 on co-financing of projects.

Source: Slovak Matica

Financovanie z rozpočtu MS	Funding from the Slovak Matica's budget
Príspevok žiadaný od MK	Contribution requested from the MC
Navyšenie príspevku od MK	Increase in contribution from the MC

In the past, the Matica has been successful in obtaining smaller subsidies from the Art Support Fund, mainly for the publication of magazines. The success rate of applications up to 2021 was roughly 35%; in recent years, projects have not been supported due to insufficient artistic and professional standards or an unbalanced concept, and the number of applications has declined. Applying for subsidies from the Fund has the potential to contribute to increasing the quality of the Slovak Matica's outputs, as obtaining them is conditional on competition with other entities and the need to meet the required criteria. A more in-depth analysis is needed to identify tasks that could be performed by other, already existing organisations (e.g., the archive could be provided by the Slovak National Archives, science and research could be covered by the Slovak Academy of Sciences) and also to assess for which activities the Matica should try to apply for subsidies from the Art Support Fund.

⁹⁷ To strengthen Slovak patriotism; to deepen the relationship of citizens to Slovak statehood; to do basic Slovak studies; to participate in the development of local and regional culture; to influence especially the youth in the spirit of national, moral and democratic values; etc.

⁹⁸ Available online: <https://crz.gov.sk/data/att/3772819.pdf>

6.7. Culture of disadvantaged population groups

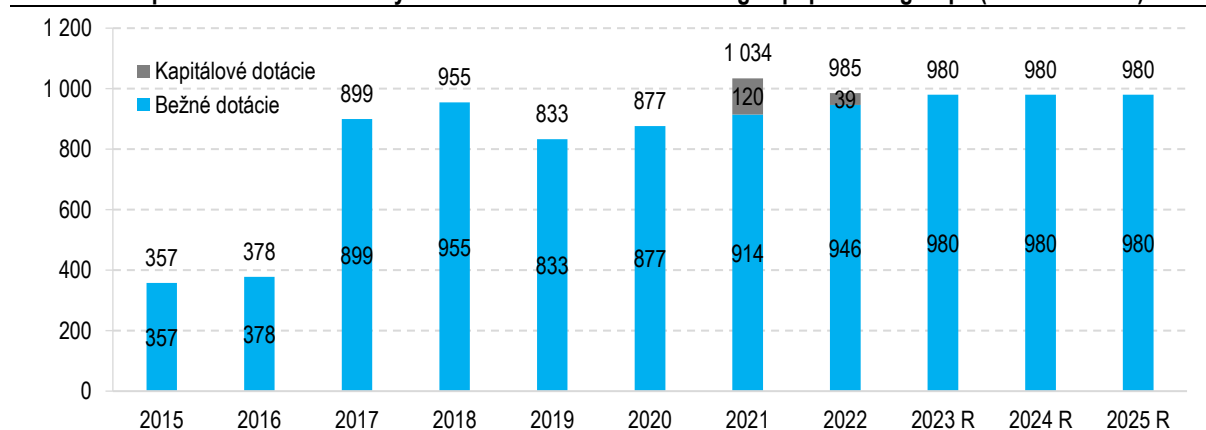
The main objective of the subsidy scheme is to facilitate access to culture for people with disabilities or otherwise disadvantaged groups. ⁹⁹ The spending on the scheme averages EUR 0.9 million per year.		
Objective and KPIs	The scheme has a fairly broadly defined objective, which further broadens the wide range of focus of the supported projects. The outcome indicator - the number of projects supported - does not allow an assessment of the benefits of the scheme.	
The need for intervention	Supporting disadvantaged populations brings equality of opportunity in access to culture as well as in promoting the active cultural participation of the target group.	
Form of support	A competitive subsidy is an appropriate form of intervention. The total amount of support available is too low for the benefits of the scheme to be substantial.	
Recommendation	Retain and modify. Set measurable objectives and their evaluation so that the benefit of the scheme is evident.	

The subsidy scheme supports the removal of physical, mental and informational barriers to participation in culture for disabled and disadvantaged people. Publication activities aimed at promoting the accessibility of culture for these population groups are also supported. Support is provided through six sub-programmes¹⁰⁰ focusing on different types of activities, including removal of physical and informational barriers aimed at improving the accessibility of cultural infrastructure and heritage sites for people with disabilities. The scheme's KPI tracks the number of projects supported, which does not allow for a more analytical assessment of the benefits of the support.

The scheme has too broadly defined a focus of supported projects, which makes it difficult to evaluate real benefits and to set more appropriate key performance indicators. Within the framework of making culture accessible to disabled and otherwise disadvantaged populations, the programme also focuses on projects involving the promotion of equal opportunities, integration into society, prevention and elimination of all forms of violence, discrimination, racism, xenophobia and extremism and other socially beneficial activities.

Expenditure on the subsidies provided averaged EUR 0.9 million per year between 2019 and 2021. Subsidies, which are the primary target of the review, accounted for EUR 0.7 million, with the remainder of the support being subsidies to general government entities (EUR 150 thousand) and subsidies provided in the form of capital transfers (EUR 120 thousand for the first time in 2021). The conditions for obtaining them are no different from the subsidies covered by the review.

Chart 54: Expenditure of the subsidy scheme - Culture of disadvantaged population groups (EUR thousand)



Source: BIS MF SR

Kapitálové dotácie	Capital subsidies
Bežné dotácie	Current subsidies

⁹⁹ These are e.g., marginalised Roma community, migrants, children from disadvantaged backgrounds, etc.

¹⁰⁰ Until the inclusion of removal of physical and informational barriers in 2020, there were four sub-programmes.

Subsidies are competitive, the beneficiaries are natural and legal persons, local government and its established organisations, civil associations and non-profit organisations. Applications for subsidies based on calls are assessed by the relevant committees against predetermined criteria. There are approximately 200 beneficiaries per year, and the average amount of subsidy received in the first four sub-programmes is EUR 4 500. The co-financing rate is at least 5 %. In the sub-programme Removal of Physical and Informational Barriers in Culture in 2021, the average amount was EUR 14 thousand, with a minimum co-financing rate of 20 %.

Table 32: Average support per sub-programme (2019-2021)

Sub-programme	Amount allocated (EUR thousand)	Number of beneficiaries	Amount of support (EUR)	Success rate of applicants
2.1 Living culture and making it accessible	583	115	5 035	61 %
2.2 Publishing and publication activities	47	13	3 590	45 %
2.3 Periodicals (newspapers and magazines)	38	8	5 000	61 %
2.4 Non-formal education and research	214	47	4 515	48 %
2.5 Removal of physical and informational barriers in culture*	128	9	14 195	30 %
Total	1 009	192		

Note: The figures on the amount of support are inclusive of subsidies granted to general government and subsidies granted in the form of capital transfers, which are not the primary focus of the review. Source: MC SR

Data on the sub-programme 2.5 Removal of Physical and Informational Barriers in Culture is for 2021.

6.8. Reduced VAT on print media

In 2020, a reduced VAT rate (10%) came into force for newspapers, magazines and periodicals published at least four times a week. The aim was to reduce the final price of these goods, improve the availability of information and improve the position of traditional media vis-à-vis digital media. No key performance indicators were set. The demand for traditional print media has been declining for a long time and the reduced VAT does not increase their competitiveness. Reduced VAT alone does not appear to be an appropriate instrument to achieve the stated objective of increasing the availability of quality information to citizens. The trend in EU countries is towards equalisation of physical and digital media of publications and towards the promotion of a learning economy. The reduced rate reduces the state budget's VAT revenue by EUR 3.3 million.

In 2020, a reduced VAT rate (10%) came into force for newspapers, magazines and periodicals published at least four times a week¹⁰¹. The reduced rate reduces the state budget's VAT revenue by EUR 3.3 million. The six largest media companies¹⁰², which make up the majority of the press market in Slovakia, benefit in particular from the tax expenditure.

The amendment on reduced VAT rate set a number of objectives but no key performance indicators (KPIs). According to the Explanatory Memorandum, it was expected to reduce the final price of these goods, improve the position of traditional media vis-à-vis digital media and improve the fulfilment of the informational, cultural-integrative and socio-educational functions of the media.

The reduced VAT rate did not result in a drop in print media prices (Chart 55). According to the consumer basket, which is used by the Statistical Office of the Slovak Republic to measure the development of consumer prices, the decline in VAT was not reflected in the prices of selected daily newspapers¹⁰³. A comparison with weekly newspapers in the consumer basket, which are not subject to the reduced rate, indicates regular decisions to increase prices over time, approximately once a year, regardless of the change in VAT. The finding is in line with

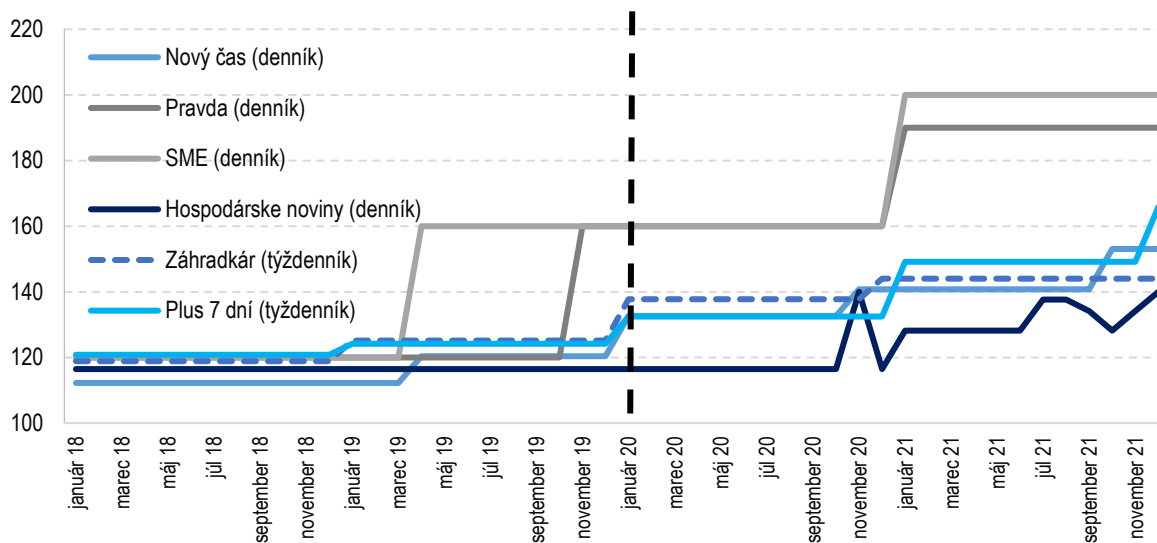
¹⁰¹ With the exception of print media in which advertising material or advertising exceeds more than 50% of the content or erotic content exceeds 10%.

¹⁰² A look at the performance of the big 6 publishers shows no clear trend.

¹⁰³ The consumer basket tracks price indexes and the weight of specific printed items, which serves as a suitable sample to compare the effect of the reduced rate.

economic research on the impact of reduced VAT on prices of goods and services where there is no clear direct relationship between the VAT reduction and the price reduction.

Chart 55: Price indices for selected printed titles - daily newspapers (10% VAT) and weekly newspapers (20% VAT)



Source: SO SR

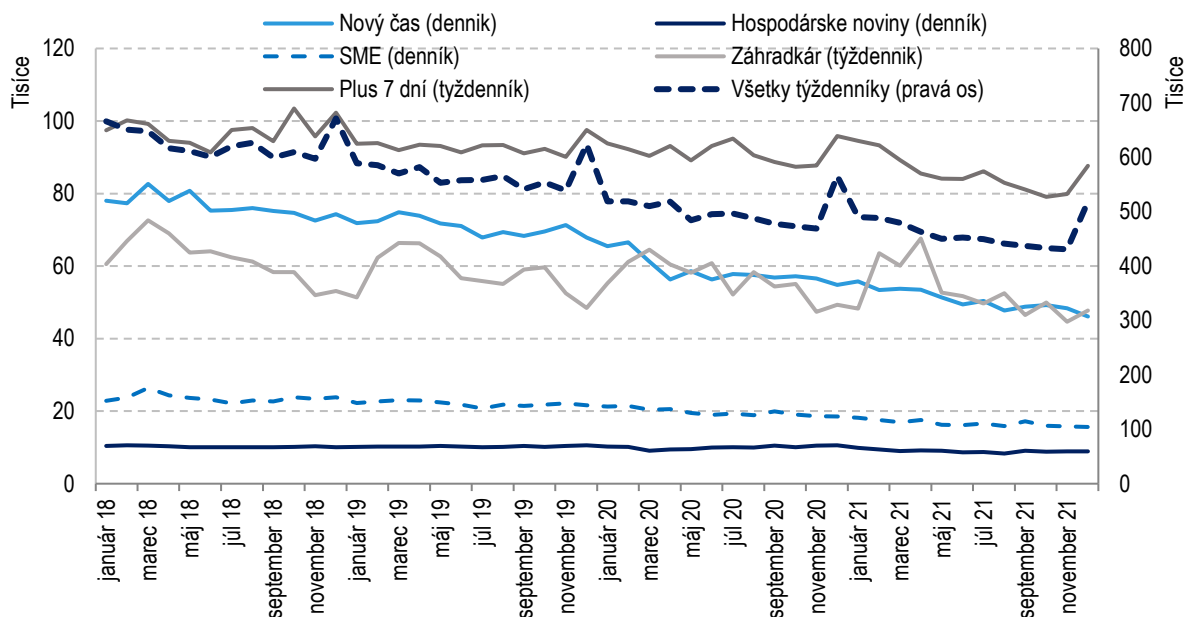
Denník	Daily newspaper
Týždenník	Weekly newspaper
Január	January
Marec	March
Máj	May
Júl	July
September	September
November	November

Reduced VAT will not reverse the shift of consumers away from print titles to online content. Sales of traditional print media - both daily and weekly newspapers - have been declining for a long time, and publishers are increasingly focusing their attention on online readers ([Hrnčárová, 2019](#)). This trend is related to the rise of the internet, social networks and their faster availability on mobile devices. In EU countries, the trend is towards equalising physical and digital media of publications and to promote a learning economy¹⁰⁴. Beyond print media, there is a tendency in the EU to have reduced VAT on e-books, which 20 countries are taking advantage of ([Maliková and Gajdoš, 2021](#))¹⁰⁵.

¹⁰⁴ Council Directive (EU) 2018/1713.

¹⁰⁵ Reduced VAT on books and newspapers, whether in physical or electronic form, is standard in the EU. ZVKS: Book Market Report 2020.

Chart 56: Long-term decline in print titles - daily newspapers (VAT 10%) and weekly newspapers (VAT 20%)

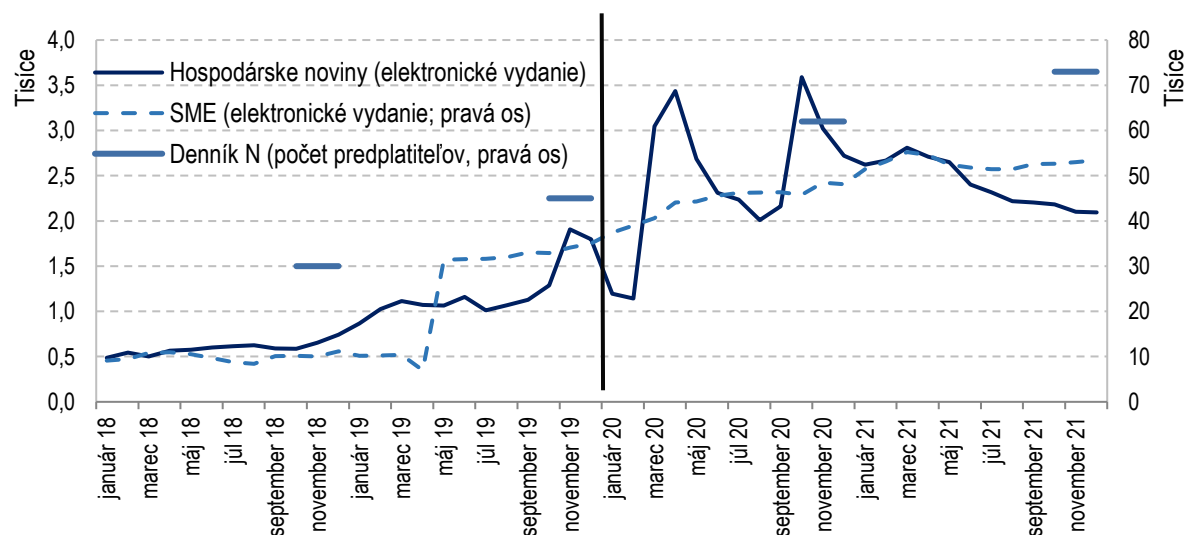


Note: The selection of titles corresponds to the titles of the consumer basket. Data for the daily Pravda is not available until mid-2020, so it is not included.

Source: abcsr.sk

Tisíce	Thousand
Denník	Daily newspaper
Týždenník	Weekly newspaper
Všetky týždenníky (pravá os)	All weekly newspapers (right axis)
Január	January
Marec	March
Máj	May
Júl	July
September	September
November	November

Chart 57: Development of sales of electronic titles, number of subscribers



Source: abcsr.sk; dennikN

Tisíce	Thousand
Elektronické vydanie	Electronic version
Pravá os	Right axis
Počet predplatiteľov	Number of subscribers
Denník	Daily newspaper
Týždenník	Weekly newspaper
Január	January
Marec	March

Máj	May
Júl	July
September	September
November	November

Reduced VAT is not an appropriate instrument to increase the availability of quality information to citizens and the state should look for other channels to share objective information. More and more content - on average 3 hours per day - is consumed by Slovak citizens online on social networks (omediach.com; 2021). The rules on access and the quality of content displayed on social networks are generally set by multinational companies through their standards. Social networks also bring with them negative externalities in the form of unverified information and hoaxes, which the tax system is unable to address. Priorities in the provision of quality information or the fight against hoaxes should be addressed through other direct instruments - from developing critical thinking from an early age, through providing educational material, including in the form of daily newspapers, directly in schools, to the production of educational programmes via public television and radio.

7. Subsidies for research and development

- Research and development subsidies from the state budget amount to an average of EUR 86 million per year. Subsidies account for EUR 42.6 million, tax expenditures EUR 43.1 million. Subsidies for the support of research and development are predominantly redistributed to researchers in the public sector (86% of expenditure), private sector support is low compared to the EU.
- Slovakia spends significantly less on research and development (R&D) than most EU countries and the least of all V4 countries. At the same time, it performs poorly in comparison to other countries. Making the support system more efficient is not enough to improve; the reforms proposed in the Recovery and Resilience Plan as well as the reform of governance and management of institutions are important.
- Economic theory emphasises state support for basic research in particular. Expenditure in basic research carries the highest risks for the investor, but positive spillover effects for the whole economy, on which further research can later build. Basic research in Slovakia is supported, for example, through the General Call for Research and Development Support (approximately EUR 26 million per year, 65% of the subsidy) or the research and development incentives.
- Funding is distributed by several actors and there is a lack of coordination between them. Information on support opportunities is not available in one place.
- Schemes often lack measurable objectives. An exception is the Slovak Research and Development Agency, which has a good set-up for selecting projects and evaluating their impact. Schemes need to be subjected to a high quality and independent evaluation of outcomes to achieve best value for money.
- Tax relief in the form of the super-deduction and patent box is ineffective as it is mainly directed at large companies that would carry out research even without state support. The super-deduction brings the most value to the state in supporting small and medium-sized enterprises. The patent box is practically not used in practice.

Table 33: Subsidy schemes in research and development, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
Subsidy	7.1	General call (SRDA)	35.7
Subsidy	7.2	Incentives for research and development (MESRS)	5.2
Subsidy	7.3	Other subsidies of the MESRS SR	0.8
Subsidy	7.4	Research and development to support national defence	0.9
Tax expenditure	7.5	Tax relief (R&D cost super-deduction)	41.9
Tax expenditure	7.6	Patent box	1.2
Total			85.7

Source: VIMU and IFP based on the data of the MF SR

Public spending on research and development

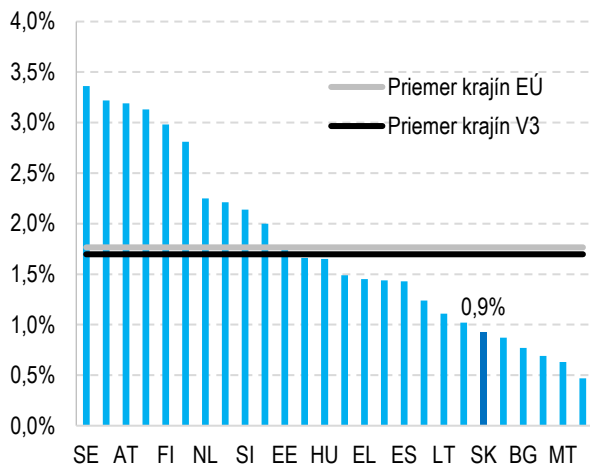
Slovakia spends significantly less on research and development (R&D) than most EU countries and the least of all V4 countries. In 2021, Slovakia spent EUR 918 million (0.9% of GDP) on R&D from private and public sources, which is significantly lower than the average of EU countries (1.8%) and other V4 countries (1.7%). Slovak research and development have been underfunded for a long time. **Support for research and development is one of the main drivers of high and sustainable economic growth.** Countries with a high level of R&D spending also have on average a higher economic performance and therefore a higher standard of living (Chart 59).

Subsidies from the state budget, paid through competitive subsidies, amount to an average of EUR 42.6 million per year (2019-2021). The largest part of the funds is provided by the Slovak Research and Development Agency in the form of a general call (EUR 35.7 million), the Ministry of Education, Science, Research and Sport (EUR 6 million) and the Ministry of Defence (EUR 0.9 million). Further R&D support is provided by the grant agencies VEGA and KEGA (total EUR 21.2 million per year), but these are intended for universities, the SAS or

scientific researchers from the education sector. Structural Funds - one of the main sources of competitive funding for research and development - amount on average to EUR 55 million per year¹⁰⁶.

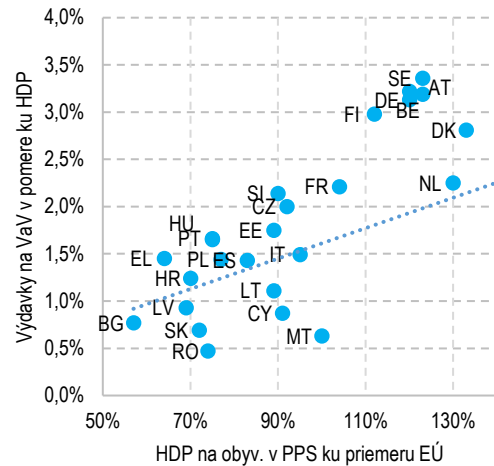
Tax expenditure averages EUR 43.1 million per year. R&D support in the form of tax relief (super-deduction) amounts to an average of EUR 41.9 million per year, with a further EUR 1.2 million in tax relief on income from patents (Patent Box).

Chart 58: R&D expenditure as a share of GDP, 2021



Source: Eurostat

Chart 59: Comparison of R&D expenditure with the economic performance of EU countries, 2021

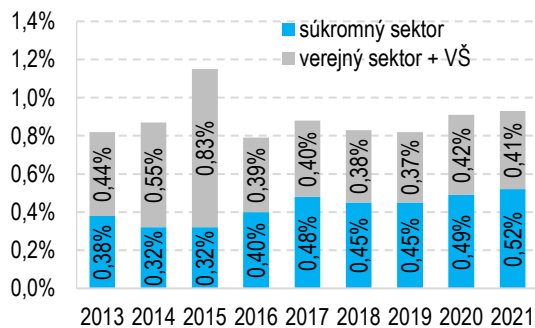


Source: Eurostat

Priemer krajín EÚ	Average of EU countries
Priemer krajín V3	Average of V3 countries
Výdavky na VaV v pomere ku HDP	R&D expenditure as a share of GDP
HDP na obyv. v PPS ku priemeru EÚ	GDP per capita in PPS to EU average

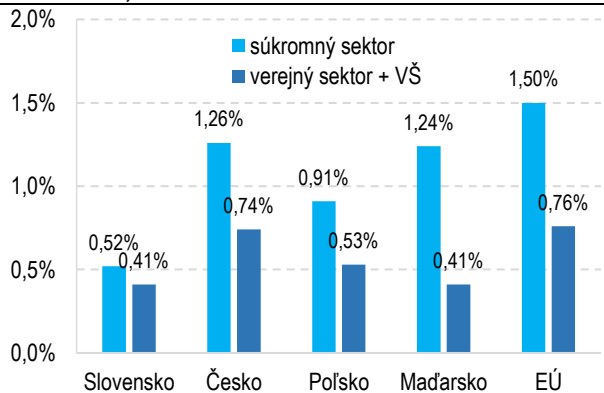
Research and development expenditure in Slovakia still has a high share of public resources. Slovakia has the lowest share of private sector R&D spending relative to total spending in the V4 (private sector accounts for 53% of R&D spending, compared to an EU average of 66% in 2020). However, the private sector has been increasing its share since 2013, which is a positive trend. Slovakia invests 0.4% of GDP in R&D from public sources, against the EU recommended benchmark of 1% from public sources and a further 2% of GDP from private sources. Public grant support has an incentive effect to increase private spending (Box 15).

Chart 60: R&D expenditure as a share of GDP by sector, Slovakia



Source: Eurostat

Chart 61: R&D expenditure as a share of GDP by V4 and EU sectors, 2021



Source: Eurostat

Súkromný sektor	Private sector
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¹⁰⁶ Subsidy schemes intended for the public sector only are not under review. Only subsidies provided from the state budget are assessed.

Verejný sektor + VŠ	Public sector + universities
Slovensko	Slovakia
Česko	Czech Republic
Polsko	Poland
Maďarsko	Hungary
EU	EU

Box 15: Subsidies in research and development - theoretical background

Research and development are key drivers of productivity and economic growth, as well as enhancing citizens' well-being. Firms and economies achieve higher returns through innovation, while creating new and better jobs. Investment in research and innovation is also key to tackling important societal challenges - contributing to improving health outcomes or tackling climate change, for example.

Research and development are areas where the risk of failure is high. In medical research, for example, up to 80% of the molecules studied are ineffective. Even with success, the resulting product may not be commercially viable. Investments in science and research therefore carry higher risks than other investments. At the same time, even in the case of success, it may take a long time before the resulting product is economically viable.

Economic theory emphasises state support for basic research in particular. Expenditure on basic research carries even higher risks for the investor, not least because of the lack of legal protection for its results (for example, James Watson and Francis Crick received only a tiny fraction of the project's profits for their discovery of the structure of DNA). On the other hand, basic research brings spillover effects for the whole economy. One solution would be to extend intellectual property protection to the results of basic research, but this would limit the dissemination of results and the ability of researchers and scientists to build on existing knowledge. For this reason, the state prefers to provide financial support for basic research, as such an investment is highly risky for the private sector.

Government spending on research and development stimulates private sector participation. The interconnectedness and interdependence between public and private R&D spending shows that an increase in public R&D spending often leads to an increase in private R&D spending (Falk, 2006). According to [Guelliec et al.\(2000\)](#), one euro of public support to firms causes an increase of 1.7 euros in private R&D spending.

Subsidies to private sector support for R&D are most justifiable for small enterprises. Such firms often do not have the necessary funding for capital-intensive R&D projects and are thus severely constrained. Equally, for these firms, investment in R&D projects represents a high risk compared to the potential returns of a successful project (Srhoj et al, 2020).

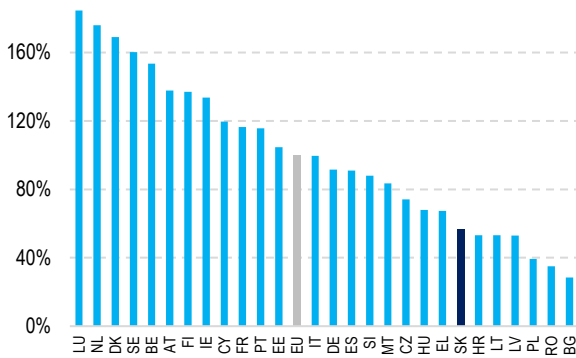
Research and development results and effectiveness of the support system

Slovakia performs poorly in research and development compared to other countries. The quality and productivity of research is generally low, few companies innovate and there is a lack of stronger public-private cooperation. Slovakia is the 5th worst country in the European innovation scoreboard¹⁰⁷ (EIS). Slovakia also lags behind in many of the sub-indicators that make up the score, such as the attractiveness of the research system in Slovakia (56% of the EU average) or activity in the field of intellectual property (48% of the EU average)¹⁰⁸.

¹⁰⁷ EIS is a composite indicator of how innovative countries are. It consists of several indicators, such as the number of patent applications, foreign PhD students or employment in innovative firms. See more at https://research-and-innovation.ec.europa.eu/statistics/performance-indicators/european-innovation-scoreboard_en

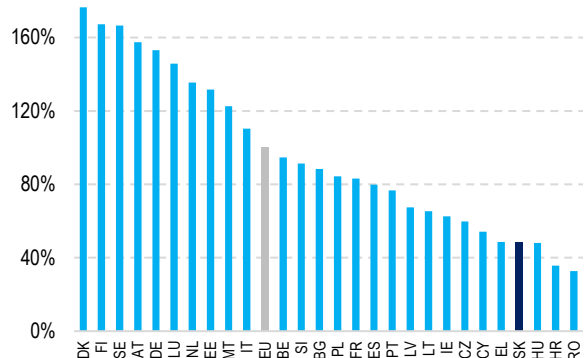
¹⁰⁸ We lag far behind in scientific publications, which are among the top 10% most cited in the world (43% of the EU average, 2021), or in the share of foreign PhD students studying in Slovakia (52% of the EU average, 2021). In particular, Slovakia has a long-standing poor track record in the number of patent applications (18% of the EU average, 2021), design applications (40% of the EU average, 2021) and trademark applications (76% of the EU average, 2021).

Chart 62: The attractiveness of the research system compared to the EU average, 2021



Source: EIS

Chart 63: Intellectual property activity compared to the EU average, 2021



Source: EIS

The system of support for science and research in Slovakia has a number of shortcomings. There is a lack of a strategic approach, funding is distributed among several entities and coordination is insufficient (European Commission, 2020). The competitive funding system is fragmented and opaque, often leading to duplication of activities, objectives and measures and consequent underperformance of the sector. Currently, management is divided between four ministries and their implementing agencies (VfMU, 2022)¹⁰⁹. There is no possibility for applicants to easily obtain information on upcoming or announced calls or support opportunities - there is no single and clear information portal, which is common practice abroad. The absence of a strategy and poor coordination makes planning for funding, especially for long-term projects, opaque and impossible. Structural Funds have a limited impact on research and development performance, also due to the high administrative burden on providers and beneficiaries.

The reforms proposed in the Recovery and Resilience Plan represent a significant step forward. These include cross-ministerial coordination, the introduction of long-term strategic planning, simplification of procedures and consistent communication externally, in line with the calls of the EU Council (European Commission, 2020). Cross-ministerial coordination and strategic direction will be provided by the Secretariat of the Government Council for Science, Technology and Innovation. In order to strengthen the efficiency of resources spent and to ensure equal horizontal access to public sources of grant support, the so-called principles of good governance and efficiency of R&D investments will be proposed.

- 1. Public funding for research and development should be based on results.** Systematic evaluation of results ensures transparency and informs both taxpayers and stakeholders about the efficient use of public resources. It also helps to identify gaps in processes and creates scope for improving the efficiency and added value of programmes. Regular evaluation of the results of research and development programmes is common practice abroad (VfMU, 2022).
- 2. Research and development funding should promote healthy competition between actors.** The purpose of allocating funds on a competitive basis is to allocate scarce financial resources to support research and development for the best projects according to clear and transparent criteria in the service of specific societal objectives (VfMU, 2022). Calls for proposals are the most widely used method of allocating resources to support R&D. This type of support can ensure targeting of specific areas of research and development, e.g., green technologies or social innovation, and firms that have no other support (e.g., young firms without sufficient taxable income but with high growth potential). Foreign

¹⁰⁹ Projects supported by the state budget are scattered among links to the SRDA, VEGA, KEGA, the SCSTI portal and the websites of individual ministries. Projects funded from European sources are published through the Research Agency and other implementing agencies, while the SCSTI is the coordinator of the prestigious Horizon 2020 projects on its own website. The SRDA also financially supports the submission of Horizon 2020 projects. (VfMU, 2022)

experience warns that support should not be automatic. It is important that it is based on competitive, objective and transparent conditions ([OECD, 2021a](#)), which is often lacking in Slovakia ([MF SR, 2020](#)).

3. **The quality of the selection process would be helped by greater involvement of foreign experts.** The Slovak system is characterised by a shortage of evaluators, poor use of foreign capacity, and a passive approach by agencies. The selection of project evaluators in small countries is complicated by the problem of conflicts of interest. Small, highly innovative countries such as Denmark and Finland address this problem by heavily involving foreign experts in the evaluation. Since 2022, Slovakia has introduced the obligation for international evaluation of R&D projects above EUR 200 thousand by foreign evaluators in order to increase the transparency of decision-making. A similar principle should be applied in other areas where there is a risk of conflict of interest or where it is appropriate to involve wider international expertise. In addition to a higher degree of objectivity, the involvement of foreign evaluators brings a broader overview of international trends (OECD, 2009). The increased use of English in project submissions will also have a positive impact on the further exploitation of research results.
4. **Much more emphasis needs to be placed on collaborative research involving researchers from both the public and private sectors and on contract research** (outsourcing of commercial research to public institutions). Private-public cooperation is crucial in countries with developed research and development. Schemes based on the principle of co-financing or matching grants (co-funding) are an option to incentivise the private sector to invest in science and research. Part of the reform of the Recovery Plan is the creation of a mechanism for additional support for projects in which industry itself is willing to invest.
5. **A simple, transparent, predictable and results-oriented grant funding system will enable applicants to do better research and innovation.** It is important to create a single place where applicants can obtain all information on grant calls, regardless of the source or the body that redistributes them. Calls for proposals should follow a uniform methodology, following the example of abroad, smaller grant schemes should have easier application and financial administration.

Box 16: Good practice in providing grant support for research and development

Inspiration from abroad can be drawn from the principles of good governance at all stages of the process, from preparation and announcement of calls, through project selection to monitoring and subsequent evaluation of support programmes. More detailed information is provided by the [Principles of Grant Support for Research, Development and Innovation \(2022\)](#), serving as a basis for public debate in the preparation of the strategy and methodological guidelines.

Calls for proposals and submission of applications for support

- Information on support options should be available on **one user-friendly portal**
- Calls should be coordinated **thematically and temporally**, based on the national strategy and the published timetable

Ex-ante evaluation and selection of projects

- **Greater involvement of foreign experts** would help ensure the quality of the selection process
- **A single database of evaluators** for R&D projects would also make selection processes more efficient
- **Selection criteria** need to be set in such a way that they can identify originality and motivate candidates to think about wider societal benefits

Monitoring and ex-post evaluation

- Support programmes need to be subjected to **high quality and independent evaluation of results** to achieve best value for money
- Evaluation should be planned in advance to ensure that the necessary data is available and collected before, during and after programme implementation
- All evaluations must be published promptly

Source: Principles of Grant Support for Research, Development and Innovation, VFMU 2022

7.1. General call of the SRDA

<p>The grant scheme to support research and development for the public, private and non-profit sectors through the Slovak Research and Development Agency (SRDA) serves to support cutting-edge basic and applied research and development in all fields of science and technology. The scheme mainly supports basic research, as this expenditure carries the highest risks for the investor but positive spillover effects for the whole economy. The applicant is required to report to the Agency for three years after the completion of the project on the social and economic benefits of the project results. Private sector support is low, with an average of 94 % of expenditure in approved applications going to the public sector (mainly the SAS and universities).</p>		
<p>Objective and KPIs</p>	<p>The scheme does not have a directly set target or KPI that it would like to achieve. It refers to a strategy that aims to create an optimal environment for research and development in Slovakia. The scheme uses KPIs in the retrospective evaluation of projects.</p>	
<p>The need for intervention</p>	<p>Investments in basic research carry a high initial risk. The SAS and universities in Slovakia do not have the possibility to obtain funding for the type of research they support from the private sector. Without the scheme, support for research and development at universities would fall by more than 1/3.</p>	
<p>Form of support</p>	<p>Support for R&D at public institutions is most appropriate in the form of direct financial support. Other forms are unlikely to produce comparable results.</p>	
<p>Recommendation</p>	<p>Retain, publish more data on supported projects directly on the SRDA website. Slovak R&D support is significantly underfunded compared to foreign countries. The scheme is competitive and applicants are transparently evaluated. Supported</p>	

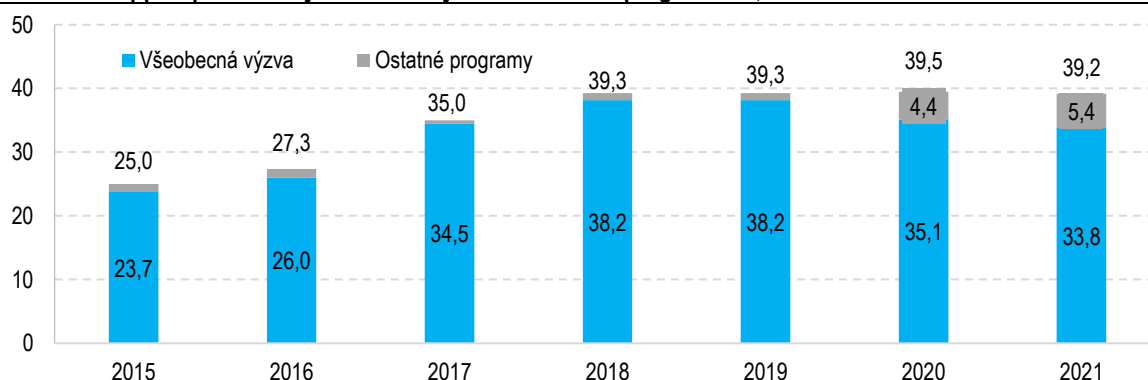
projects are evaluated retrospectively. However, detailed information is not published on the SRDA website in a way that makes it easy to search and obtain all available information.

The general call serves to support cutting-edge basic and applied research and development in all fields of science and technology. It is open to natural and legal persons, without restriction of affiliation to a sector. The call does not have a predetermined substantive focus for R&D projects - the specific focus, objectives and subject matter are determined by the applicant. In line with economic theory, the scheme mainly supports basic research, as also due to the lack of legal protection of the results, these expenditures carry the highest risks for the investor but positive spillover effects for the whole economy. The support is granted by the Slovak Research and Development Agency - the main grant agency in Slovakia supporting basic and applied research and development. The aim of the Agency's activities is to increase the quality of Slovakia's research and development potential and thus contribute to increasing the success of Slovak entities in international scientific and technological cooperation.

The Agency monitors the social and economic benefits of supported projects. The applicant is obliged to inform the Agency about the benefits of the results achieved for a period of three years after the completion of the project. Publications and quotations, patents and inventions, applied results with defined economic indicators, outputs for education and popularisation of science, as well as the added value of the research and development project are monitored. The basic objective of the scheme is to increase the quality of research and development through the competition of all applicants in a competitive environment. The competitive method of selecting supported projects motivates applicants to submit the most up-to-date and original projects, which increases the quality of R&D. However, data on the benefits of projects are not systematically published on the SRDA website, nor are data on supported projects published in an easily manageable form.

Between 2019-2021, on average, projects of EUR 35.7 million per year were supported. On average, 94% of the expenditure of approved applications was directed to the public sector (mainly to the SAS and public universities), with little support for the private sector. The Agency monitors quality over the lifetime of a project - projects can be funded for a maximum of 48 months, but the Agency always provides funding for one financial year. Continuing projects (projects that started in previous years and are to be continued) are evaluated annually, and the Agency may suspend funding if deficiencies are found. For non-business entities, the Agency can provide funding for basic, applied research and development up to 100 % of eligible costs, for other entities the intensity of support is lower.

Chart 64: Support provided by the SRDA by individual calls/programmes, EUR million



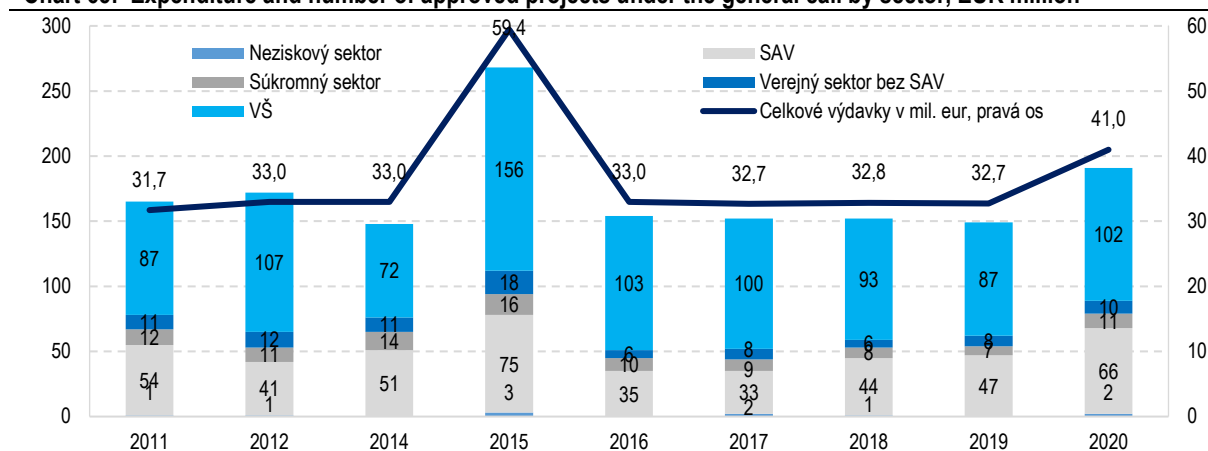
Source: SRDA

Všeobecná výzva	General call
Ostatné programy	Other programmes

The general call is competitive, with less than a third of the applications submitted in 2020 being approved. In 2020, 622 applications were submitted with a requested support of EUR 143 million. Only one third of the projects (191 projects amounting to EUR 41 million) were approved on the basis of a quality assessment by the SRDA

Commission, with a similar proportion of applications approved in 2018 and 2019. The quality of submitted projects is assessed by the SRDA Commission on the basis of 5 criteria: topicality and scientific relevance of the objectives, originality of the project, structure of the project, expertise of the researcher and expertise of the research team.

Chart 65: Expenditure and number of approved projects under the general call by sector, EUR million



* in 2013 the call was discontinued

Source: SRDA

Neziskový sektor	Non-profit sector
Súkromný sektor	Private sector
VŠ	Universities
SAV	SAS
Verejný sektor bez SAV	Public sector without the SAS
Celkové výdavky v mil. eur, pravá os	Total expenditure in EUR million, right axis

In addition to the general call, the SRDA supports science and research through other projects with an average of EUR 3.6 million per year (2019-2021). The largest of the programmes is PP-COVID 2020 (average EUR 2.7 million), which supports research and development projects in the field of Covid-19 disease. The programme of bilateral and multilateral cooperation of countries in the field of research and development includes support for joint projects of Slovakia with foreign partners (average EUR 0.65 million). Under the DO7RP programme, the Agency co-finances projects supported by the European Commission (EUR 50 thousand, 2019-2021). Another programme of the Agency is PP H-EUROPE 2021, which aims to stimulate the participation of Slovak research and development organisations in the European Union's research and innovation programme for 2021-2027 - Horizon Europe (it is a continuation of PP-H 2020, EUR 70 thousand, 2019-2021). The Danube Strategy programme supports joint research and development projects between the countries of the Danube Region and France (EUR 50 thousand, 2019-2021).

7.2. Incentives for research and development for entrepreneurs

A scheme for entrepreneurs to support basic or applied research, experimental development, the preparation of a feasibility study for a project, the provision of industrial property protection or the temporary assignment of a highly qualified research and development employee. Incentives are provided in the form of a subsidy from the state budget. The scheme is competitive, beneficiaries are selected on the basis of expert opinions and evaluation by a committee.	
Objective and KPIs	The scheme has only a general objective to support R&D in the private sector without setting KPIs.
The need for intervention	There is a high initial risk on the market for R&D, while if successful, the whole economy benefits from the results and further research can build on them. Large companies are able to invest in R&D with relatively little risk, but for SMEs in particular, R&D investments are risky. According to foreign publications, government support for private sector's R&D has a multiplier effect on total R&D expenditure.

Form of support	Subsidies are one of the appropriate tools. Other appropriate forms of support include tax relief (which is also in place) or “matching grants”, which would increase overall R&D spending.	
Recommendation	Retain. Slovakia’s expenditure on research and development from the private sector is among the lowest in the EU. The scheme supports this sector, thus contributing to its growth.	

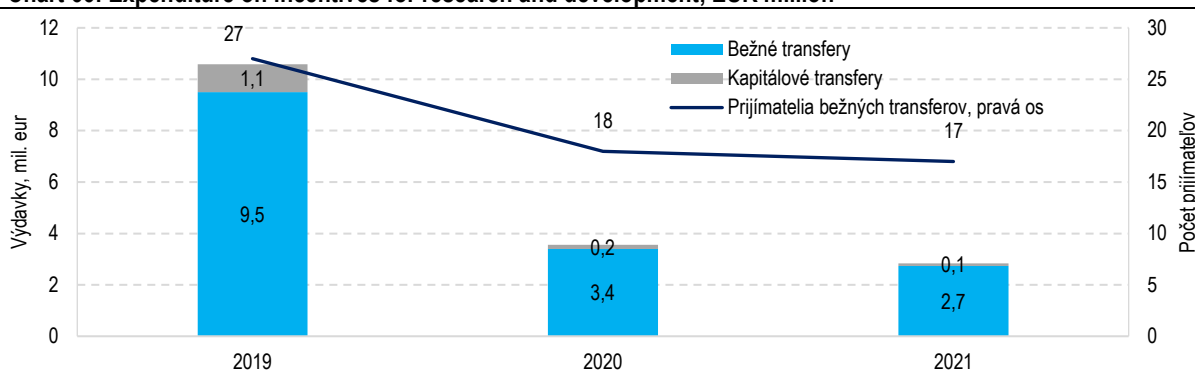
The objective of the scheme is to offer incentives to entrepreneurs for research and development. Fundamental and applied research as well as experimental development, the preparation of a feasibility study for a project, the provision of industrial property protection or the temporary assignment of a highly qualified research and development employee are supported. Government expenditure on research and development encourages private sector participation. The interconnectedness and interdependence between public and private R&D spending shows that an increase in public R&D spending often leads to an increase in private spending on this sector (Falk, 2006). According to [Guillec et al.\(2000\)](#), one euro of public support to firms causes an increase of 1.7 euros in private R&D spending. Efforts to increase research and development staff capacity are also consistent with economic theory – research and development bring several societal benefits that cannot be priced on the market (e.g., climate change). Capacity building brings societal benefits in the long run.

There are no key performance indicators against which to assess the effectiveness of the scheme. Several of the scheme’s objectives are quantifiable, so there is scope for monitoring and subsequent evaluation. Examples include increasing research and development staff capacity or increasing the amount of business funding for research and development. It is important to ensure a high-quality evaluation of results to ensure targeting of support to specific areas of research and development, as well as transparency and taxpayer awareness of the efficiency of the use of public resources.

In 2019-2021, incentives were provided in the average amount of EUR 5.2 million, with an additional EUR 450 thousand in capital transfers. The funds are pre-allocated to thematic areas; if funds are not used, they can be applied in another area where a shortfall is demonstrated. Support is directed to 5 thematic areas: 1) Biomedicine and Smart Technologies, 2) Biotechnology, Agriculture and Environment, 3) Industry 4.0, 4) Transport Systems, 5) Data Economy and ICT Security. Incentives consist of the provision of a subsidy from the state budget or income tax relief. From 2022 onwards, no support through incentives is provided as projects from the last call announced in 2018 have ended.

In 2018, 27 companies were supported and received subsidies in the following years, the average amount of support is EUR 214 thousand per year. The scheme is competitive, beneficiaries are selected on the basis of two expert opinions prepared by Slovak or foreign experts (selected by the Ministry of Education), which are subsequently evaluated by a committee set up by the Minister of Education. The evaluation process is fully within the competence of the Ministry. Following the example from abroad, it is good practice to involve foreign experts more extensively, to create a single database of evaluators, or to set selection criteria to identify originality and motivate candidates to think about wider societal benefits.

Chart 66: Expenditure on incentives for research and development, EUR million



Source: MESRS SR

Výdavky, mil. eur	Expenditure, EUR million
Počet prijímateľov	Number of beneficiaries
Bežné transfery	Current transfers
Kapitálové transfery	Capital transfers
Prijimatelia bežných transferov, pravá os	Beneficiaries of current transfers, right axis

7.3. Other subsidies of the MESRS SR to support research and development

The Ministry of Education supports science and research in enterprises and non-profit organisations through other subsidy schemes, with an average annual amount of EUR 0.8 million. The schemes stem from international cooperation, for example to support research projects in the field of nanoelectronics, computer systems or to ensure the operation of research service centres (Table 34). Subsidies averaging EUR 0.8 million (2019-2021) were provided by the MESRS SR to enterprises and non-profit organisations to cover current, non-investment expenditure. The public sector (universities, the SAS) can also compete for selected schemes, so the total amount of subsidies provided ultimately amounts to an average of EUR 2.3 million per year. A further EUR 0,5 million was earmarked to cover capital expenditure.

Table 34: Other subsidy schemes of the MESRS SR from the SB (for entrepreneurs and non-profit organisations)

Name of the scheme	Average expenditure (EUR million, 2019-2021)	Number of beneficiaries for the period under review;	Description
ECSEL	0.2	5	ECSEL (now KDT JU) is used to support research projects in the field of nanoelectronics and computer systems. It is a partnership between the European Commission, the private sector and EU Member States.
EUROSTARS	0.3	7	EUROSTARS is aimed at European cooperation between small and medium-sized enterprises that are also involved in their own research and development outside their business activities. It is a joint programme of the EU and its Member States, with funding provided through national resources, the research organisations' own resources and EU resources.
EURAXESS	0.1	2	The main objective of the subsidy is to ensure the activities of the national network of EURAXESS Service Centres for research and development workers in Slovakia and to operate the national EURAXESS portal as part of the European EURAXESS Services Network.
Other	0.2	2	-
TOTAL	0.8	8	

Source: MESRS SR

7.4. Research and development to support national defence

Research and development in the field of defence was supported by a grant of EUR 0.9 million in 2021. The main objective of the subsidy scheme administered by the MD SR is to support the technological know-how of

research entities and to increase the share of green defence (reducing the environmental burden of the armed forces). The scheme is competitive; applications for subsidies are evaluated by a committee on the basis of predetermined criteria. It is open to both the private and public sector, with 8 beneficiaries supported in 2021. The share of co-financing of projects under the scheme varies depending on the type of research and the size of the enterprise (support is higher for small enterprises, the same for basic research).

7.5. Tax relief (R&D cost super-deduction)

<p>Entrepreneurs and companies that carry out R&D projects as part of their economic activity can deduct the costs of these projects from their tax base. The super-deduction with a rate of 100 % of R&D expenditure is set competitively in international comparison. Tax expenditure reduces state revenue by almost EUR 42 million per year. The scheme is mainly used by large companies.</p>		
Objective and KPIs	No specific objectives and KPIs are set for the scheme. The implicit, appropriate objective is to promote high added value research and development and increase private investment in R&D. Similar tax reliefs exist in several EU/OECD countries.	
The need for intervention	The need for intervention stems from the lack of motivation of private firms to participate in costly research projects. R&D carries risks for firms that the funds invested may not have a sufficient return on the market, especially if the results of the research can be replicated later at low cost.	
Form of support	Tax expenditure can be an appropriate form of support. It is most effective when directed to SMEs (small and medium-sized enterprises). On the contrary, contrary to the recommendations, in Slovakia this support is currently mainly used by large companies. Only around 5% of the tax relief is directed to companies with a turnover of up to EUR 100 000.	
Recommendation	Retain and modify. In order to increase public and private R&D spending in line with the Recovery Plan (Component 9), it is proposed to retain the super-deduction, but at the same time to modify its functioning to be significantly more SME-oriented.	

Entrepreneurs and companies that carry out an R&D project as part of their economic activity can again deduct the tax-deductible costs of the project from the tax base (less the tax loss) at the rate of 100 %¹¹⁰ and also 100 % of the increase in R&D costs compared to the average of the expenditure for the two immediately preceding tax periods (hereinafter referred to as the super-deduction). Implicitly, the tax expenditure set up in this way is intended to increase the motivation of entities to invest in applied research and development in order to generate higher added value in the economy.

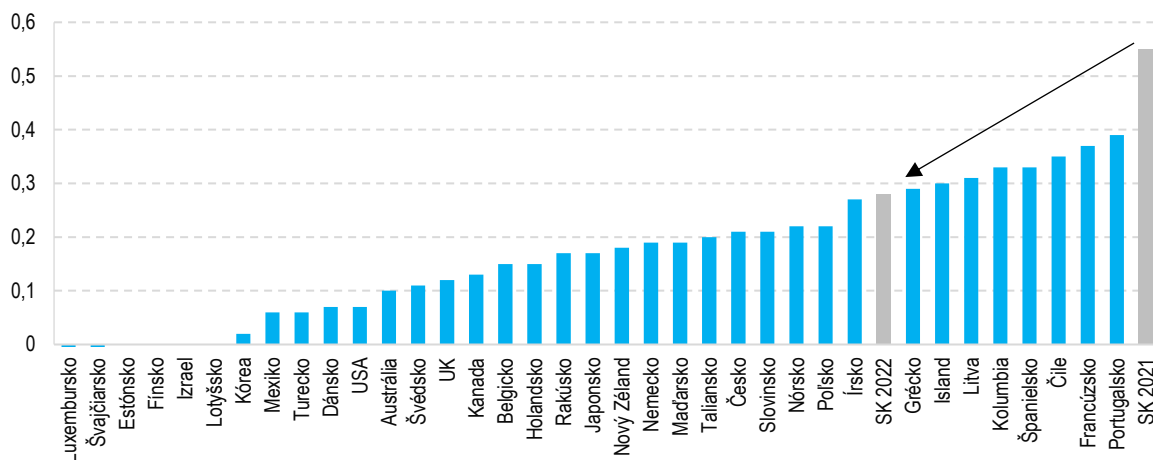
The economic argument for supporting R&D is the lack of motivation of private firms to participate in costly research projects. Projects in this area carry the risk that the funds invested may not have a sufficient return on the market, especially if the results of the research can be replicated later at low cost. At the same time, firms may not perceive the wider societal benefits that the results of their projects can bring. The super-deduction can stimulate additional research if the initial results are built upon by other innovators developing the original idea into new products and services. The specific objectives and KPIs of the scheme are not set. Possible objectives include the competitiveness of the corporate tax with EU/OECD countries.

Slovakia is competitive in terms of the super-deduction rate (Chart 67) even after the reduction of the rate from 200% to 100% from 2023, but it lags behind the EU/OECD average in real super-deduction spending (Chart 68). The rate has been increased in the past - from 25% in 2015 to 200% in 2021 (Chart 71) - but these changes have not helped to increase spending significantly in international comparison (Chart 68). Even if the R&D

¹¹⁰ The R&D super-deduction was introduced into legislation in 2015, when it was possible to claim 25% of R&D project expenditure until 2017. From 2018, the rate was gradually increased based on private sector requirements up to 200% from 2020. From 2022, with the parallel introduction of the super-depreciation for Industry 4.0 investments, the rate dropped to 100%.

project fails, the entity carrying out the R&D project has a tax saving of up to 21% of the costs incurred (corporate tax rate).

Chart 67: Tax saving for a representative company (B-index) (Warda, 2001)

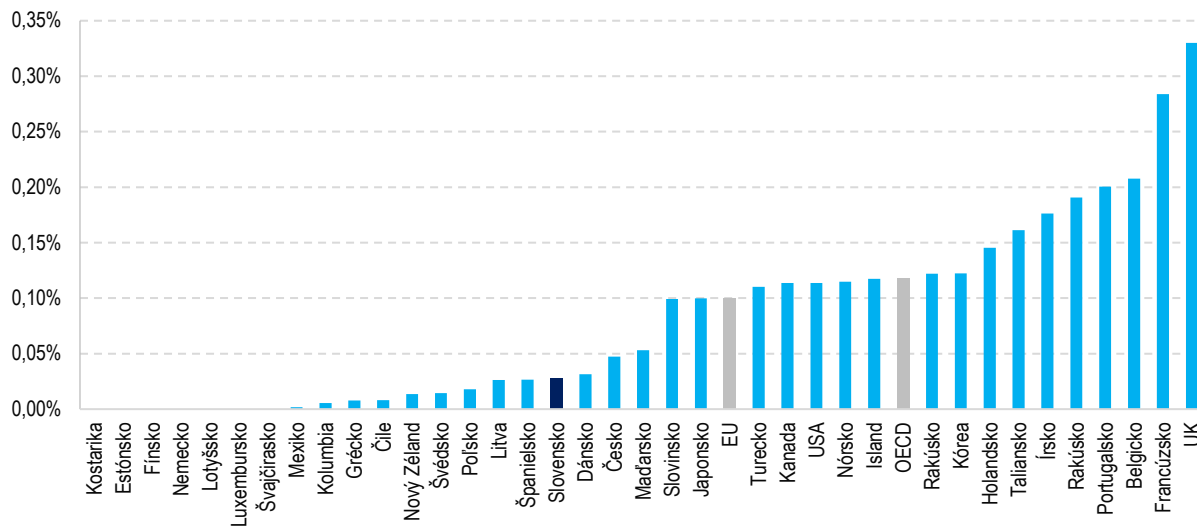


Note: Support for R&D spending halved in 2022.

Source: OECD

Luxembursko	Luxembourg
Švajčiarsko	Switzerland
Estónsko	Estonia
Fínsko	Finland
Izrael	Israel
Lotyšsko	Latvia
Kórea	Korea
Mexiko	Mexico
Turecko	Turkey
Dánsko	Denmark
USA	USA
Austrália	Australia
Švédsko	Sweden
UK	UK
Kanada	Canada
Belgicko	Belgium
Holandsko	Netherlands
Rakúsko	Austria
Japonsko	Japan
Nový Zéland	New Zealand
Nemecko	Germany
Maďarsko	Hungary
Taliansko	Italy
Česko	Czech Republic
Slovinsko	Slovenia
Nórsko	Norway
Poľsko	Poland
Írsko	Ireland
Grécko	Greece
Island	Iceland
Litva	Lithuania
Kolumbia	Colombia
Španielsko	Spain
Čile	Chile
Francúzsko	France
Portugalsko	Portugal

Chart 68: International comparison of R&D expenditure subject to super-deduction (% of GDP, 2019)



Source: OECD

Kostarika	Costa Rica
Estónsko	Estonia
Fínsko	Finland
Nemecko	Germany
Lotyšsko	Latvia
Luxembursko	Luxembourg
Švajčiarsko	Switzerland
Mexiko	Mexico
Kolumbia	Colombia
Grécko	Greece
Čile	Chile
Nový Zéland	New Zealand
Švédsko	Sweden
Poľsko	Poland
Litva	Lithuania
Španielsko	Spain
Slovensko	Slovakia
Dánsko	Denmark
Česko	Czech Republic
Maďarsko	Hungary
Slovinsko	Slovenia
Japonsko	Japan
EU	EU
Turecko	Turkey
Kanada	Canada
USA	USA
Nórsko	Norway
Island	Iceland
OECD	OECD
Rakúsko	Austria
Kórea	Korea
Holandsko	Netherlands
Taliansko	Italy
Írsko	Ireland
Rakúsko	Austria
Portugalsko	Portugal
Belgicko	Belgium
Francúzsko	France
UK	UK

The largest volume of super-deduction is drawn by large established firms with a predominant foreign ownership with a volume of super-deduction greater than EUR 1 million per firm (Chart 69 and Chart 70). This situation persists despite the increase in support, which has increased the number of firms using this instrument, especially among SMEs.

Chart 69: Amount of super-deduction reducing corporate tax (EUR million)

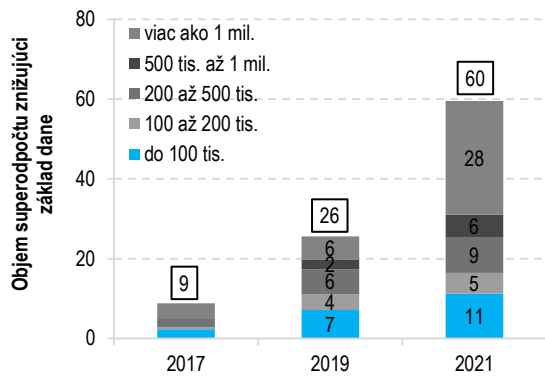
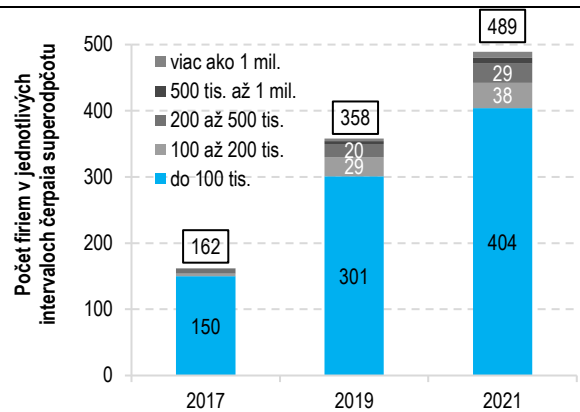


Chart 70: Number of firms in each super-deduction interval



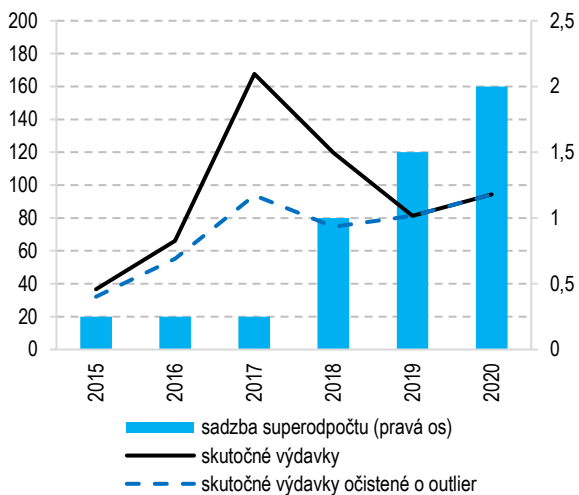
Note: The intervals show the reduction in the tax base. The effect shown is already on the corporate tax, which is 21% of the tax base.

Source: tax returns

Objem superodpočtu znižujúci základ dane	Amount of super-deduction reducing the tax base
Počet firiem v jednotlivých intervaloch čerpania superodpočtu	Number of firms in each super-deduction interval
viac ako 1 mil.	more than 1 mil.
500 tis. až 1 mil.	500 thousand to 1 mil.
200 až 500 tis.	200 to 500 thousand
100 až 200 tis.	100 to 200 thousand
do 100 tis.	up to 100 thousand

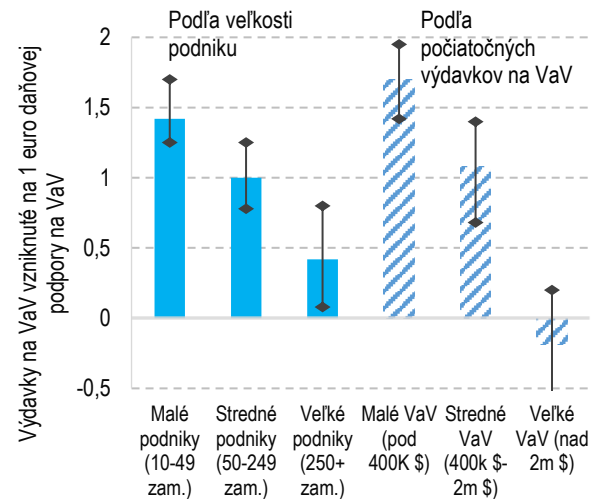
An analysis of super-deduction in twenty OECD countries (Appelt et al. 2020) shows that super-deduction delivers the highest value to the state when R&D in small and medium-sized enterprises is supported. This stems mainly from their lower level of R&D spending (Chart 72). For large firms with a higher level of R&D, the effect may be lower due to a greater (staff and financial) capacity to invest in R&D or the ability to bear a higher level of risk associated with an R&D project even without additional support.

Chart 71: Actual R&D expenditure (EUR million) and super-deduction rate (%)



Source: OECD

Chart 72: R&D super-deduction increases R&D rate especially for firms with low R&D level



Source: Appelt et al. (2020)

sadzba superodpočtu (pravá os)	super-deduction rate (right axis)
skutočné výdavky	actual expenditure
skutočné výdavky očistené o outlier	actual expenditure net of outlier
Výdavky na VaV vzniknuté na 1 euro daňovej podpory na VaV	R&D expenditure incurred per 1 euro of R&D tax support
Podľa veľkosti podniku	By company size
Podľa počiatkových výdavkov na VaV	By initial R&D expenditure
Malé podniky (10-49 zam.)	Small enterprises (10-49 employees)
Stredné podniky (50-249 zam.)	Medium-sized enterprises (50-249 employees)

Veľké podniky (250+ zam.)	Large enterprises (250+ employees)
Malé VaV (pod 400K \$)	Small R&D (under \$400K)
Stredné VaV (400k \$-2m \$)	Medium R&D (\$400k-\$2m)
Veľké VaV (nad 2m \$)	Large R&D (over \$2m)

In order to increase public and private R&D spending in line with the Recovery Plan (Component 9), it is proposed to retain the super-deduction, but at the same time to modify its functioning. The National Strategy for Research, Development and Innovation¹¹¹ will bring changes in horizontal policies focusing on talent, business environment, R&D funding and others. They aim to remove structural problems and barriers in R&D, which will also allow increasing the potential of the super-deduction.

Based on application practice and discussions with the sector, it appears that the slow growth in R&D spending (Chart 71) and lower spending internationally (Chart 68) may stem from legal uncertainty and high administrative requirements for projects. These factors reduce the interest of small and medium-sized enterprises (SMEs) in particular in this support instrument. The ambition could be to reduce the level of uncertainty and to compensate part of the costs associated with project failure (Mazucatto, 2017), specifically for the firms that have the most to gain from engaging in R&D, i.e., SMEs.

7.6. Patent box

<p>The patent box has been reducing the taxation of patent royalty income since 2018. Up to 50% of the income from the grant of the right to use (or from the use of) an invention protected by a patent, utility model, computer software, or products in which a patent or utility model has been used and which are also the result of research and development, is exempt from tax. The possibility of exercise lasts for the duration of the patent depreciation period. The patent box reduces state revenue by EUR 1.2 million per year.</p>		
Objective and KPIs	The objectives or measurable criteria of the scheme are not clearly stated. Implicitly, the tax expenditure is intended to increase the level of intellectual property in the economy.	
The need for intervention	There is no economic justification for reducing the tax burden on patent income. The purpose of a patent is to give a company an advantageous position on the market compared to its competitors. This should lead to additional revenue for the firm, which is the reward for investment in R&D. The revenue advantage of a patent does not create an incentive for additional R&D investment because the patent is an output/result of the research and development process. More appropriate are forms of support that reduce costs and uncertainty for the entrepreneur at the start of the research and development project.	
Form of support	Form of support is not effective. In Slovakia, only 10 companies use the patent box. Based on experience from the sector, it is more appropriate to consider the introduction of schemes or proof-of-concept grants that would allow financing the costs of the application or the costs of preparing documentation to support patent activity. The recommendation is in line with the role of the state to reduce costs and uncertainty for firms/entrepreneurs at the start of the research and development project (Mazzucato, 2017).	
Recommendation	Abolish. The patent box is virtually unused in practice and it would be preferable to replace it with other forms of intellectual property development. It is used annually by around 10 domestic companies, mostly from the IT sector, for a volume of approximately EUR 1.2 million.	

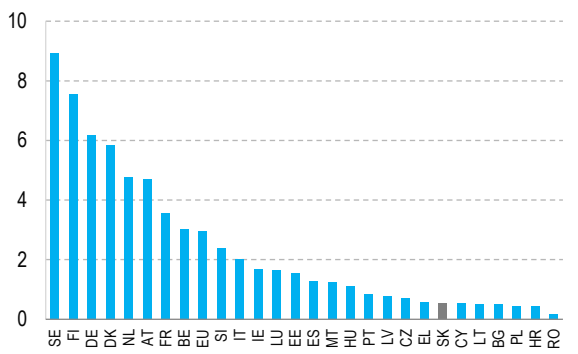
¹¹¹ This is a milestone of the recovery plan to approve the National Strategy for Science, Research and Innovation at the government as a binding document for the executive authorities during 2022.

Up to 50% of the income from the grant of the right to use (or from the use of) an invention protected by a patent, utility model, computer software, or products for which a patent or utility model has been used and which are also the result of research and development, is exempt from tax. The possibility of exercise lasts for the duration of the patent depreciation period. The patent, utility model or software must be linked to the income of the operation in Slovakia.

There are no objectives or measurable criteria for the tax expenditure. Implicitly, the tax expenditure is intended to increase the level of intellectual property in the economy. The patent box only provides a tax benefit at the end of the process, after the patent has been obtained, whereas the cost of obtaining a patent can be relatively high.

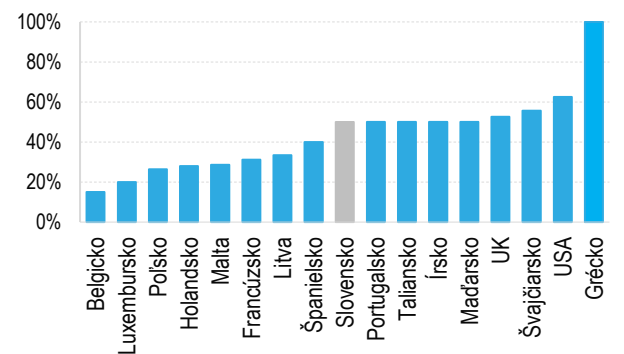
The patent box is virtually unused in practice. Every year it is used by about 10 domestic companies, mainly from the IT sector, in the amount of about EUR 1.2 million. This is reflected in the low level of patenting activity at international level (Chart 73), despite a more generous form of support (Chart 74), indicating, as in the superdeduction, structural problems in R&D. According to the OECD, 2021c, 19 out of 37 OECD countries have some form of patent box, but the impact on innovation rates is low according to several studies, or it takes a long time for firms to be able to take advantage of this support.

Chart 73: Number of patent applications per EUR 1 billion of GDP



Source: EIS

Chart 74: Patent box - tax relief rates in OECD countries



Source: OECD

Belgicko	Belgium
Luxembursko	Luxembourg
Polsko	Poland
Holandsko	Netherlands
Malta	Malta
Francúzsko	France
Litva	Lithuania
Španielsko	Spain
Slovensko	Slovakia
Portugalsko	Portugal
Taliansko	Italy
Írsko	Ireland
Maďarsko	Hungary
UK	UK
Švajčiarsko	Switzerland
USA	USA
Grécko	Greece

Based on experience from the sector, it is preferable to consider the introduction of schemes or proof-of-concept grants that would allow funding of application costs or the cost of preparing documentation to support patent activity. These instruments create an environment to reduce the level of uncertainty and costs in the initial stages of an R&D project (Mazuccato, 2017), while the patent box only additionally rewards existing activities. These are lacking in Slovakia due to low private and public R&D spending and the innovation ecosystem barriers identified by the Recovery and Resilience Plan (Component 9).

8. Tourism subsidies

- The state supports tourism from the budget with an average of EUR 65.2 million per year¹¹². Most of the funds go to support domestic overnight stays in accommodation (Holiday Vouchers and Reduced VAT on Accommodation). EUR 29 million is spent on promoting the country as a tourist destination through Slovakia Travel (ST).
- State support for tourism generates mainly positive externalities for the hotel, catering and tourism sectors as a whole. It is risky and costly for private companies to carry out promotional campaigns at the level of the country or regions, and so this task has been partially taken over by the state.
- The support for tourism is also justified because of the lower number of overnight stays of tourists in Slovakia compared to the European average.
- Holiday vouchers are mainly aimed at promoting domestic tourism, despite the fact that Slovakia lags behind the EU average in the number of overnight stays by foreign tourists. The justification for the reduced VAT depends largely on the approach of neighbouring countries with similar policies, and partly compensates for the reduced profit for businesses due to surcharges for working at weekends.
- Slovakia Travel has two to three times higher expenses in relation to the size of the tourism sector than agencies abroad. We recommend reducing agency spending to a level comparable to other countries, while keeping the proportion of spending on personnel costs at the current level.
- The schemes lack established key performance indicators against which the effectiveness of support could be retrospectively evaluated. The Ministry of Transport of the SR is currently preparing a Sustainable Tourism Strategy 2030, which will include key performance indicators to evaluate the effectiveness of individual schemes.

Table 35: Subsidy schemes in tourism, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
Transfer	8.1	Slovakia Travel	19.0*
Subsidy	8.2	Subsidies to tourism organisations	7.3
Tax expenditure	8.3	Holiday vouchers	23.9
Tax expenditure	8.4	Reduced VAT on accommodation	15.0
Total			65.2

* Expenditure for 2022, previously the agency did not exist

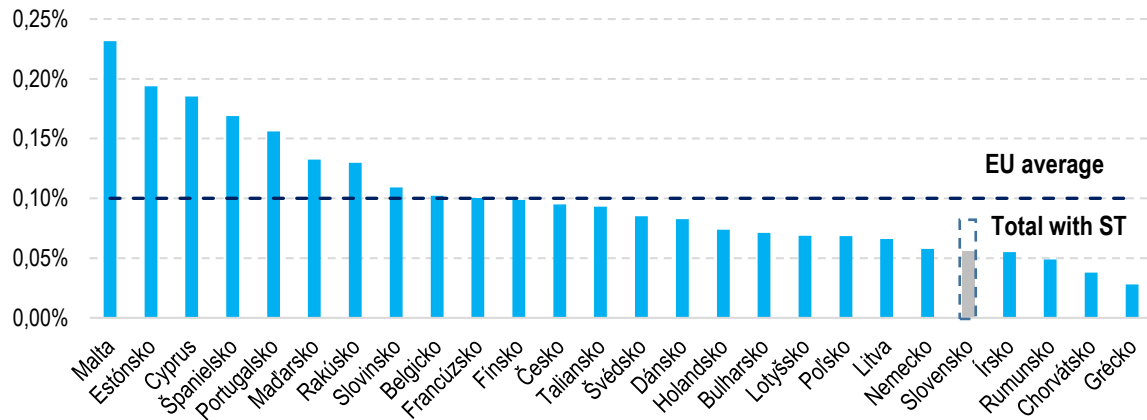
Source: VřMU and IFP based on the data of the MF SR

Public expenditure in support of tourism

Public expenditure in support of tourism was below the EU average in 2018, but has grown significantly since then. According to World Bank data, public spending on tourism promotion in Slovakia amounted to EUR 50 million in 2018 (0.06% of GDP), while the EU average was 0.1% of GDP. However, after 2021, Slovakia saw the creation of the Slovakia Travel agency, which will increase annual government spending on tourism promotion by EUR 25 million towards the EU average.

¹¹² Selected subsidies of the Ministry of Transport of the Slovak Republic according to Act No. 91/2010 Coll. on tourism support and selected tax expenditures

Chart 75: Government expenditure on tourism promotion as % of GDP and estimate for Slovakia with ST expenditure, 2018



Source: World Bank, Eurostat

The majority of tourists in Slovakia are residents. Slovakia lags behind the European average in the number of overnight stays of tourists. The number of overnight stays by tourists in Slovakia in 2019 is 17.2 million, which is the 7th lowest number relative to the population of EU countries. It is necessary to focus especially on overnight stays of foreign tourists in which Slovakia lags far behind the EU average and their purchasing power is higher.

Chart 76: Number of overnight stays by tourists per capita, 2019

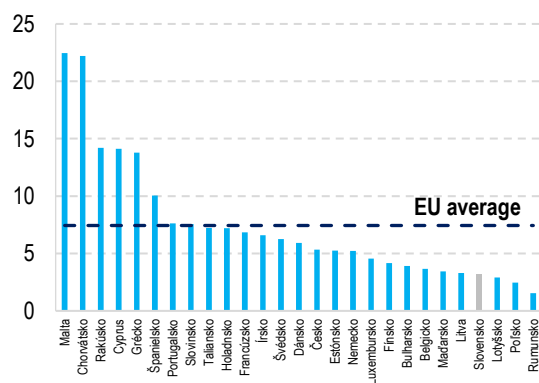
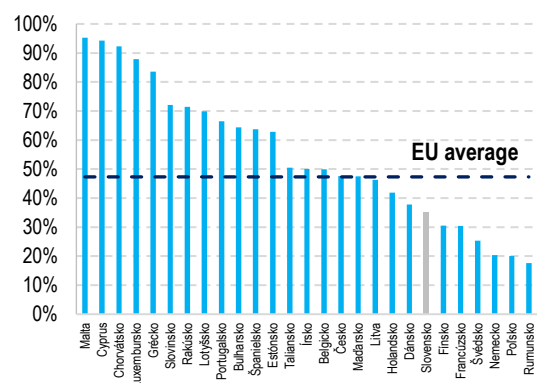


Chart 77: Share of foreign tourists in the total number of overnight stays of all tourists, 2019



Source: Eurostat

Source: Eurostat

Malta	Malta
Chorvátsko	Croatia
Rakúsko	Austria
Cyprus	Cyprus
Grécko	Greece
Španielsko	Spain
Portugalsko	Portugal
Slovinsko	Slovenia
Taliansko	Italy
Holandsko	Netherlands
Francúzsko	France
Írsko	Ireland
Švédsko	Sweden
Dánsko	Denmark
Česko	Czech Republic
Estónsko	Estonia
Nemecko	Germany
Luxembursko	Luxembourg
Fínsko	Finland
Bulharsko	Bulgaria
Belgicko	Belgium
Maďarsko	Hungary
Litva	Lithuania
Slovensko	Slovakia
Lotyšsko	Latvia

Box 17: Tourism support - theoretical background

Government support for tourism is justified in economic theory along three lines - positive externalities, risk and uncertainty, and the indivisibility problem.

Tourism is an important part of both the global and local economy. The tourism sector accounts for 4.4% of GDP, 6.9% of employment and 21.5% of services exports in OECD countries (OECD 2020) and therefore governments are keen to support the sector.

However, the tourism sector has traditionally been fragmented and it is difficult to coordinate the different actors. The whole sector benefits from the promotion of the country as a tourist destination and the increased number of visitors also supports other parts of the economy. However, if one company were to promote its own region, where it has, for example, a chain of hotels, this would create positive externalities for other hotels, restaurants, cafés, cinemas, but also, through subcontracting, for other actors in the same region or country, without co-financing the promotional campaign. For this reason, it is not worthwhile for companies to finance promotional campaigns on their own, so the state has partly taken over this task.

The state also promotes tourism because of the high risk and uncertainty of entities who do not find it financially worthwhile to invest in tourism promotion, as the outcome is affected by unpredictable factors such as the weather and, in recent years, anti-pandemic measures.

At the same time, the minimum expenditure required to carry out an effective promotional campaign is often beyond the resources of individual companies. Although the expenditure is not significant in absolute terms, it may well be too large for many companies in the highly fragmented tourism sector (Dwyer et al, 1992).

Tourism promotion has the highest efficiency when the amount of tourism spending in a country is low. Deskins et al (2011) examined the effectiveness of government support for tourism on the total output of the sector. Their regression analysis shows that as the output of the tourism sector in a country increases, the overall efficiency of government support to the sector decreases. Thus, the conclusion is that government support for tourism makes sense especially in those countries where the tourism sector is underdeveloped.

The structure of subsidies allocated to the largest tourism organisations (TO) and Slovakia Travel's (ST) expenditure are similar. OTs, unlike ST, create and maintain the regional tourism infrastructure, but the largest part of their expenditure is marketing and event support, which is also provided by ST. The agency has partially taken over the marketing of regional tourist destinations as it also targets domestic tourists as part of its campaign.

Table 36: Structure of subsidies for TOs and Slovakia Travel expenditures, average 2020-2022, EUR thousand

Name of beneficiary	Amount of subsidy	Marketing				Tourism infrastructure	Support for events	Other
		Total	Marketing campaigns	Promotional materials	Other Marketing			
ABTOs total	5 280	2 716	1 759	387	570	948	1 138	1 396
High Tatras Region	1 216	570	475	79	16	296	294	243
Bratislava Tourist Board	1 062	658	362	50	247	94	201	319
Liptov Region	1 019	522	410	35	78	110	329	242
Bratislava Region Tourism	457	279	171	40	67	3	125	150
ABTO Dudince	304	48	22	15	11	163	50	54
Visit Košice	288	193	124	45	23			146

ABTO Žitný ostrov	258	133	80	24	28	20	76	84
Žilina Tourism Region	233	126	53	27	46	74		77
Malá Fatra	225	32	15	9	9	144	43	21
Regional TO Northeast of Slovakia	220	155	46	63	45	44	19	60
Slovakia Travel (2022)*	12 427	10 431	9 852	579			1 118	878
Total	17 707	12 681	11 146	966	570	948	2 721	2 274

* The data for the agency is only for 2022, as it was established in mid-2021. The expenditure structure is only from the 2022 CRC data, which does not include other agency expenditures (personnel expenditures, etc.).

Source: CRC

8.1. Slovakia Travel

<p>SLOVAKIA TRAVEL is the national tourism organization of Slovakia (NTO - national tourism organization), whose task is to promote Slovakia as a tourist destination at home and abroad. SLOVAKIA TRAVEL is responsible for the strategy, concept, support and communication of the tourism industry. Promotion takes place in the form of marketing campaigns on television, on social networks and on various platforms in the online world. ST also provides support for events with a measurable contribution to tourism, organization of B2B workshops and professional conferences¹¹³. ST expenses in 2022 were approximately EUR 19 million.</p>		
Objective and KPIs	The objective of the agency is not clearly defined, but implicitly the agency is to support the growth of tourism and increase the competitiveness of Slovakia as a tourist destination among EU countries. At the overall level of tourism support, two indicators "increase in economic benefits from CR" and "increase in the number of tourists in Slovakia" are monitored in the program budget, which are also linked to the performance of Slovakia Travel. Indicators need to be publicly calculated and linked to the agency's performance.	
The need for intervention	Promoting a country carries a high risk of investment for individuals while creating positive externalities for those not involved in the promotion - the stowaway problem. Promoting the country as a whole is unprofitable for a highly fragmented tourism sector (unless all actors are involved, which is unlikely).	
Form of support	Managing the promotion of a country at the central/national level is also the most effective way according to economic theory. Agencies in most EU countries operate in a similar way.	
Additional information	Most EU countries have a tourism promotion agency or directly a tourism ministry. The agency was only established in 2021 and its objectives and budget are currently being adjusted. The budget is higher than the foreign benchmark - the average size of agency budgets relative to the size of the tourism sector to GDP.	
Recommendation	Retain and modify. Reduce the agency's budget to a level comparable to other countries. in accordance with the set benchmark (amount of expenses to the share of tourism in GDP).	

Slovakia Travel (ST) promotes Slovakia as a tourist destination at home and abroad. Promotion takes place in the form of marketing campaigns on television, on social networks and on various platforms in the online world.

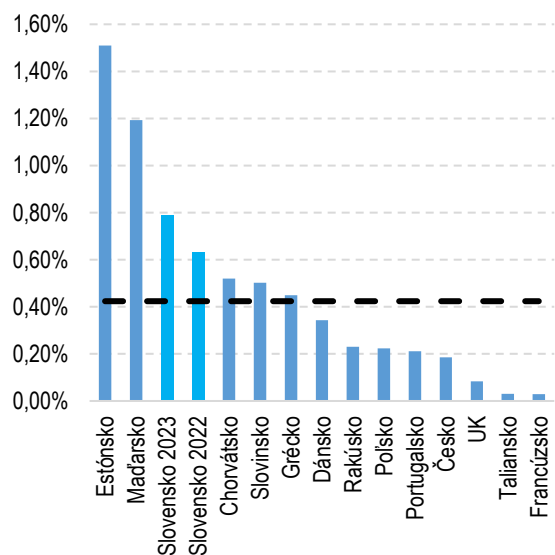
¹¹³Also the organization of famtrips, presstrips, information trips and the establishment of our foreign representations, PR activities and organization of press briefings.

Another task of the agency is the organization of local, national and international events for the presentation of Slovakia. The agency further supported the organization of the EXPO Dubai exhibition and financed several sports events in Slovakia. The existence of ST is justified in economic theory mainly due to the high positive externalities in the promotion of the region/country that arise for the entire tourism sector. Likewise, it is financially demanding for individuals to ensure a marketing campaign for a given region, the revenues from which carry a high degree of risk.

There is a lack of clearly set key indicators, according to which the efficiency of the agency would be evaluated. The basic goal of the agency is to increase the attractiveness of Slovakia as a tourist destination and thus to increase the share of tourism in GDP creation. The agency's communication strategy states that the priority indicators for evaluating efficiency are: the share of CR in GDP, the number of visitors, the number of overnight stays and visitor expenses. However, the specific target values that the agency would like to achieve within the aforementioned KPIs are not mentioned. The tourism section is currently working on the Sustainable Tourism Strategy until 2030, which should also include clearly defined key indicators.

In 2023, Slovakia Travel has planned to spend almost twice as much in relation to the size of the tourism sector and up to three times higher in relation to the size of the tourism sector than the agencies in abroad (approximately a third more in 2022). The amount of spending by agencies varies across EU countries depending on their agenda and programmes. Slovakia gives the agency an average of 0.0075 euros for creating 1 euro of added value of this sector (the average of the selected countries¹¹⁴ is 0.0042 per 1 euro of added value of the tourism sector). When compared to the total amount of GDP, ST expenses reach a level slightly lower than the average of other countries. Most of the agency's expenses go mainly to the contracting of marketing campaigns, which were not carried out to a similar extent before the establishment of the agency. Slovakia Travel had expenses in the amount of EUR 19 million for the first complete calendar year (2022). In the years 2023-2025, the planned expenses are at the level of approximately EUR 26 million per year.

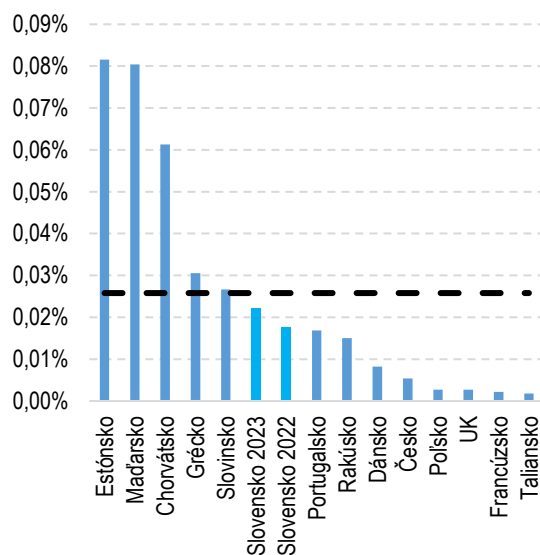
Chart 78: Ratio of agency spending on tourism promotion to the share of the tourism sector in GDP, 2018



SK* - budget, plan for 2024 – 2025 (EUR 26.6 mil.); SK** - current budget for 2022 (EUR 19 mil.);

Source: Annual reports of agencies, OECD, Eurostat

Chart 79: Ratio of tourism promotion agency spending to GDP



Source: Annual reports of agencies, OECD, Eurostat

Slovakia Travel's expenses for 2022 were at the level of EUR 19.1 million. The largest part of the expenditure was services (83%; EUR 15.9 million), which includes promotion, commercials and advertising. This is followed by

¹¹⁴EU28 countries that have a special agency to support tourism and had publicly available data.

wage expenses (9.7%; EUR 1.9 million) and premises rental costs (3%; EUR 0.6 million). During the first two years, the agency has contracted expenses for: EXPO Dubai (EUR 6.6 million; this is a one-off expenditure), the purchase of airtime (EUR 5.8 million) and contracts for marketing cooperation (EYOF, SKI TEAM VLHA, EUR 1.4 million in total).

Chart 80: Expenditure of Slovakia Travel agency (EUR million)

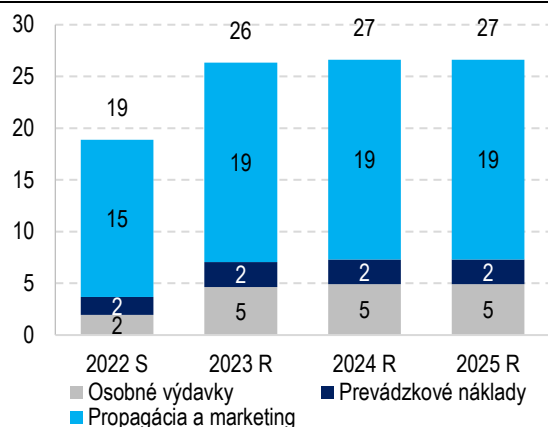
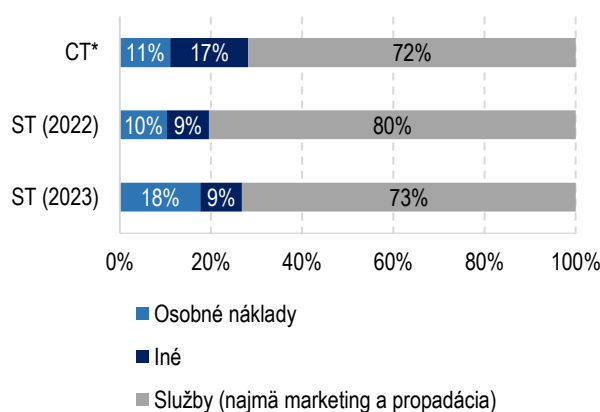


Chart 81: Structure of ST and CT expenditure



Source: BIS, MF SR

CT- Czech Tourism, data for 2017 – last published annual report

Source: Annual reports, BIS MF SR

Osobné výdavky	Personnel expenses
Propagácia a marketing	Promotion and marketing
Prevádzkové náklady	Operating costs
Osobné náklady	Personnel costs
Iné	Other
Služby (najmä marketing a propagácia)	Services (mainly marketing and promotion)

The agency's approved budget for 2023-2025 is intended to reduce the proportion of marketing and promotion expenditure to total expenditure. In the first completed calendar year of ST's operation, more than 80 % of expenditure was spent on services (mainly marketing and promotion), which was less than 10 percentage points higher than the Czech tourism promotion agency. In the approved budget for 2023-2025, the agency plans to increase personnel expenditure, which will increase the share of administrative costs in the total budget.

Chart 82: Contracted expenditure according to the CRC between 2021-2022 (EUR million)

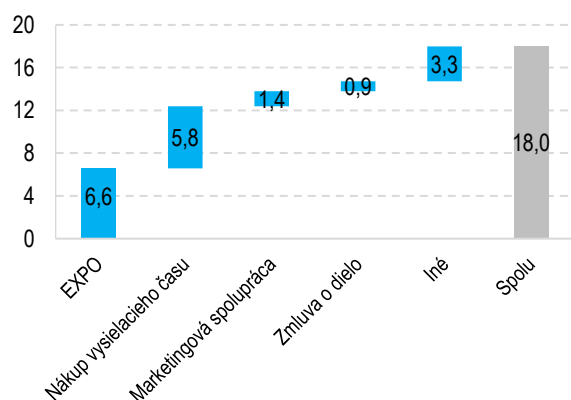
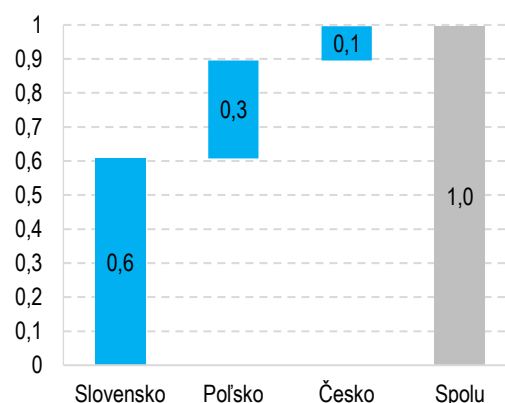


Chart 83: ST's contracted spending on TV spots by country 2021-2022 (EUR million)



Source: CRC

Nákup vysielacieho času	Purchase of airtime
Marketingová spolupráca	Marketing cooperation
Zmluva o dielo	Contract for work
Iné	Other
Spolu	Total
Slovensko	Slovakia
Poľsko	Poland
Česko	Czech Republic

Although the proportion of domestic tourists is already high compared to foreign countries, the ST marketing campaign has so far targeted them, partly due to pandemic measures around the world. However, the ratio of domestic tourists to the population in Slovakia is also below the EU average and there is therefore room for growth in the number of domestic tourists as well. However, the gap in the number of foreign tourists compared to EU countries is more pronounced and therefore the ST agency should focus mainly on foreign markets. As part of the communication strategy, ST has committed to targeting Slovakia's promotion also to the V4 countries + DACH region, Benelux and Scandinavia from mid-2023 onwards, as these are countries with a strong purchasing power of the population. It is also more time-consuming to contract marketing cooperation with foreign countries in view of the Public Procurement Act. It is clear from the latest CRC data that ST is increasing its marketing activity in foreign markets.

A large part of the expenditure is directed to projects where it is difficult to determine the impact on the growth of tourism in Slovakia. The marketing cooperation component, with a total amount of EUR 1.4 million, includes support for Slovak athletes (Petra Vlhová, Adam Žampa), support for sporting events (EYOF, International Peace Marathon) for which impacts on Slovak tourism are not available¹¹⁵.

8.2. Subsidies to tourism organisations

The scheme aims to support area-based tourism organisations (ABTOs) and regional TOs that promote and create conditions for the development of tourism in their territory and protect the interests of their members. The annual subsidy budget for TOs is EUR 8.2 million. In the coming years, the scheme will give priority to digital forms of communication, smart tourism and website improvement.		
Objective and KPIs	The scheme has a general objective to promote tourism and focus on selected areas (smart tourism, sustainable tourism). Discussions are already underway to set new KPIs.	
The need for intervention	Members of ABTOs themselves are able to promote the region on their own, as opposed to promoting the country as a whole (an example is TMR s.r.o., which also promotes the High Tatras from private sources, but is also a member of an ABTO). However, there is a stowaway problem, as only a fraction of the tourism entities in the area are involved in the promotion of the region.	
Form of support	A subsidy is an appropriate support instrument. Increasing membership fees and decreasing the state contribution is an option to consider. Regional tourism organisations in the Czech Republic operate mainly on the principle of membership fees.	
Recommendation	Retain and modify. Reconsider the amount of subsidies, as the newly established Slovakia Travel Agency has partially taken over the tasks of the area-based organisations in promotion and marketing. Also focus more on those area-based organisations that do not have a highly developed tourism infrastructure.	

The scheme is for tourism organisations to develop tourism in their area. The amount of subsidy for a TO is up to a maximum of 90 % of the accommodation tax collected from member municipalities and for a regional tourism

¹¹⁵ The selection of events within the framework of marketing cooperation is carried out through an established committee in accordance with established rules, whereby applicants for cooperation are required to provide information on the uniqueness of the event, the target group and the expected international participation (participants or visitors).

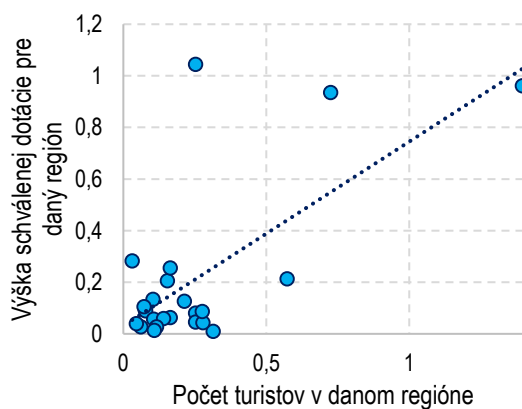
organisation the maximum support is up to 10 %. Entrepreneurs also contribute to the financing of TOs through membership fees. The TOs use the funds from the scheme for marketing promotion of their region, for the rehabilitation of tourist infrastructure and for the promotion of cultural events in the region.

The scheme aims to support TOs that enhance the competitiveness of their region as a tourist destination, but does not include clearly defined KPIs to determine its effectiveness¹¹⁶. In particular, the scheme will prioritise digital forms of communication, smart tourism and website improvement in the coming years. The scheme does not have clearly defined key performance indicators. One of the indicators to evaluate the effectiveness of the scheme could be the growth in the number of tourists in the regions supported¹¹⁷.

Subsidies to tourism organisations amounted to EUR 8.2 million in 2021. In 2021, 43 beneficiaries were supported under this scheme and the average subsidy per beneficiary amounted to EUR 190 thousand. The four largest organisations accounted for almost half of the total expenditure (EUR 3.8 million). The absolute amount of aid granted to each TO has a positive correlation with the total number of tourists in the regions concerned (the higher the number of tourists in a given region, the more funding the TO receives)¹¹⁸.

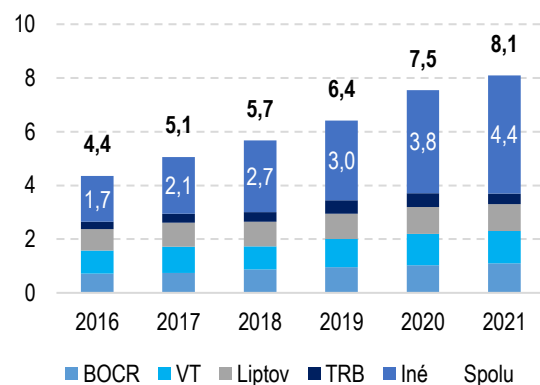
Since 2016, spending to less developed regions has been growing faster than to the largest organisations (Bratislava, High Tatras and Liptov). Spending on TO subsidies has been increasing every year, with the scheme almost doubling in the last 6 years. The number of beneficiaries has been stable over time (35-43 beneficiaries as of 2016). The increase in spending is mainly due to support to less visited regions. The proportion of TOs supported outside the top 4 beneficiaries has increased from 39% to 54% between 2016 and 2021. Changing the structure of subsidies towards less developed regions is appropriate not only in terms of increasing the equity of redistribution, but also in terms of economic efficiency. Expert studies point to a higher social return on resources invested in regions with less developed tourism.

Chart 84: Relationship between the number of tourists and approved subsidies for TOs in 2019, EUR million*



Source: SO SR, MTC SR

Chart 85: Amount of approved subsidies for TOs, EUR million



Source: MTC SR

Výška schválenej dotácie pre daný región	Amount of approved subsidy for the region
Počet turistov v danom regióne	Number of tourists in the region
BOCR	BTB
VT	HT
TRB	BRT
Iné	Other
Spolu	Total

More than 40% of an ABTO's expenditure goes on marketing and promotion. The structure of subsidies allocated to ABTOs is divided into 9 categories: marketing and promotion, TIC (Tourist Information Centre)

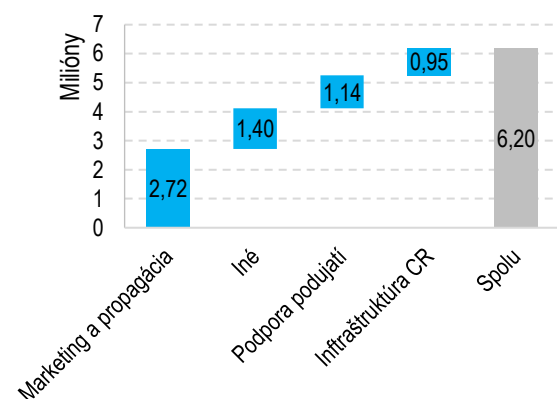
¹¹⁶ From 2023 onwards, project applications for support should also include indicators to evaluate the effectiveness of the support.

¹¹⁷ Data on tourist arrivals by district are evaluated on a monthly basis by the Statistical Office. In the past, subsidy applications also included the expected impact of supported projects on tourism in the region (KPIs). The Ministry of Transport also plans to monitor dynamic indicators such as the region's saturation rate and the promotion of tourism diversion to less visited regions.

¹¹⁸ An exception is the district of Poprad (High Tatras), where a large part of visitors stay overnight in the surrounding districts, e.g. Kežmarok or Liptovský Mikuláš.

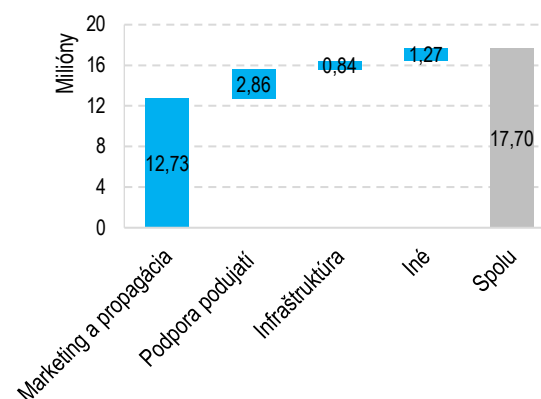
activities, tourism infrastructure, event support and others. Marketing and promotion of Slovakia as a destination at home and abroad started to be centrally provided by the Slovakia Travel agency in 2021, which creates room for savings on the part of ABTOs or for using resources for building local tourism infrastructure. Unlike ST, the creation of tourism infrastructure is fully within the competence of area-based organisations and local governments. Building tourism infrastructure has a strong positive impact on the tourism sector (Nguyen, 2021).

Chart 86: Structure of subsidies allocated to the largest TOs¹¹⁹ within subcategories, average 2020-2022



Source: CRC

Chart 87: Structure of subsidies allocated to the largest TOs + ST within subcategories, average 2020-2022



Source: CRC

Milióny	Million
Marketing a propagácia	Marketing and promotion
Iné	Other
Podpora podujatí	Event support
Infraštruktúra CR	Tourism infrastructure
Spolu	Total

8.3. Holiday vouchers

A statutory allowance, exempt from taxes and levies, for employees of 55% of the cost of the stay, up to a maximum of EUR 275 for the whole year. Approximately 200 thousand employees benefit from the scheme annually. The impact on public finances is on average EUR 23.9 million.	
Objective and KPIs	The objective of the act was to promote domestic tourism by introducing new instruments for financing tourism development. It does not have a clearly defined KPI. Implicitly, the scheme is intended to promote domestic tourism.
The need for intervention	No clear market failure is identified. However, in the context of the pandemic, the accommodation sector has been one of the worst affected sectors. Vouchers may therefore have served as a tool for a quicker return to pre-crisis levels of economic activity. We propose to abolish the vouchers when economic activity in the sector recovers. At the same time, there is a reduced 10% VAT to support the tourism sector.
Form of support	Tax expenditure is not an appropriate form of support as the measure is across-the-board, regardless of the level of income of the employee. At the same time, the measure does not increase accessibility for all households, as the voucher obligation only applies to medium and large enterprises or institutions, which are likely to have already provided a benefit scheme. However, the introduction of vouchers has had a significant effect on domestic tourism.
Recommendation	Retention with a fixed end date. In the context of the post-crisis support to the most affected sectors, a stay in place could be considered until tourism returns to its pre-pandemic levels. Keeping vouchers in place is equivalent to sectoral aid.

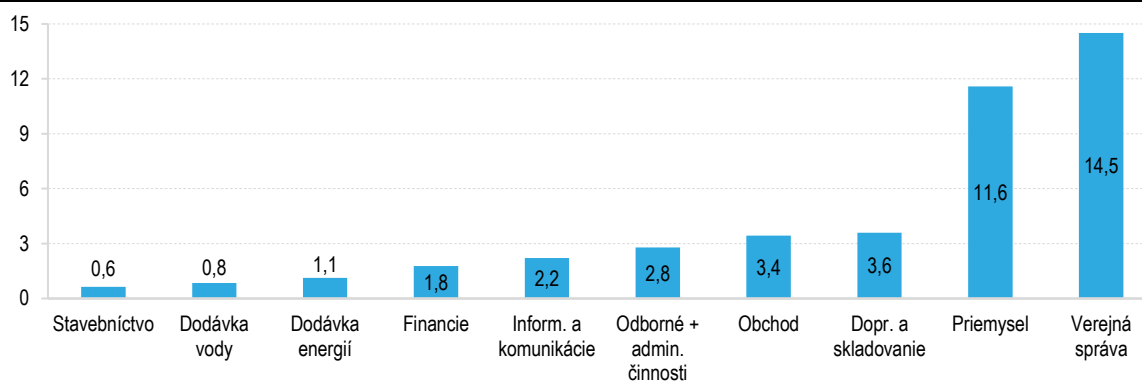
¹¹⁹ Subsidies to the 10 largest ABTOs (by size of their budget) account for more than 60% of the scheme's total budget.

Since 2019, the state has started to support domestic tourism more strongly. In order to increase the interest of domestic tourists in holidays in Slovakia, holiday vouchers have been introduced and the VAT rate on accommodation has been reduced to 10%. The holiday voucher is provided by the employer in the amount of 55% of the eligible expenses for the stay, up to a maximum of EUR 275 for the whole year. Companies employing more than 49 employees are obliged to provide it on the basis of a request from the employee. The employee is entitled only if he has worked for the employer for at least 2 years and the overnight stay lasted at least 2 nights. For employers with fewer employees, the allowance is voluntary. The holiday voucher is exempt from taxes and levies for both employers and employees (state support).

Implicitly, the scheme is designed to support domestic tourism, which has also benefited from a reduced VAT rate on accommodation since 2019. The measure is across-the-board, regardless of the employee's income level. At the same time, the measure does not increase accessibility for all households, as the obligation to pay the voucher only applies to medium and large enterprises or institutions, which are likely to have already provided a recreation benefit scheme even without this being anchored in legislation.

Holiday vouchers have a fiscal impact of around EUR 23.9 million and are used by around 200 thousand employees (Chart 88). They are paid to at least one employee in 90% of firms obliged to pay vouchers, while in small firms not obliged to pay vouchers only 3% of employees have used a voucher (Chart 89). The level of use of holiday vouchers was maintained in 2020 despite the pandemic¹²⁰. Setting a condition on the number of employees in a firm has naturally directed the use of the allowance towards the largest employers - namely industry, public institutions or retail (Chart 88).

Chart 88: Selected sectors of the economy where the use of vouchers exceeded EUR 0.5 million per sector (EUR million, 2019)



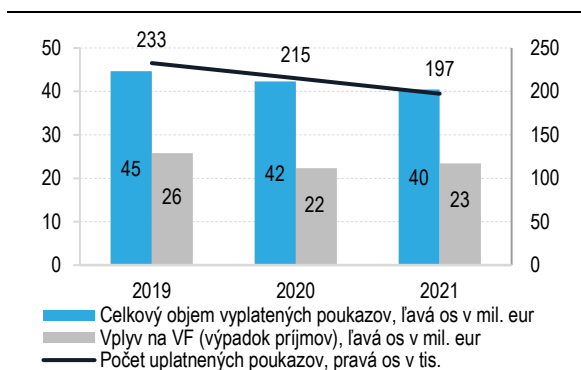
Source: MF SR

Stavebníctvo	Construction
Dodávka vody	Water supply
Dodávka energií	Energy supply
Financie	Finance
Inform. a komunikácie	Information and communications
Odborné + admin. činnosti	Professional + admin. activities
Obchod	Trade
Dopr. a skladovanie	Transport and storage
Priemysel	Industry
Verejná správa	General government

The available data do not allow for a comprehensive assessment of the impact of recreation vouchers on the availability of recreation for low-income households that would otherwise be unable to afford recreation. Information on using the allowances is only available from employers' reports, which only fill in the aggregate amount of vouchers provided and the number of employees using them, without additional data to allow a more detailed analysis based on employee income.

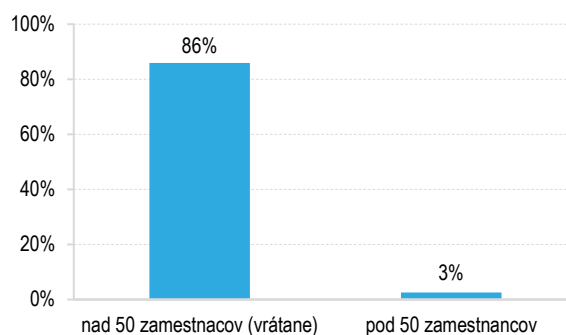
¹²⁰ The impact on holiday vouchers was very similar in both 2019 and 2020, despite 2020 being affected by the pandemic. This may be because the summer months, which generate the largest profits, were not affected by COVID in 2020.

Chart 89: Use of holiday vouchers



Source: Tax returns and reports

Chart 90: Percentage of employers paying out holiday vouchers (2019)



Source: Tax returns and reports

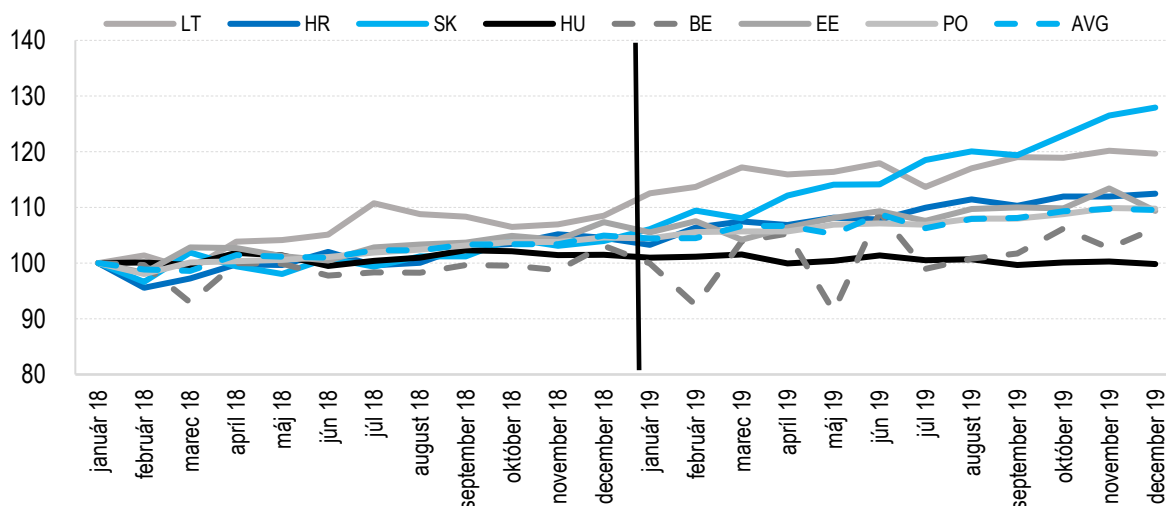
Celkový objem vyplatených poukazov, ľavá os v mil. eur
 Vplyv na VF (výpadok príjmov), ľavá os v mil. eur
 Počet uplatnených poukazov, pravá os v tis.
 nad 50 zamestnancov (vrátane)
 pod 50 zamestnancov

Total volume of vouchers paid out, left axis in EUR million
 Impact on public finances (revenue shortfall), left axis in EUR million
 Number of vouchers applied, right axis in thousands
 over 50 employees (incl.)
 under 50 employees

The impact of holiday vouchers on the tourism sector

A simple seasonally adjusted comparison with comparable European countries shows that the number of overnight stays by domestic tourists in Slovakia has increased since the beginning of 2019. A comparison of EU Member States with similar levels of overnight stays¹²¹ per capita (Chart 91) shows that the rate of growth in overnight stays by Slovak domestic tourists has accelerated significantly since 2019. Compared to January 2018, the number of overnight stays in Slovakia was by 28% higher, while the average of similar countries was only by 9.5% higher.

Chart 91: Seasonally adjusted number of overnight stays (2018m1 = 100, similar countries)



Source: Eurostat (tour_occ_nim)

Január	January
Február	February
Marec	March
Apríl	April
Máj	May
Jún	June
Júl	July
August	August
September	September

¹²¹ Similar countries were identified by the number of overnight stays of domestic tourists per capita. In Slovakia, the ratio of overnight stays of domestic tourists to population was 1.77 in 2018. Similar countries were selected based on the value of the overnight stay rate ranging from 1.55 to 1.87 (Lithuania, Belgium, Croatia, Estonia, Poland and Hungary).

Október	October
November	November
December	December

Two methods were used to quantitatively and analytically more robustly evaluate the effect of measures promoting domestic tourism. The first historical trend method compares the actual number of overnight stays of domestic tourists with an alternative year 2019, which would be based on trend and seasonal movements from 2014 to 2018 only. The second method produces a so-called synthetic Slovakia, i.e. the state of overnight stays of domestic tourists in 2019 that would have occurred without the adoption of the reduced VAT and the holiday vouchers. The synthetic Slovakia will be created as a weighted average of the other European countries in the control group where tourism promotion measures were not introduced in the period.

Compared to a situation where the number of domestic overnight stays would have followed the past trend, the actual number of overnight stays in 2019 was higher by 8% (Chart 92 and Chart 93). In absolute terms, the effect amounts to 800 thousand extra overnight stays. The estimate is based on the forecast number of domestic overnight stays based on the historical trend and the seasonal development of overnight stays in any one month, with the most pronounced difference seen in the summer months. The disadvantage is that the estimate based on the historical trend only uses overnight stay data and does not take other factors into account. It does not take into account the overall economic activity or the phase of the economic cycle in 2019, which may have largely affected tourism not only in Slovakia but also in neighbouring countries.

Chart 92: Comparison of number of overnight stays: historical trend vs. reality (unadjusted data in thousands)

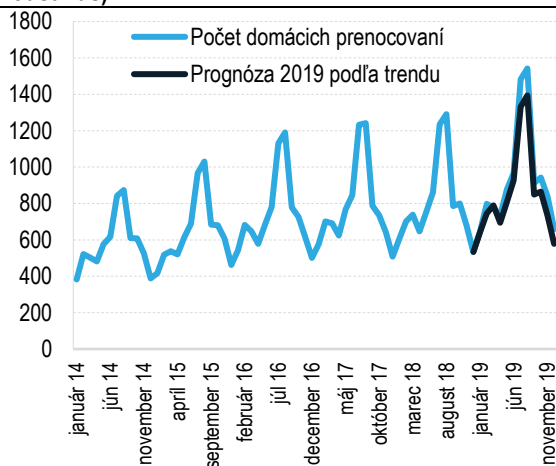
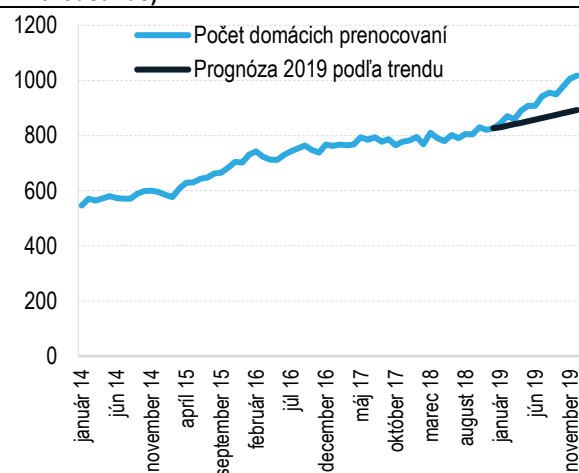


Chart 93: Comparison of number of overnight stays: historical trend vs. reality (seasonally adjusted data, in thousands)



Source: Eurostat (tour_occ_nim), IFP

Počet domácich prenocovaní	Number of domestic overnight stays
Prognóza 2019 podľa trendu	Forecast 2019 by trend
Január	January
Február	February
Marec	March
Apríl	April
Máj	May
Jún	June
Júl	July
August	August
September	September
Október	October
November	November
December	December

The Synthetic Control Method (SCM) shows that compared to the situation without the introduction of holiday vouchers and reduced VAT, the number of overnight stays of domestic tourists increased by 1 million or almost 10% (Chart 94 and Chart 95). While before 2019 the difference between Slovakia and the “synthetic” Slovakia was minimal (which is an assumption of an accurate estimate), after 2019 a significant increase

in the number of overnight stays per capita can be seen. Thus, we identify an impact similar to that of the historical trend method. In addition to the number of overnight stays themselves, the SCM method also took into account relevant economic factors that may have influenced overnight stays - accommodation occupancy, GDP per capita and the share of the trade and tourism sector's value added in the private sector's value added.

Chart 94: Estimate based on SCM, number of overnight stays per capita (seasonally adjusted data)

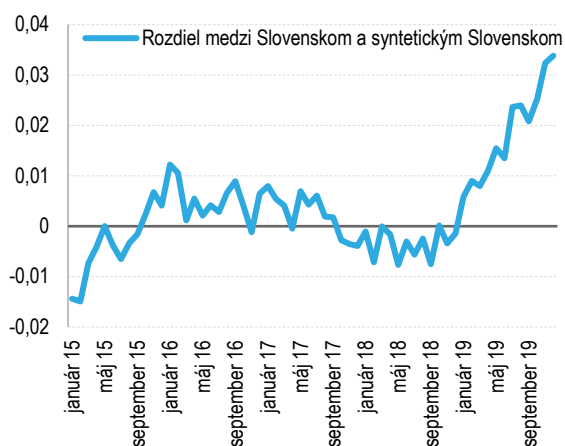
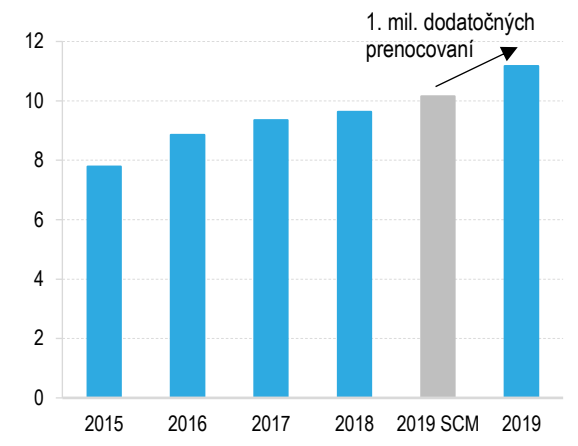


Chart 95: Effect of measures on the number of domestic overnight stays (SCM estimate in millions)

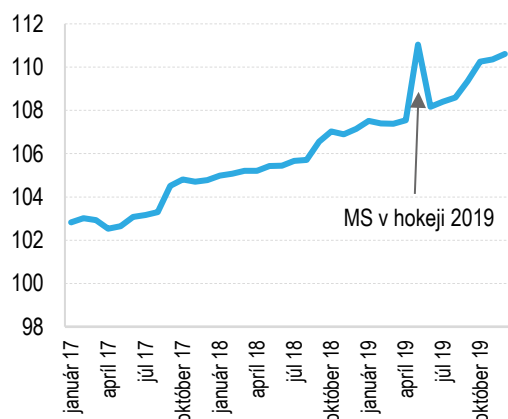


Source: Eurostat (*tour_occ_nim*) and (*tour_occ_ninraw*), IFP

Rozdiel medzi Slovenskom a syntetickým Slovenskom 1 mil. dodatočných prenocovaní Január Máj September	The difference between Slovakia and synthetic Slovakia 1 million additional overnight stays January May September
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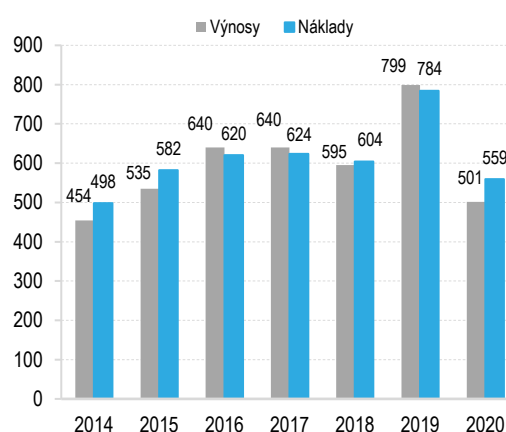
However, based on the available data, it is not possible to distinguish separately the effects of vouchers and reduced VAT. The evolution of accommodation prices shows that there was no significant reduction in the price of stays in 2019 (Chart 96), which could have boosted domestic tourism. The beginning of the year is marked by a slight slowdown in price growth, but after the Ice Hockey World Championship in May 2019, price development has returned to its original trend and even accelerated slightly. The price increase from May caused by the championships was a one-off and did not spill over into the previous or future months. We also do not expect the World Championship to have a significant impact on the estimates presented¹²².

Chart 96: Price development of accommodation services, HICP average 2015=100



Source: SO SR

Chart 97: Development of revenues and costs from economic activity in the accommodation sector (EUR million)



Source: Tax returns

MS v hokeji 2019 Výnosy	Ice Hockey World Championship 2019 Revenues
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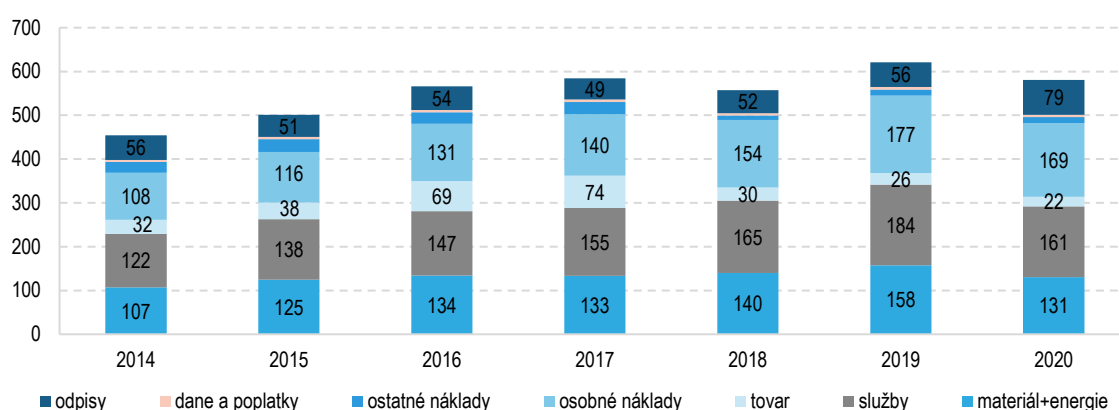
¹²² It is believed that the home fans largely did not stay overnight, but just commuted to the matches.

Náklady Január April Júl Október	Costs January April July October
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The additional overnight stays helped sales, but costs also increased; hoteliers' profitability remained unchanged (Chart 97). Available data for 2019 indicates a high level of variable costs. Although the number of rooms in a hotel is a given, their actual occupancy is determined by the level of costs such as energy consumption, labour costs and utilities (Chart 98). The additional overnight stays have partly increased costs and have not generated margin and profitability growth in the sector for 2019.

The effect of holiday vouchers on employment and wages was not significant. Data from the Statistical Office point to a 2.5% increase in the number of people employed in 2019 and a 3.9% increase in the catering sector. However, these increases are not out of line with the dynamics of previous years, in other words, they do not show a comparably strong effect as in the case of overnight stays. In 2019, although wages in the accommodation and restaurant sector grew and reached high levels, this phenomenon was occurring across the entire economy. Average wages of employees in the accommodation sector grew at a dynamic pace, but based on the available data, we cannot say whether holiday vouchers or the generally strong labour market in 2019 are responsible for the higher wages. Among other things, the minimum wage also increased significantly in 2019 (from EUR 480 to EUR 520) and holiday and weekend allowances also rose. **These factors may also have influenced the sector's wage development and cost increases, squeezing margins downwards.**

Chart 98: Decomposition of costs in the accommodation sector (EUR million)



Source: Register of Financial Statements, Finstat

odpisy dane a poplatky ostatné náklady osobné náklady tovar služby materiál + energie	depreciations taxes and fees other costs personnel costs goods services materials + energy
---	--

8.4. Reduced VAT on accommodation

Since 2019, a reduced value added tax rate of 10% has been applied to accommodation services (estimated annual loss of revenue to the SB of EUR 18 million). The measure covers all forms of accommodation - hotel and tourist accommodation, campsites, dormitories and workers' hostels.

Objective and KPIs

The aim of the introduction is to maintain the competitiveness and comparability of the sector's taxation with foreign countries (10% VAT). However, the promotion of tourism is defined only in very general terms.

The need for intervention	The need for intervention is not supported by economic theory as a measure to reduce the prices of goods and services or through lower prices as a targeted measure to support low-income households. In terms of maintaining the price competitiveness of the sector, it is difficult to determine whether there has been a fall in prices or an increase in profit margins for entrepreneurs.	
Form of support	The form of support is not effective as it has no demonstrable impact on the growth of price competitiveness of the tourism sector. Price is one of the main determinants of the final destination of a holiday or vacation, but the VAT rate has little impact on the total cost of the accommodation sector.	
Recommendation	Temporarily retain and reassess the impact on the sector. The reduction of VAT and its pass-through to final prices is questionable in the economic literature; it does not generally lead to price reductions. We recommend addressing the low productivity of the sector and its competitiveness through targeted levy-deductible items that can reduce labour costs (a major cost item for the accommodation sector).	

Since 2019, a reduced VAT rate of 10% has been applied to accommodation services. The measure covers hotel and tourist accommodation, campsites, dormitories and workers' hostels. All services directly related to accommodation (reception services, parking, catering) are subject to the reduced rate. Where these services are used separately, they are not subject to the reduced rate.

The aim of introducing a reduced rate is to maintain the sector's advantage compared to abroad. No key performance indicators have been set. Reduced VAT is available to any VAT payer in the Accommodation sector. In 2020, this was around 2,500 entities, of which 94% were companies and 6% were sole traders.

The reduced VAT rate reduces the state budget revenue by approximately EUR 12-17 million (the average for 2019-2021 is EUR 15 million per year). The fiscal impact needs to be assessed comprehensively, as the Holiday Vouchers (combined with the absence of price decreases) have generated growth in value added output in the accommodation sector, offsetting part of the potential shortfall in state revenue from the VAT reduction. Dozens of the largest entities in the sector are benefiting, as the benefit of the reduced rate is directly proportional to the ability to add value and make a profit. The lower the productivity, the lower the VAT paid.

Research to date¹²³ suggests that there is no or only a partial price decrease under reduced VAT. The empirical results are inconclusive and context-specific considerations need to be taken into account, but one of the conclusions of the meta-study was that changes in reduced rates are transmitted to prices to a much lesser extent than changes in the standard rate. Distributional impacts on both domestic and global data show that even if VAT reductions translate into prices, higher-income households will benefit in particular, as they use more leisure accommodation services compared to low-income groups.

The accommodation sector, together with the catering sector, is the sector with the lowest productivity in the economy. In the pre-crisis years 2016-2018, there was only 20 cents of profit per 100 euros of revenue (Finstat, 2019). A reduced VAT rate can lead to negative externalities in the form of "survival" of low-productivity firms with low wages (or the risk that part of the wages is paid in the informal economy). At the same time, the VAT collection gap in this sector is among the highest in the economy¹²⁴. The low productivity of the sector is better addressed through targeted reductions in labour taxation. Labour taxes and levies are part of the wage bill, which is one of the main cost items in the accommodation sector (Chart 98, labour costs). Possible alternative measures include a deduction to reduce the tax burden on low-wage workers, which has worked in the past but can no longer be fully

¹²³ Benedek, D., De Mooij, R., Keen, M., & Wingender, P. (2015). Estimating VAT Pass Through. International Monetary Fund (IMF Working Paper WP/15/214).

¹²⁴ The last analytical estimate is from 2018 and the tax gap in the accommodation and catering services sector was 57%.

exploited due to the rise in the minimum wage. A new form in a similar vein is the Seasonal Work Agreement, effective from 2023, which introduced a short-term deduction for social contributions also for workers in the tourism industry who work based on an agreement. This allows not to pay social security contributions for seasonal work up to approx. EUR 600 in 2023.

The reduced rate is used by all EU countries except Denmark, but this does not imply that it is “value for money”. The average reduced rate across EU countries is 10%. While price is one of the main factors determining the final destination of a holiday, VAT is one of the factors that has the lowest impact on the overall cost of the accommodation sector.

9. Regional development

- Regional development in Slovakia is supported by an average of EUR 322 million per year. The largest part is made up of funds from the EU (EUR 204.5 million and co-financing on average EUR 29.6 million), the remaining EUR 88 million are subsidies from the state budget.
- Subsidies to support regional development focus mainly on the gradual elimination of socio-economic disparities between developed and less developed regions.
- Almost 75% of investment aid was directed to more developed districts with above-average employment or to the vicinity of motorways. A positive example in recent years - indicating a change in this trend - is the district of Košice okolie, where the state has succeeded in attracting several investors. We recommend increasing the targeting of investment aid with a view to increasing its potential to reduce regional disparities and/or attract higher value-added investments.
- Schemes lack clear objectives and systematic evaluation of results. It is therefore unclear whether there is a real reduction in regional disparities. There is some overlap in objectives between the schemes and other areas (e.g., support for the construction of playing fields with the Sport Support Fund).

Table 37: Subsidy schemes in regional development, EUR million, 2019-2021

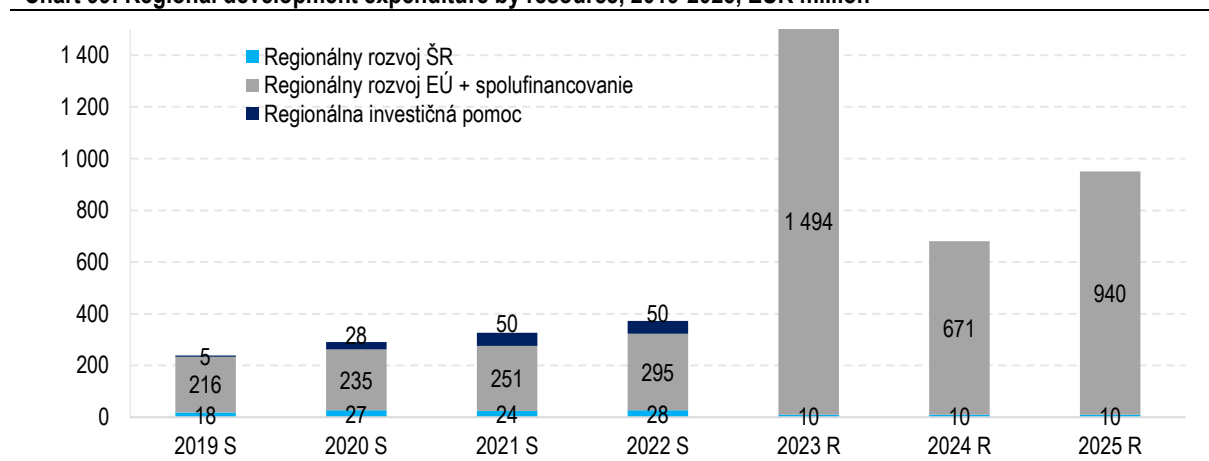
Forma	Subchapter	Name of the scheme	Expenditure
Subsidy	9.1	Regional contribution for LDDs	15.9
Subsidy	9.2	Support for regional development	7.4
Tax expenditure	9.3	Regional investment aid	64.7
Total			88.0

Source: BIS MF SR

Slovakia spent EUR 322 million per year on regional development in 2019-2021. About a quarter of the expenditure on regional development is financed from the state budget, most of the resources are made up of EU funds, which are intended for groups of beneficiaries with a similar focus. From the EU, the European Regional Development Fund (ERDF) and the Integrated Regional Operational Programme (IROP) are earmarked for regional development. Its aim is to contribute to improving the quality of life in the regions and to ensure the sustainable provision of public services. Slovakia has problems with the absorption of EU funds, as of 30 December 2022 less than 60% of the European Regional Development Fund allocation has been absorbed. The fund can be drawn down until the end of 2023.

Subsidies from the state budget (EUR 88 million per year) are provided under three schemes with a similar focus as IROP, supplemented by increasing economic performance, competitiveness and, above all, employment in LDDs. The difference is less administrative burden for the schemes financed from the state budget.

Chart 99: Regional development expenditure by resource, 2019-2025, EUR million



Source: RVS, MF SR

Regionálny rozvoj SR Regionálny rozvoj EÚ + spolufinancovanie Regionálna investičná pomoc	Regional development SB Regional development EU + co-financing Regional investment aid
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Box 18: Subsidies in regional development

Subsidies are a commonly used instrument to support regional development. As in other EU countries, regional development in the UK has been supported mainly by EU funds. In the UK, EU funds have had a positive impact on the economic growth of regions, particularly the less developed ones. An important aspect of the effectiveness of subsidies for regional growth has been their focus on specific areas. If support was given to an area in which a region had a comparative advantage over others, the positive effect of subsidies on the region's economic growth was greater ([Di Cataldo and Monastiriotis, 2018](#)). However, in promoting regional development, there is a risk of imperfect competition on the part of producers (e.g., a local monopoly or oligopoly) and a reduction in the economically optimal volume of goods and services produced (deadweight effect). At the same time, projects are often supported which directly distort the competitive environment in the region (Šipikal and Szitásziová, 2014).

In Slovakia and the Czech Republic, more than a third of EU funding for regional development programmes is spent on projects that would have been carried out without subsidies. Subsidies appear to make sense in promoting education, employment and technology, especially for start-up companies (Šipikal, Pisár and Labudová, 2013).

An analysis by the Institute for Social Policy examined the impact of state support for investment projects under the competence of the ME SR on the regional unemployment rate ([Analytical Commentary of the ISP](#)). The study shows that the unemployment rate decreases significantly after the approval of subsidies for investment projects, especially in the LDDs. In districts that are not LDDs, the impact of the support is uncertain. The costs of small projects (up to about 100 thousand euros of aid) can be recovered within the first year, while the costs of medium-sized projects (about 1 million euros) in medium-sized LDDs can be recovered only in levies and VAT within 4 years. The approval of the subsidy may also have other effects, such as wage growth or the avoidance of labour exodus, but this was not the subject of the analysis.

9.1. Regional contribution for least-developed districts

<p>The contribution serves to address the lagging behind of the least developed districts. Objectives and key performance indicators are set; they are not evaluated retrospectively. The amount of support is variable, averaging EUR 15.9 million per year. In the following years, the support is planned to decrease to EUR 8.9 million. Subsidies are intended for general government authorities, entrepreneurs and the third sector, always according to a specific call. The scheme is competitive - the package is distributed on the basis of project evaluation. The scheme overlaps in intent with other existing schemes.</p>	
<p>Objective and KPIs</p>	<p>The objective of the support is first and foremost to create jobs. For calls, KPIs are set by the applicant from predefined options according to the nature of the application. However, KPIs are not evaluated.</p>
<p>The need for intervention</p>	<p>LDDs are districts that have had a long-standing problem with just high unemployment. In these districts, unemployment has been shown to have a strong influence on the decision to go abroad for work. LDDs in particular have the highest out-migration rates. State support is therefore justified.</p>
<p>Form of support</p>	<p>The subsidy is an appropriate form of support for regional projects and is also used abroad. Thanks to this scheme, each LDD has an action plan that defines weaknesses, according to which the district office then announces projects and calls for proposals. The range of supported projects and financial assistance in the period under review was from EUR 1 000 to 600 000. The minimum amount of subsidy is already set at EUR 20 000 for most calls. Funds were also used for the operation of regional development support centres, currently financed by EU funds. The average support per project for 2022 was EUR 71 000.</p>
<p>Recommendation</p>	<p>Retain and modify. Continue to take into account the quality of applications submitted and give priority to projects and entities that have the potential to create or sustain jobs, examples being municipal enterprises. There is a need to reassess the level of support required for projects to have a more substantial impact on increasing employment. Eliminate the overlap of projects for tourism or cultural development, which should come under the schemes designed for this purpose. Monitor and evaluate the achievement of objectives.</p>

The contribution serves to eliminate the underdevelopment of the LDDs¹²⁵. The current number of such districts is 20 and they have a population of 1.13 million, which is 21 % of the population of Slovakia. Each of the LDDs has a Development Plan, according to which specific calls are launched. The type of projects supported depends on the parameters of the specific call - reconstruction of infrastructure, support for tourism, support for enterprises by purchasing equipment, etc.

The objectives and KPIs are set vaguely and do not assess the effectiveness of the results. The aim is mainly to promote job creation and also to reduce regional disparities, to encourage investment and entrepreneurial activity. The objectives and KPIs set for the whole subsidy scheme (job creation) are set well, but for specific schemes and calls there is a lack of clearly defined and measurable objectives and also a systematic backward evaluation of results. KPIs are set by the applicant from predefined options according to the nature of the application. KPIs do not assess the benefits of the project, only the compliance of the spending with the rules of the call.

¹²⁵ The term least-developed districts (LDDs) was introduced by Act 336/2015 Coll. on the support for least-developed districts. An LDD is defined as a district in which the average unemployment rate is higher than 1.35 times the average unemployment rate in Slovakia, while its level is at least 5.5% (for the time period determined by the act).

The scheme to support LDDs was launched in 2016 and has reached EUR 68 million by 2021. However, the support for each recognised district was only fully rolled out in 2019 (for the period 2019-2021, the amount reached 65% of the total allocated amount). At that time, unemployment rates were declining throughout Slovakia, but particularly in the underdeveloped districts, where they fell by an average of 7.3 p.p. between 2016 and 2019. However, the coronavirus pandemic highlighted the vulnerability of less developed districts to labour market shocks despite the subsidies. In as many as 13 LDDs (65% of all LDDs), the unemployment rate grew faster than the national average. In 2022, the least-developed districts lag behind the rest of the country in unemployment by 8.6 p.p.

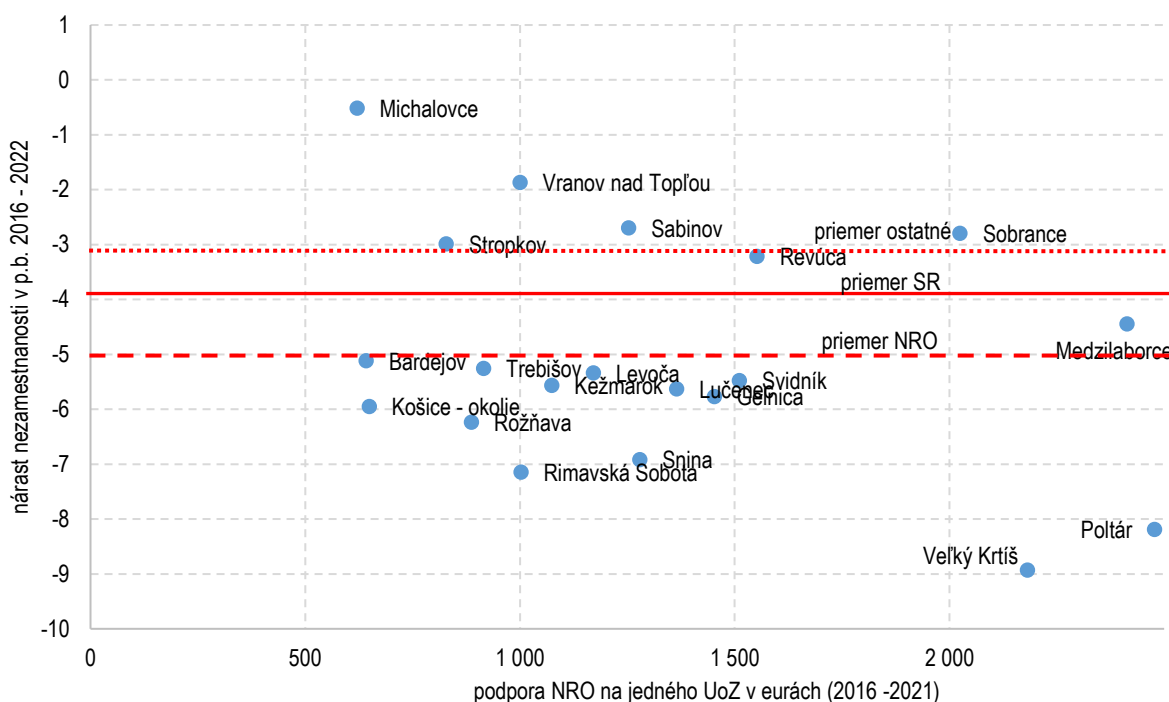
Table 38: Regional contributions for LDDs and IROP contributions for individual districts until 2021

Beneficiary	Amount of contribution for LDD (2016-21 total) (EUR thousand)	EU amount of support from IROP 2017-21 (EUR thousand)	Registered unemployment rate (%)			Change in unemployment rate (p.p.)	
			January 2016	January 2019	January 2022	Change 2019/2016	Change 2022/2019
Rimavská Sobota	6 418	3 076	27.4	16.2	20.3	-11.2	4.0
Trebišov	5 628	16 521	18.2	12.2	12.9	-6.0	0.7
Košice - okolie	3 757	18 629	17.4	10.0	11.5	-7.5	1.5
Michalovce	3 160	12 684	14.7	9.7	14.2	-5.1	4.5
Vranov nad Topľou	5 051	10 062	18.0	13.1	16.1	-4.9	3.0
Veľký Krtíš	3 279	14 569	18.1	7.0	9.2	-11.1	2.2
Sabinov	4 036	6 395	18.3	12.1	15.6	-6.3	3.6
Kežmarok	5 429	12 910	23.1	15.6	17.5	-7.5	1.9
Bardejov	2 753	15 943	18.1	10.8	13.0	-7.3	2.1
Revúca	4 098	2 410	21.4	14.5	18.2	-6.9	3.7
Lučenec	4 293	12 366	17.1	8.9	11.5	-8.2	2.6
Poltár	2 805	4 290	21.1	10.8	13.0	-10.3	2.1
Snina	1 925	974	16.4	8.2	9.5	-8.3	1.4
Rožňava	3 924	10 500	21.9	14.8	15.6	-7.1	0.9
Levoča	1 615	6 196	15.8	8.8	10.4	-7.0	1.6
Gelnica	1 977	1 540	17.4	9.7	11.6	-7.7	1.9
Sobrance	2 454	1 005	18.0	11.7	15.2	-6.4	3.6
Medzilaborce	1 501	4 041	16.6	11.1	12.1	-5.5	1.0
Svidník	3 095	2 422	18.5	11.8	13.0	-6.7	1.2
Stropkov	854	177	14.6	9.6	11.6	-5.0	2.0
Total LDDs	68 050	156 709	18.8	11.6	13.9	-7.3	2.4
TOTAL/DDs	0	1 193 537	8.3	3.7	5.3	-4.6	1.6
TOTAL/Slovakia	68 050	1 350 246	10.4	5.3	7.0	-5.1	1.7

Source: MIRDÍ SR and Central Office of Labour, Social Affairs and Family

The effectiveness of contribution for each district in the LDD group in meeting the objective of reducing unemployment varies between districts. In particular, there are significant differences between districts, which receive roughly the same contribution per jobseeker, but the changes in unemployment are different. Some districts (e.g., Snina, Kežmarok, Levoča) have reduced unemployment by 6% on average. Conversely, there are districts that have not seen a significant reduction in unemployment with approximately the same contribution (e.g., Vranov nad Topľou).

Chart 100: Relationship of the subsidy for LDD per jobseeker to the increase in unemployment

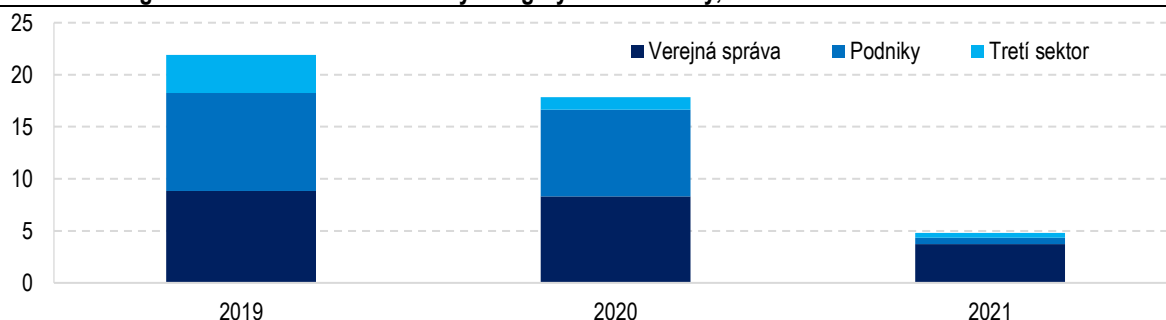


Source: MIRD SR and Central Office of Labour, Social Affairs and Family

nárast nezamestnanosti v p.b. 2016 – 2022	Unemployment growth in p.p. 2016-2022
podpora NRO na jedného UoZ v eurách (2016 -2021)	LDD support per jobseeker in euros (2016-2021)
priemer ostatné	average other
priemer SR	average SR
priemer NRO	average LDDs

Subsidies are intended for general government entities, entrepreneurs and the third sector, always according to the specific call. The scheme is competitive, with a pre-determined financial envelope distributed on the basis of an evaluation of the projects by the steering committee of the district concerned. However, project evaluations and reasons for rejection or support are often not made public. An average of 257 entities are supported annually (average EUR 55 thousand/project). The amount of subsidy granted varies considerably depending on the specific call (from one thousand to 600 thousand euro). The minimum amount of the subsidy is already set at EUR 20 000 for most calls for proposals. In 2022, the average subsidy per project was EUR 71 thousand. On average, the general government receives 47 %, entrepreneurs 41 % and the third sector 12 % of the funding.

Chart 101: Regional contributions to LDDs by category of beneficiary, EUR million



Source: MIRD SR

Verejná správa	General government
Podniky	Businesses
Tretí sektor	Third sector

The scheme overlaps with the purposes of other existing schemes, mainly because of the wide range of activities supported. The overlap is in the intentions, not in the funding of the entities. Examples are projects to build an educational tourist trail, which should be funded by the relevant area-based tourist organisation, museum

facilities and cultural promotion fall under the Art Support Fund rather than LDD support, and the creation of a sports and recreation area should be the responsibility of the Sport Support Fund.

9.2. Support for regional development

<p>The scheme serves to mitigate differences in the level of development of Slovakia’s regions. The objectives and key performance indicators are set too vaguely and do not assess the effectiveness of achieving results. The amount of support is variable and unpredictable due to large ad hoc calls. In the approved parliamentary budget, EUR 1.1 million is allocated in the long term, with a higher drawdown in a given year later (EUR 7.4 million on average for 2019-2021.) Between 2023 and 2025, EUR 1.1 million per year is budgeted. Subsidies are intended for general government and third sector entities, always according to a specific call. The scheme is competitive. The majority of the funding goes to general government authorities. The MIRDI also takes into account calls from other ministries when launching calls and tries to complement them, which may cause overlap in the aims and objectives of the different subsidy schemes.</p>		
Objective and KPIs	<p>The defined objective is general regional development and the reduction of disparities in the level of development of the regions. Individual calls either do not have this objective or it is very broadly defined, e.g., support for disadvantaged communities. The construction of a multifunctional sports hall is also an example of a poorly defined objective. The KPIs are listed in the methodology as "monitoring ideas", they are part of the contracts and their implementation is formally monitored in the framework of project sustainability as well as in the setting of the conditions of the upcoming calls.</p>	
The need for intervention	<p>Equality of opportunity (regional disparities) is one of the market failures that should be addressed by state intervention. According to OECD 2020, regional disparities in Slovakia are among the highest. It is necessary to clearly define in which area it is desirable to address regional disparities - e.g., high unemployment disparities yes, an indoor ice rink in every city is probably a less relevant condition (at the same time it should be addressed in the field of sport).</p>	
Form of support	<p>Euro funds have the same objectives as support for regional development - e.g., the IROP financed from the ERDF. An average of EUR 204.5 million per year from EU funds is directed to regional development, which can often be administratively more demanding. Improving the drawdown of EU funds earmarked for regional development support projects should be a priority. Subsidies are an appropriate form of support for regional projects, especially if they complement areas not supported by other schemes.</p>	
Recommendation	<p>Suspend. Make continuation of funding conditional on a more detailed review. Regional development can largely be financed from EU sources - therefore priority should be given to encouraging greater use of EU funds (IROP for regional development). The extent to which the scheme complements other calls (e.g., EU funding) should be examined.</p>	

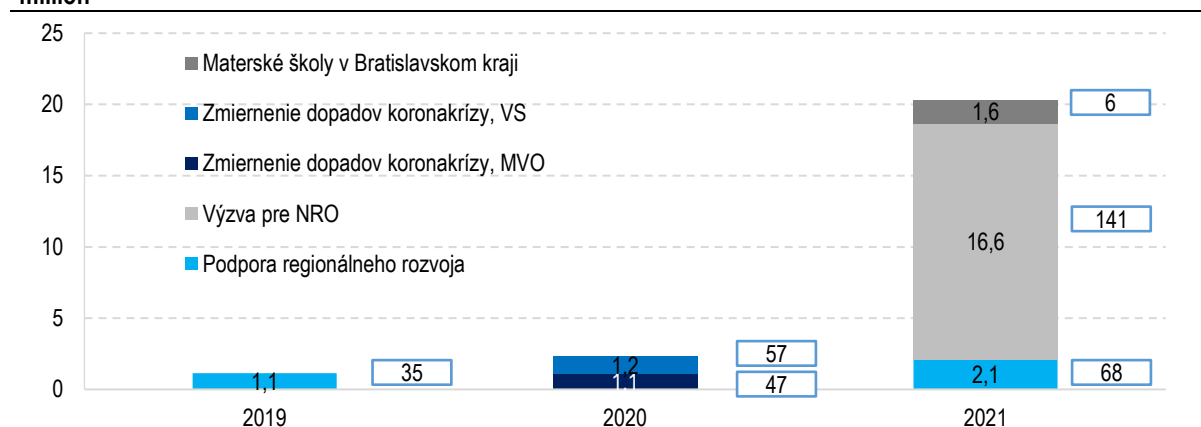
The scheme serves to mitigate differences in the level of development of Slovakia’s regions. It supports general government entities as well as third sector entities in the whole territory of Slovakia, not only in the less developed regions (the supported entities depend on the parameters of the specific call). Thus, the effect on reducing regional disparities may not be sufficient. A wide range of projects are supported - building infrastructure, planting orchards, supporting disadvantaged communities, marginalised communities or developing tourism.

Objectives are set too broadly and vaguely, KPIs are only monitored within a specific project. The objective of the scheme is to eliminate or reduce disparities in the level of economic and social development and to promote

investment and entrepreneurial activity while ensuring sustainable development. There is a lack of clearly defined and measurable objectives as well as a systematic evaluation of results. KPIs are part of the contracts, they are monitored within the project, but they only assess the compliance of the actual execution with the planned project.

The amount of support is budgeted on a stable basis, except for ad hoc calls, which bring significant variability in uptake. Until 2020, the amount of support averaged EUR 2.3 million, but in 2021 a call for least-developed districts was launched for EUR 16.6 million. Another ad hoc scheme is the call for multifunctional sports halls with a total value of EUR 12 million (announced in 12/2021).

Chart 102: Expenditure and number of beneficiaries per call, support for regional development, 2019-2021, EUR million



Source: MIRD SR, compilation by the VfMU2022

Materské školy v Bratislavskom kraji	Kindergartens in the Bratislava region
Zmiernenie dopadov koronakrízy, VS	Mitigating the impact of coronary crisis, GG
Zmiernenie dopadov koronakrízy, MVO	Mitigating the impact of the COVID crisis, NGOs
Výzva pre NRO	Call for LDDs
Podpora regionálneho rozvoja	Support for regional development

Subsidies are intended for both general government and third sector entities, always according to the specific call. The scheme is competitive, with a predetermined financial package distributed on the basis of the evaluation of projects by an expert evaluation committee. The number of beneficiaries varies considerably over the years. The average subsidy per beneficiary is EUR 67 000, but varies according to the call. Cities, municipalities and self-governing regions receive the majority of the package, up to 86 %. Without the ad hoc call for LDDs, the average annual number of beneficiaries would be 71, with cities, municipalities and self-governing regions receiving 53% of the funding.

The scheme overlaps with other existing schemes. Due to the wide range of activities supported, the scheme fulfils similar purposes to other schemes, e.g., the regional contribution for LDDs (call for LDDs), the Art Support Fund (support for arts events), tourism support schemes. When launching ad hoc calls, the MIRD SR also takes into account extra-ministerial schemes and seeks to complement them. Despite the potential economic and social benefits of supporting regional development, there is a need to comprehensively assess the effectiveness of individual schemes and to consolidate them in order to achieve the best value from public resources.

9.3. Regional investment aid

<p>Investment aid aims to reduce regional disparities and increase the competitiveness of the Slovak economy by attracting new investment from abroad or expanding investment by domestic or resident entities. Investment aid may take the form of a direct subsidy, a corporate tax relief or a combination of the two. Almost 75 % of the aid approved was directed to more developed districts with above-average employment or in the vicinity of motorways. Higher value-added technology centres accounted for only 4% of the total approved investment aid.</p>		
Objective and KPIs	Investment aid aims to reduce regional disparities and increase the competitiveness of the Slovak economy by attracting new investment from abroad or expanding investment by resident entities. This measure specifies the conditions under which it is possible to apply for investment aid, but the entity is not legally entitled to receive it because the government decides on each investment project.	
The need for intervention	There is no clear consensus in the economic literature on the effectiveness of incentives in attracting foreign direct investments to reduce regional inequality or increase productivity. Their effectiveness depends to a large extent on other, primarily structural factors in the economy, such as the quality of the business environment or the level of institutions. In practice, despite the evaluation process, it may not be obvious whether a given investment would not have taken place without the investment incentive, or, from a public finance perspective, whether the investment incentive represents the minimum necessary to make the investment. The instrument partly contributes to maintaining competitiveness (vis-à-vis other countries and tax systems).	
Form of support	Tax relief is gradually crowding out direct investment aid, creating scope for better value for money from the perspective of the state budget. Tax relief motivates investors to start up their businesses and generate profits, which is a prerequisite for the application of investment aid.	
Recommendation	Retain and modify. We recommend increasing the targeting of investment aid. For example, through adjusting the criteria of the evaluation model in the investment incentive application, with the intention of increasing its potential to reduce regional disparities and/or attract higher value-added investments.	

Entrepreneurs and companies with an investment plan aimed at a new investment or expansion of existing activities in the field of industrial production, technology centre or business service centre can apply for non-repayable state support for part of the eligible investment and/or wage costs. Any business entity registered in Slovakia may apply for investment aid. Its investment plan must meet the conditions for aid under the Regional Investment Aid Act¹²⁶ and must also successfully pass the assessment process and the approval of the investment aid application. However, there is no legal entitlement to this aid and the government of the SR always decides on the allocation of aid.

Forms of investment aid can take various forms - subsidies for long-term tangible and intangible assets (provided by the ME SR), contribution to new jobs created (provided by the Ministry of Labour, Social Affairs and Family of the SR), transfer or lease of immovable property for a lower value than determined by an expert opinion (provided by the state, the HTU or the municipality), or income tax relief (provided by the MF SR). The amount of aid is limited by the maximum intensity and the maximum amount of investment aid due to the restrictions on state aid.

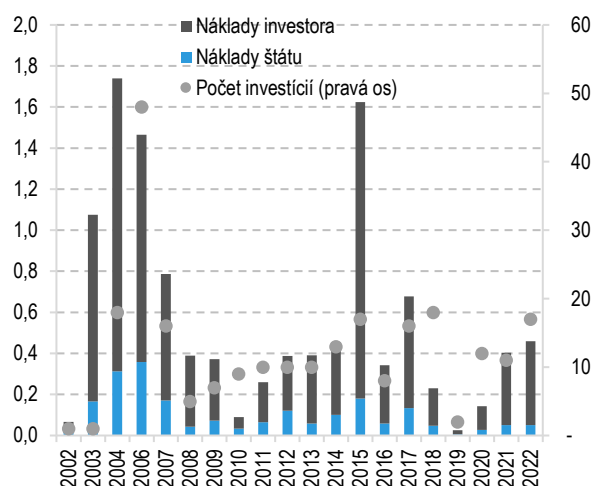
¹²⁶ Basic information on regional investment aid (2022), <https://bit.ly/3Dm9u16>

Support for investment projects has two main objectives. Firstly, in line with the strategy of the government of the SR, the priority of the measure is to support job creation in the least-developed districts (LDDs). Secondly, the ME SR focuses on increasing the competitiveness of the Slovak economy through investments in projects that use smart industry technologies or develop science and research. The objectives of the support may also include attracting foreign direct investment and spillover effects from foreign firms to domestic firms, for example through imitation of imported technologies and know-how, or increasing the qualification of the workforce, as investment aid reduces the costs of the investment plan and may decide on the allocation of investment.

Basic statistics on the use of support

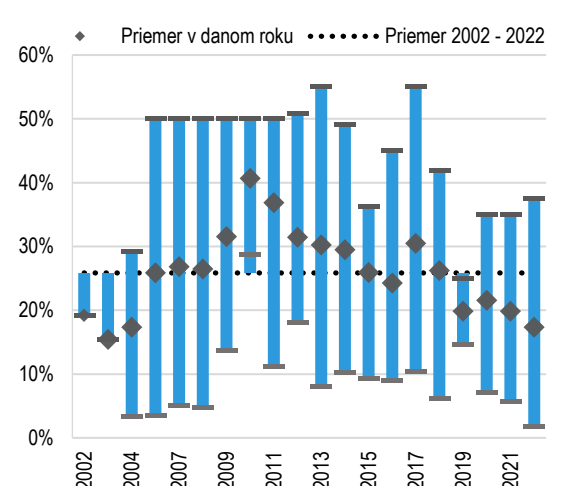
Over the last twenty years, the volume of approved aid has exceeded EUR 2.1 billion, but investors have so far used just over half of it. The reason for the lower uptake compared to approved aid is a combination of economic developments and the impact of the competitive environment. The investor's initial expectations of the implementation of the supported project may not be fulfilled, which will be reflected, for example, in a lower uptake of the tax relief or in a decision not to implement the investment project. This aid was distributed among 208 firms, with 35 firms having been granted investment aid several times.

Chart 103: Volume and number of investments supported by the state (approved plans, EUR billion)



Source: ME SR

Chart 104: Intensity of aid for investment proposals approved in 2002-2022



* The chart shows the MIN, MAX and average value in a given year
Source: ME SR

Náklady investora	Investor's costs
Náklady štátu	Cost to the state
Počet investícií (pravá os)	Number of investments (right axis)
Priemer v danom roku	Average in a given year
Priemer 2002 - 2022	Average 2002 - 2022

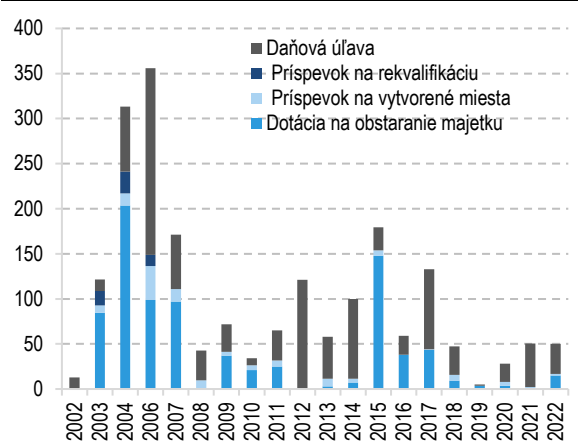
The average¹²⁷ share of state aid (aid intensity) in the total investment is 26 %. The average aid intensity has mostly decreased in recent years. The aid intensity is also dependent on frequently changing legislation which sets maximum aid intensities. The aid amount per job created was on average EUR 31 thousand.

Tax relief is gradually crowding out direct investment aid, creating scope for better value for money from the perspective of the state budget. Tax relief motivates investors to start up their businesses and generate profits, which is a prerequisite for the application of investment aid. From this perspective, tax relief poses less risk of resources being spent inefficiently. In the past, direct investment aid, in the form of subsidies for the acquisition of assets or grants for job creation and retraining, has been more favoured. In recent years, with exceptions, tax

¹²⁷ Average aid intensity of each investment project $(\sum_i^N \frac{\text{investment aid approved for the investor } i}{\text{eligible costs of the investment}}) / N$

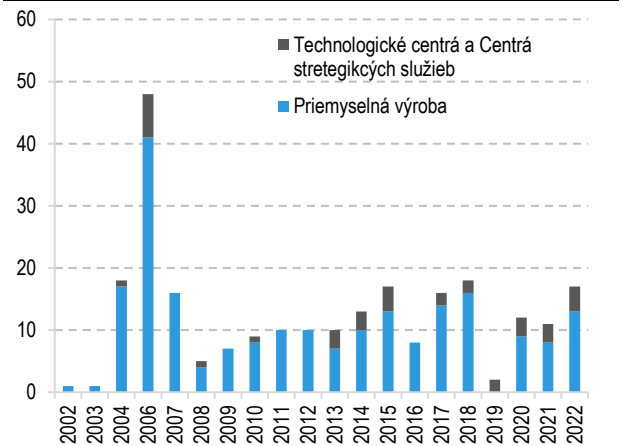
relief has been more widely approved. Direct forms of aid accounted for 26% of the total volume of approved investment aid over the last 5 years.

Chart 105: Approved investment aid by form of aid (EUR million)



Source: ME SR

Chart 106: Number of supported investments by type of investment plan



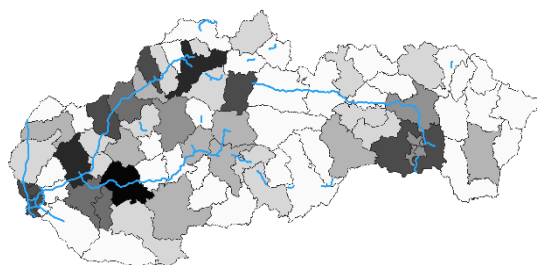
Source: ME SR

Daňová úľava	Tax relief
Príspevok na rekvifikáciu	Retraining allowance
Príspevok na vytvorené miesta	Job creation allowance
Dotácia na obstaranie majetku	Subsidy for the acquisition of assets
Technologické centrá a Centrá strategických služieb	Technology Centres and Strategic Service Centres
Priemyselná výroba	Industrial production

Investment aid was mainly directed to industry (96%), dominated by the automotive and electronics industries. The volume of aid to technology centres and strategic service centres accounted for only 4% of total approved investment aid over the last 20+ years.

In terms of the volume of funding, investment aid was concentrated mainly in the more developed districts close to motorways and expressways. Historically, the largest investments have been directed mainly to districts where unemployment was (and is) lower than the Slovak average. Moreover, these districts have been characterised by a higher number of vacancies on average over the long term. A positive example of recent years - indicating a change in this trend - is the district Košice okolie, where the state has managed to attract several investors. This may be due to a combination of several factors, such as the proximity of Košice itself, the readiness of the area (industrial parks), or efforts to promote the east of Slovakia as a preferred location.

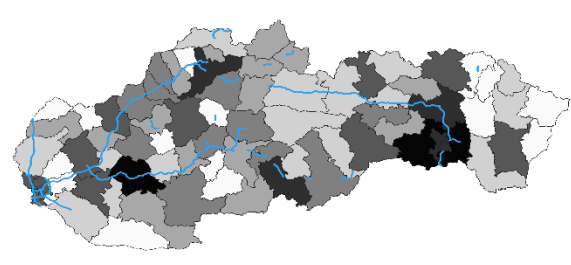
Chart 107: Volume of supported investments by district (2002-2022) and motorway and expressway network (2022)



* Darker colour means more investment

Source: ME SR, NDS

Chart 108: Number of supported investments by district (2002-2022) and motorway and expressway network (2022)



* Darker colour means more investment

Source: ME SR, NDS

A view of the economic literature on investment incentives

There is no clear consensus in the economic literature on the effectiveness of investment incentives aimed at attracting foreign direct investment, specifically to reduce regional inequalities or increase productivity

in a sector or economy¹²⁸. Their effectiveness is largely related to other, primarily structural factors in the economy, such as the quality of the business environment or the level of institutions.

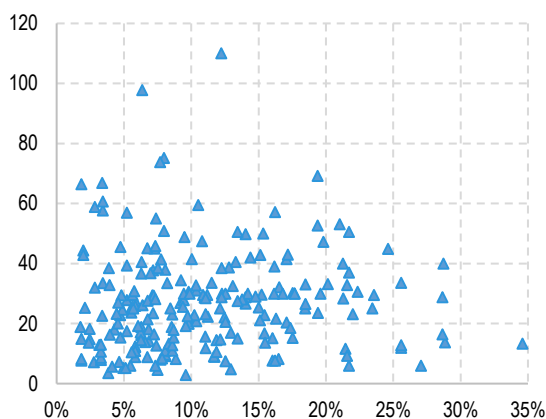
Investment incentives can be costly, especially if countries are motivated to provide more concessions to investors than would be optimal with respect to the investment. From a public finance perspective, it is optimal if the investment incentive is the minimum needed to make the investment. In practice, however, there are known examples where countries are competing for investment and the investment incentive serves to “beat” the supply of a neighbouring country. The amount of the incentive may then exceed the overall effects of the investment, ultimately leading to a net transfer of money from the taxpayer to the investor (IFP, 2015).

In practice, it is not easy to estimate the optimal amount of investment incentive without which the investment would not occur. Investment plans are therefore subject to ex ante assessment through the rating model of the ME SR and the IFP. While the ME SR model assesses the ability of the investment plan to contribute to the reduction of regional disparities or to the increase of added value in the economy, the IFP model complements these assessments with the fiscal costliness of the plan.

Evaluation of the investment aid instrument

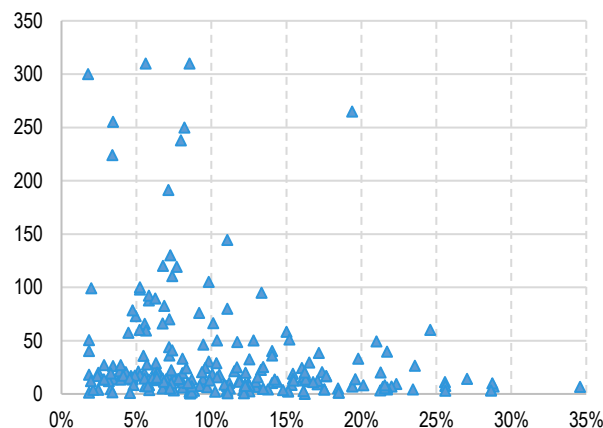
Just under a quarter of the aid approved went to districts with above-average unemployment. Aid per job created was also high in developed districts. One of the main objectives of investment aid is to reduce regional disparities, especially in LDDs, which is also reflected in the more favourable legislative conditions for these districts¹²⁹. This is to compensate, for example, for inferior infrastructure or a lack of skilled labour. Nevertheless, the largest investors have historically tended to focus on more developed areas.

Chart 109: Amount of aid per job created (EUR thousand) and unemployment in the district ¹³⁰



* Investment plans that are not visible in the chart: VOLKSWAGEN SLOVAKIA, a.s. - EUR 280 thousand at 5.5 % RUR, Evonik Fermas s.r.o. - EUR 325 thousand at 8.7 % RUR
Source: ME SR¹³², SO SR

Chart 110: Amount of supported investment (EUR million) and unemployment in the district ¹³¹

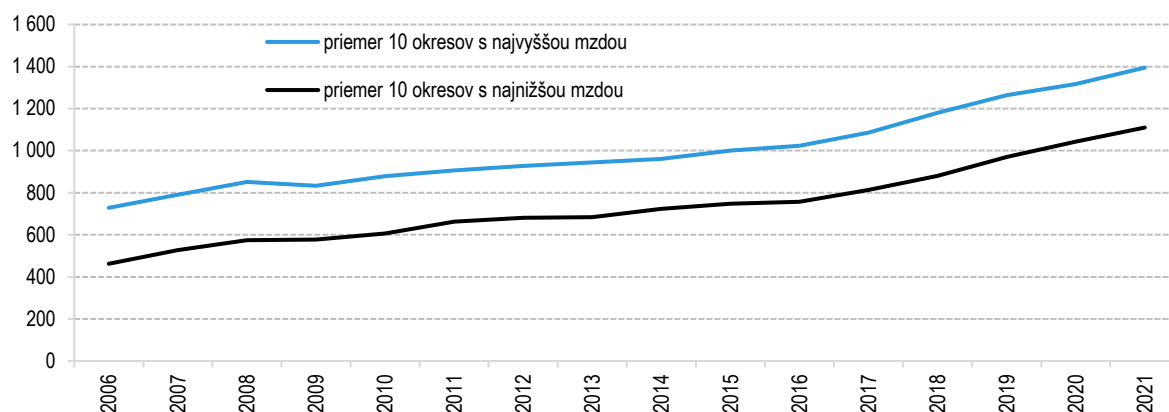


* Investment plans that are not visible in the chart: Jaguar Land Rover Slovakia s.r.o. – EUR 1.4 bil. at 7.3 % RUR, PCA Slovakia, s.r.o. – EUR 1.1 bil. at 10.8 % RUR, Kia Slovakia s.r.o. – EUR 926 mil. at 8.0 % RUR
Source: ME SR¹³³, SO SR

Regional disparities in the SR have been stagnating for the last 15 years and no significant convergence is taking place. This trend applies to several countries.¹³⁴ This can be seen, for example, in the evolution of average wages at district level. The districts that had the lowest and highest average wages in 2006 have not converged significantly in 15 years.

Chart 111: Evolution of the average wage gap¹³⁵

¹³⁵ The districts were ranked on the basis of wage data in 2006, excluding the districts Bratislava I to Bratislava V.



Source: SO SR

Priemer 10 okresov s najvyššou mzdou
Priemer 10 okresov s najnižšou mzdou

Average of the 10 districts with the highest wages
Average of the 10 districts with the lowest wages

From the perspective of international institutions, regional disparities are one of the main barriers to economic growth potential and a broader range of policies tailored to LDDs is needed to mitigate them.

The main recommendations include an appeal for regional design of public policies - investment in infrastructure and support for research and development in LDDs, increasing labour mobility, improving the quality and inclusiveness of education, or more efficient use of EU funds (EC, 2018; OECD, 2017; IMF, 2017). Investment incentives have contributed to reducing unemployment in LDDs, but in other regions of Slovakia the impact on unemployment is negligible (ISP, 2022). The positive impact on employment in the LDDs was visible within three years after the approval of the investment aid. The rate of decline in unemployment averaged 0.1 percentage point per month. Moreover, the lower unemployment rate remains in the supported districts even at the horizon of 4 years or more after the approval of the incentive. In more developed districts, the impact on unemployment is negligible or small.

The potential for investment aid could be even higher if the SARIO agency increased its capacity to actively attract foreign investors. In the international competition to attract foreign investment, investment aid contributes to Slovakia's attractiveness. Apart from the Bratislava region, investment aid is available in every region, with up to 50 % of eligible costs in eastern Slovakia, the highest possible intensity in the EU. The forthcoming National Strategy for Science, Research and Innovation aims to increase SARIO's capacity to actively attract foreign investors, especially in sectors or technologies with higher added value.

We recommend retaining investment aid in the form of a direct subsidy or tax relief and increasing its targeting in line with the main objectives - reducing regional disparities and promoting higher added value - which will also help to increase value for money. Discussions are currently underway between the ME SR, IFP and the Research and Innovation Authority (VAIA)¹³⁶ at expert level. The aim is to adjust the evaluation criteria for investment aid in order to make the investment plans deciding on the allocation of investment to LDDs more target-oriented. Conversely, in developed regions, value added will primarily be promoted through higher wages for the workforce or technology from the state's point of view in priority sectors¹³⁷. At the same time, there will be

¹²⁹ They are favoured by a lower minimum investment, a lower minimum number of jobs created and a lower share of investment in new technologies.

¹³⁰ Registered unemployment rate in the year the aid is approved.

¹³¹ Registered unemployment rate in the year the aid is approved.

¹³² Investment plans supported between 2002 and 2021.

¹³³ Investment plans supported between 2002 and 2021.

¹³⁴ <http://www.oecd.org/regional/regional-inequalities-worsening-in-many-countries.htm>

¹³⁵ The districts were ranked on the basis of wage data in 2006, excluding the districts Bratislava I to Bratislava V.

¹³⁶ VAIA is involved in the discussion due to the upcoming National Strategy for Research, Development and Innovation. Investment aid is one of the tools that can help to increase the innovation performance of companies.

¹³⁷ Determined, for example, by the forthcoming National Strategy for Science, Research and Innovation, which builds on the Smart Specialisation Strategy.

an increased emphasis on assessments of fiscal costs and maximum intensities, especially for investment projects scoring lower.

10. Subsidies in other areas

10.1. Mobility support in the form of an accommodation and transport allowance

Table 39: Subsidy schemes in support for mobility (average for 2019-2021, EUR million)

Form	Subchapter	Name of the scheme	Expenditure
Tax expenditure	10.1	Support for labour mobility	33.6
Tax expenditure	10.1	Non-cash income (accommodation)	15.6
Tax expenditure	10.1	Non-cash income (transport)	12.5
Total			61.7

Source: MF SR

Mobility support in the form of tax exemptions for employee accommodation and transport allowances has been introduced for 2019-2021. The impetus was a shortage of skilled labour in some regions and low inter-regional mobility of Slovaks. The estimate of the tax and levy shortfall in 2019-2021 is an average of EUR 61.7 million.		
Objective and KPIs	Specific targets and key performance indicators are not set. The implicit aim of the scheme is to attract labour to selected sectors of the economy or regions and indirectly increase productivity in the economy.	
The need for intervention	The need for intervention is also supported by economic research, as the benefits of promoting labour mobility outweigh the costs. However, for targeted support, it is necessary to assess the availability of a workforce willing to relocate.	
Form of support	Due to the lack of data, it is not possible to assess the optimality of the form of support.	
Recommendation	Retain and modify. The availability of skilled labour is crucial for the Slovak economy and therefore support for labour mobility is justified. The scheme should set KPIs to determine its effectiveness.	

Between 2019 and 2021, a series of measures aimed at promoting labour mobility came into force, allowing employers to provide non-cash income exempt from taxes and levies. From 2019, employers with predominantly manufacturing activities in multi-shift operations can provide employees with a maximum of EUR 60 per month of non-cash income¹³⁸ for the purpose of providing accommodation. In 2020, the limit was increased to EUR 100 or EUR 350 for an employee who has been continuously employed by the employer for at least 24 months, while the restriction on multi-shift operation in manufacturing was removed. In 2021, the exemption for non-cash income was extended to include the provision of transport up to a maximum of EUR 60 per month¹³⁹.

Specific objectives and key performance indicators for mobility-oriented tax expenditures are not set. Implicitly, the provision of tax- and levy-free non-cash income is intended to reduce the costs for employers of providing accommodation and transport. This benefit may help to reduce the gap between supply and demand on the labour market in selected sectors of the economy or regions and indirectly increase productivity in the economy. These instruments also help to maintain overall employment in regions with fewer job opportunities, as residents have part of their commuting costs covered.

The estimated shortfall in taxes and levies in 2019-2021 is EUR 61.7 million on average. The impact is estimated on the basis of data initially provided by the largest employers, provided by the employers' associations

¹³⁸ Proportional amount according to the number of days during which accommodation was provided in a building classified as 112 and 113 according to Measure of the Statistical Office No. 128/2000 on the classification of buildings

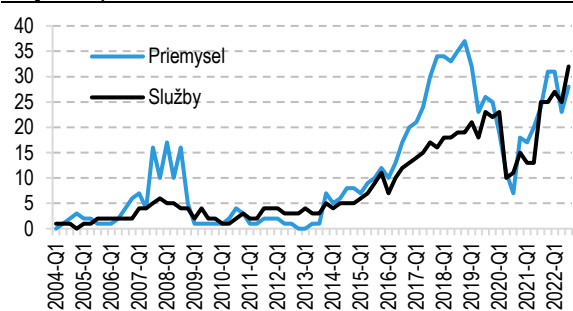
¹³⁹ The exemption replaced a different exemption in force until 2021 - 60% of the amount of expenses demonstrably incurred by the employer, or 30% for employers with a predominantly multi-shift operation. The allowance is limited to 50 % of the costs incurred and, like tax expenditure, supports the provision of transport to and from the place of work where public transport cannot be used. This allowance, for which there is no legal entitlement, has been suspended from April 2020. In addition to the tax expenditure for mobility support, companies were able to receive support alongside the transport allowance (a state social benefit) until 2019.

in drafting the legislation. Firms do not report the structure and volumes of tax-exempt income. A more up-to-date survey of employers or directly adding the use of the support to firms' tax returns would make it possible to assess the financial impact of the instrument and to analyse the appropriate level of support or to target it more¹⁴⁰.

Economic research¹⁴¹ points to the importance of promoting mobility, but for targeted support it is necessary to assess the availability of a workforce willing to move or the level of public goods (e.g., access to transport, cultural and sporting opportunities). Supporting policies can range from land reform to increase the rate of construction and thus the supply of housing, to rent regulation, direct transfers to selected social groups, to lowering barriers to business start-ups. Across EU countries, the contribution to the cost of hiring an employee is predominant. Germany provides tax assistance for employee transport to work, work equipment, relocation for work and insurance. France provides reimbursement of moving costs. Employer-provided accommodation reimbursements are claimed as an expense for income tax purposes.

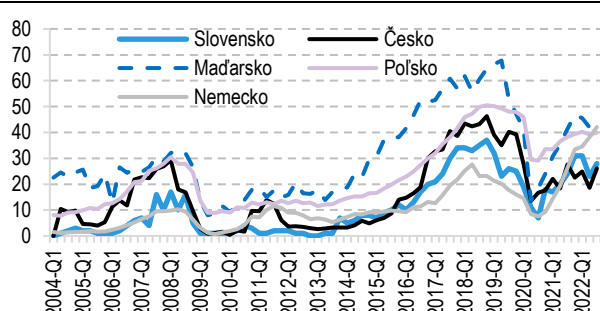
The availability of skilled labour is crucial for the Slovak economy.¹⁴² Slovakia has faced labour shortages in recent years, including a deficit of the necessary skills ([IMF, 2018](#)). The share of firms reporting labour shortages as a barrier to further development follows the economic cycle and points to long-term structural problems on the labour market (Chart 112). This is a trend that also applies to countries in the V4 region as well as to our main trading partner Germany (Chart 113).

Chart 112: Percentage of firms indicating lack of workers as a barrier to development (% , seasonally adjusted)



Source: *European Business and Consumer Surveys*¹⁴³

Chart 113: Shortage of industrial workers in the V4 countries and Germany



Source: *European Business and Consumer Surveys*

Priemysel	Industry
Služby	Services
Slovensko	Slovakia
Maďarsko	Hungary
Nemecko	Germany
Česko	Czech Republic
Poľsko	Poland

The inter-regional mobility of Slovaks is extremely low (Chart 114). According to surveys by recruitment agencies ([SITA, 2015](#), [Berecz, 2018](#)), the main constraints to mobility include ownership of property, especially for women, care for family, or reluctance to travel for work among people with low education. Those who choose to travel for work are usually skilled and go abroad. Within Slovakia, migration from east to west, i.e., to the vicinity of the capital, its satellites and adjacent districts, is predominant (Chart 115 and Chart 116).

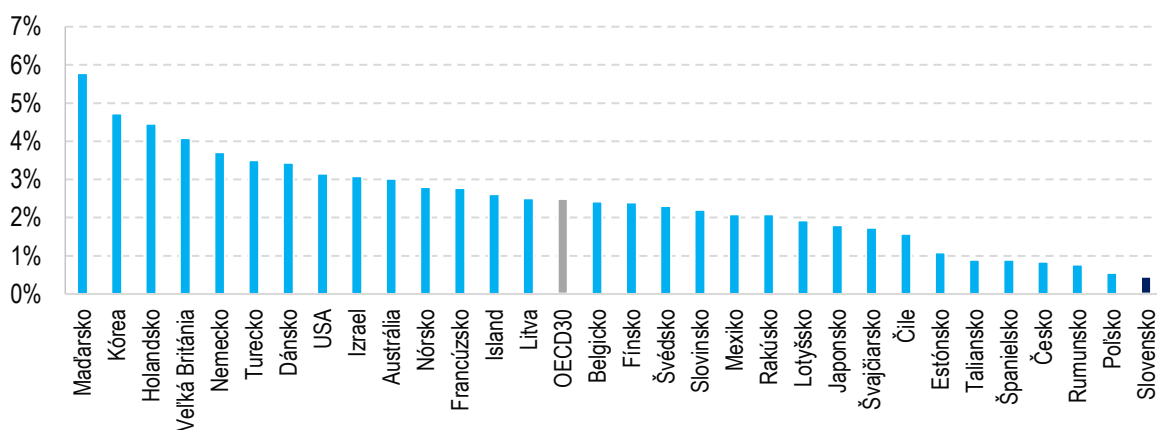
¹⁴⁰ In this vein, employers associated under the Economic and Social Council of the Slovak Republic have proposed doubling the aforementioned allowances as part of the income tax bill in response to inflation dragged by rising energy prices, while the use of the tool is unknown.

¹⁴¹ Causa et al. 2021, Cavalleri et al. 2021, [OECD 2021a](#).

¹⁴² <https://www.mfsr.sk/sk/media/tlacove-spravy/reformny-kompas-kam-kraca-slovensko.html>

¹⁴³ https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys_en

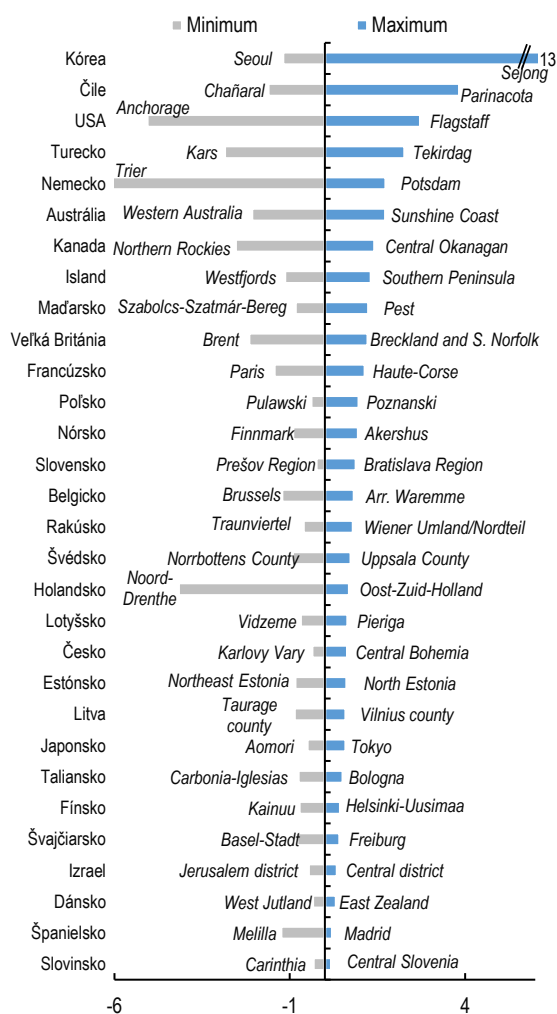
Chart 114: Annual interregional population mobility 2015-2018 (% of total population)



Source: OECD Cities and Regions at a Glance 2020

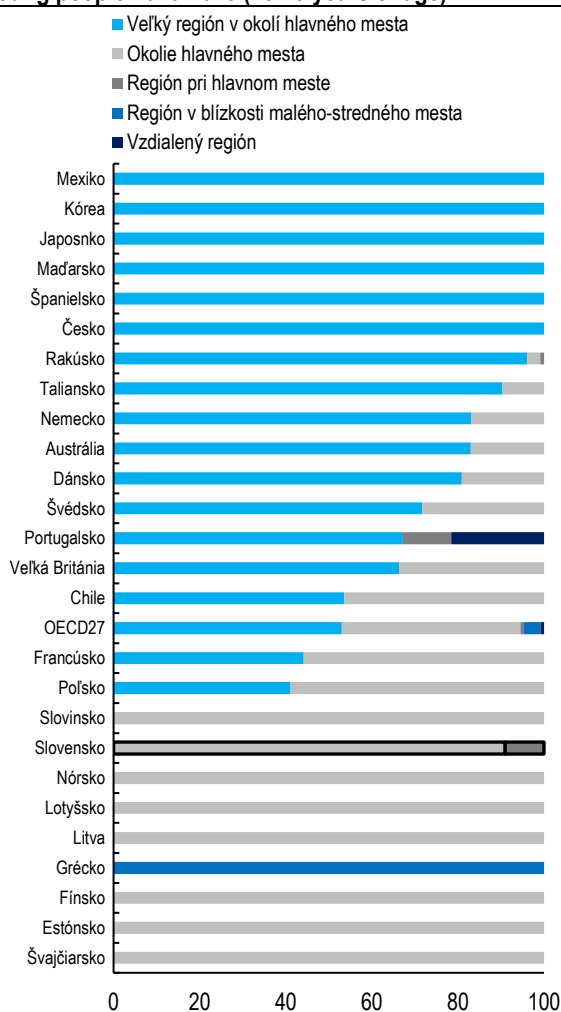
Maďarsko	Hungary
Kórea	Korea
Holandsko	Netherlands
Velká Británie	United Kingdom
Nemecko	Germany
Turecko	Turkey
Dánsko	Denmark
USA	USA
Izrael	Israel
Austrália	Australia
Nórsko	Norway
Francúzsko	France
Island	Iceland
Litva	Lithuania
Belgicko	Belgium
Fínsko	Finland
Švédsko	Sweden
Slovinsko	Slovenia
Mexiko	Mexico
Rakúsko	Austria
Lotyšsko	Latvia
Japonsko	Japan
Švajčiarsko	Switzerland
Čile	Chile
Estónsko	Estonia
Taliansko	Italy
Španielsko	Spain
Česko	Czech Republic
Rumunsko	Romania
Polsko	Poland
Slovensko	Slovakia

Chart 115: Percentage of population entering the region 2015-2018



Source: OECD, Regions and Cities at a Glance 2020

Chart 116: Destinations of the intra-Slovak migration of young people 2015-2018 (15-29 years of age)¹⁴⁴



Source: OECD, Regions and Cities at a Glance 2020

Kórea	Korea	Estónsko	Estonia
Čile	Chile	Litva	Lithuania
USA	USA	Japonsko	Japan
Turecko	Turkey	Taliansko	Italy
Nemecko	Germany	Fínsko	Finland
Austrália	Australia	Švajčiarsko	Switzerland
Kanada	Canada	Izrael	Israel
Island	Iceland	Dánsko	Denmark
Maďarsko	Hungary	Španielsko	Spain
Veľká Británia	United Kingdom	Slovensko	Slovenia
Francúzsko	France	Veľký región v okolí hlavného mesta	Large region around the capital
Polsko	Poland	Okolie hlavného mesta	Surroundings of the capital
Nórsko	Norway	Región pri hlavnom meste	Region near the capital
Slovensko	Slovakia	Región v blízkosti malého-stredného mesta	Region near a small-medium city
Belgicko	Belgium	Vzdialený región	Remote region
Rakúsko	Austria	Mexiko	Mexico
Švédsko	Sweden	Portugalsko	Portugal
Holandsko	Netherlands	Grécko	Greece
Lotyšsko	Latvia		
Česko	Czech Republic		

¹⁴⁴ Note: The methodology is based on the OECD classification of small regions based on metropolitan population. Metropolitan regions in the Slovak context are the Bratislava Region and the Košice Region.

10.2. Exemptions from taxation of negative externalities

Table 40: Exemptions from taxation of negative externalities, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
Tax expenditure	10.3.1	Wine tax - reduced rate (0 EUR)	36.9
Tax expenditure	10.3.2	Alcohol tax - reduced rate for growers' distillation	13.3
Tax expenditure	10.3.3	Beer tax - reduced rate for small breweries	1.5
Total			51.7

Source: VřIMU and IFP based on data of the MF SR

10.2.1. Wine tax - reduced rate (0 EUR)

Excise duty on still wine is zero-rated, unlike the non-zero rate for sparkling wine (EUR 79.65/hl). The total cost amounts to EUR 37 million per year, including additional uncollected VAT. The zero tax rate for still wines is currently applied by 15 EU countries, all of which are countries with a significant long history of wine production. The need to address the negative externalities resulting from wine consumption remains an argument in favour of taxing wine. From a health point of view, taxation according to alcohol content appears to be the most appropriate, avoiding significant differences between different types of alcoholic beverages.		
Objective and KPIs	The objective of the scheme is to increase the competitiveness of domestic wine producers and to bring the taxation of the sector closer to other EU countries. In most EU countries, excise duty on wine is zero.	
The need for intervention	Economic theory argues in favour of introducing a tax on wine despite the reduction in competitiveness of domestic winemakers. The argument in favour of taxing wine is an attempt to address the negative externalities resulting from its consumption, but also to eliminate unequal taxation across different types of alcohol.	
Form of support	The effectiveness of the form of support is questionable, as it is not possible to determine to what extent the zero rate contributes to increasing the competitiveness of Slovak producers, who, despite the tax advantage, cannot sufficiently compete with producers from countries such as Spain, France or Italy.	
Recommendation	Abolish. From a health point of view, taxation according to alcohol content seems to be the most appropriate, which would also be indexed to the increase in the price level and thus prevent significant differences between different types of alcoholic beverages. An additional argument is the elimination of unequal taxation across different types of alcohol.	

Excise duty on still wine is zero-rated, unlike the rate for sparkling wine (EUR 79.65/hl). The zero rate was introduced in 2001 because, in view of the considerable expansion of wine production, it was not possible to collect taxes from all producers. Another argument was the approximation of excise duty rates to EU countries due to concerns about the loss of competitiveness of domestic wines after accession to the EU.

The total expenditure amounts to EUR 37 million per year, including additional VAT¹⁴⁵. Of the total volume of wine declared by taxpayers in their tax returns, 85 % is zero-rated wine, i.e., still wine (Chart 117).

¹⁴⁵ Assuming a rate increase of 50 cents per 0.75 litre bottle (equivalent to a rate of EUR 66.67/1 hl).

Chart 117: Development of the quantity of sparkling and still wine produced, 2015 - 2021 (hl)

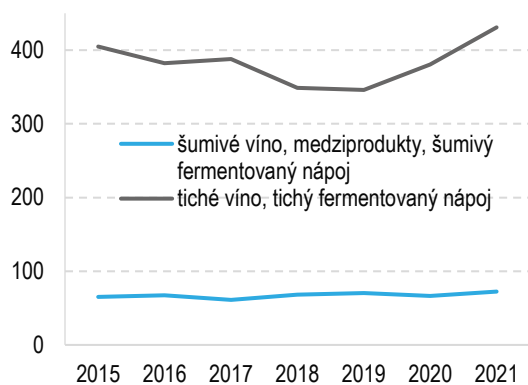
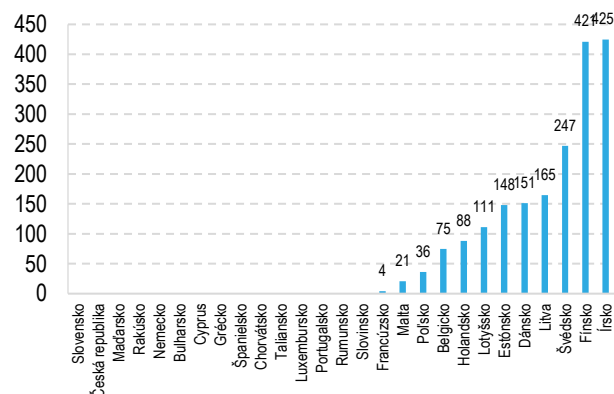


Chart 118: Comparison of excise duties on still wine in EU countries, as of 1 July 2021 (EUR/1 hl)



Source: Aggregated tax returns

Source: Excise duty tables

šumivé víno, medziprodukty, šumivý fermentovaný nápoj	sparkling wine, intermediate products, sparkling fermented beverage	Luxembursko	Luxembourg
tiché víno, tichý fermentovaný nápoj	still wine, still fermented beverage	Portugalsko	Portugal
Slovensko	Slovakia	Rumunsko	Romania
Česká republika	Czech Republic	Slovinsko	Slovenia
Maďarsko	Hungary	Francúzsko	France
Rakúsko	Austria	Malta	Malta
Nemecko	Germany	Poľsko	Poland
Bulharsko	Bulgaria	Belgicko	Belgium
Cyprus	Cyprus	Holandsko	Netherlands
Grécko	Greece	Lotyšsko	Latvia
Španielsko	Spain	Estónsko	Estonia
Chorvátsko	Croatia	Dánsko	Denmark
Taliansko	Italy	Litva	Lithuania
		Švédsko	Sweden
		Fínsko	Finland
		Írsko	Ireland

The zero tax rate for still wines is currently applied by 15 EU countries (Chart 118), and these are the countries with the most significant long-term wine production. Of the countries that tax still wine at a higher rate, half have a rate set only from a certain percentage of alcohol. Of the V4, only Poland has a non-zero rate. The largest wine producers (Eurostat, 2019) are Italy (5.5 trillion litres, i.e., 35% of total production), Spain (4.3, i.e., 27%), France (3.4, i.e., 21%), Portugal and Germany (0.7). Despite the tendency not to tax still wine in countries with a wine tradition, France, as a wine power, has a rate of about 3 cents per bottle (or EUR 3.91 per hl).

The abolition of the zero-rating is not associated with an increase in the administrative burden for commercial producers. Winegrowers already have administrative obligations in terms of registration, permits and other obligations. The administrative costs that the abolition of the rate would impose on individuals producing wine for their own consumption or small winegrowers can be addressed by targeted tax exemptions. The exact number of entities benefiting from this tax exemption is not available, but we assume that it is around 80 winegrowers and winegrowers' associations.

In Slovakia, excise duty rates are not systematically increased in line with the growth of purchasing power, ideally by regular indexation according to a predictable calendar. Such an approach may result in one-off increases in rates, as is the case with the 30% increase in excise duty on alcohol under discussion. Therefore, rate increases should be across the board (or per volume of alcohol) so as not to favour the price of a particular sector or alcoholic beverage.

The argument in favour of taxing wine is an attempt to address the negative externalities resulting from its consumption, but also to eliminate unequal taxation across different types of alcohol. In particular, the objective of taxing negative externalities is to reduce consumption in order to reduce the societal costs of healthcare, traffic accidents and crime. The long-term non-taxation of wine contributes to a stagnation of its relative price compared to other alcohol substitutes, which, with rising wages, increases its availability and attractiveness at the expense of other alcoholic beverages. Taxation will prevent a substitution effect, i.e., a reorientation of

consumption away from taxed alcohol and beer towards untaxed wine¹⁴⁶. On the other hand, an increase in the rate may lead to cross-border purchases¹⁴⁷ from zero-rated countries. In practice, however, the revenue foregone is very difficult to estimate. Another short-term risk is the frontloading effect.

From a health point of view, taxation according to alcohol content seems to be the most appropriate, which would also be indexed to the increase in the price level and thus prevent significant differences between different types of alcoholic beverages. The taxation system may encourage consumers to shift consumption from the more taxed alcoholic beverages, such as spirits and beer, to the tax-advantaged still wine (Table 41). Of the total consumption of alcoholic beverages in Slovakia, beer accounts for about three quarters, but when converted to 100 % alcohol, spirit predominates. A study prepared for the European Commission recommends a minimum rate of taxation for still wine at around the level of taxation (alcohol) in beer ([London Economics, 2010](#)). Comparisons at European level show that excise duties tend to reflect national production of alcoholic beverages and the consumption habits of the population, rather than primarily taking into account the health aspect (Angus et al., 2019). A different perspective is shown by a study ([Saffer, 1989](#)) that examined the elasticity of alcohol consumption when the price (excise taxes) changed. The most pronounced decrease in alcohol consumption was observed when spirit taxation was increased¹⁴⁸, followed by beer taxation. Wine taxation in this study did not show significant effects on alcohol consumption.

Table 41: Comparison of the effective burden of different types of alcohol in a normal dose

Type of alcoholic beverage	Normal dose (l)	Amount of alcohol in normal dose (l)	Excise duty per normal dose (in EUR)
Beer *	0.5	0.022	0.08
Spirit **	0.04	0.016	0.17
Still wine ***	0.2	0.022	0

Notes: * - beer with an alcoholic strength of 4.4 %; ** - spirit with 40 %; *** - still wine with 11 %.

Source: IFP calculations

10.2.2. Alcohol tax - reduced rate for growers' distillation

Fruit growers can distil alcohol for private consumption in growers' distilleries at half the rate of excise duty (EUR 540/hectolitre of 100 % alcohol). The reduced rate provides an incentive for households not to use illegal home distilling. Total expenditure amounts to EUR 13.3 million per year, including additional VAT, and fluctuates due to the variable fruit harvest. From 1 April 2023, the excise duty rate will increase by 30% to EUR 702/hectolitre of 100% alcohol.		
Objective and KPIs	No explicit objective and KPIs for the scheme are set, but implicitly the scheme seeks to prevent illegal and unhealthy home distilling of alcohol.	
The need for intervention	The need for intervention is partly justified, as the reduced rate motivates households not to use illegal home distilling. If abolished, there is a risk of an increase in illegal distilling with health risks.	
Form of support	The form of support is partly effective as the scheme manages to keep legal distillation above the EU average (the total number of growers' distilleries is increasing).	
Recommendation	Retain. The need for intervention is partly justified as the reduced rate motivates households not to use illegal home distilling, which has non-negligible health risks.	

Fruit growers can distil alcohol for private consumption in growers' distilleries at half the rate of excise duty (EUR 540/hl a.). The alcohol thus produced may not be resold. The rate applies to a maximum of 43 litres of

¹⁴⁶ According to statistics from the SO SR, wine consumption peaked in 2014 and has remained at 90 thousand per year since then. Total consumption figures are calculated using the balance method. The main inputs used for the calculation are data on domestic production, imports, exports, opening and closing stocks

¹⁴⁷ Slovakia's border regions are more important wine-growing areas

¹⁴⁸ This may be due to the different harmfulness of a unit of alcohol in different types of alcoholic beverages.

100 % alcohol per production period¹⁴⁹, other volumes being taxed at the full rate (EUR 1 080/hl of 100 % alcohol). The measure was included in the Accession Treaty as part of the pre-accession negotiations¹⁵⁰ as an exception for Slovakia and other countries.

The total expenditure amounts to EUR 13.3 million including additional VAT. This amount varies considerably from year to year. The volume of alcohol distilled depends mainly on the fruit harvest in a given year.

The reduced rate motivates households not to use illegal home distilling. If abolished, there is a risk of an increase in illegal distilling with health risks. The establishment of professional growers' distilleries and the professional production of alcohol prevents, in the first place, the health risks that can arise from unprofessional home distillation. Slovakia is a country with a historical tradition of distillation of fruit in growers' distilleries for the purpose of household alcohol production (Chart 119) and is also one of the countries with higher alcohol consumption (Chart 120). Illicit alcohol accounted for up to 20% of total consumption in 2009, but it is likely that these figures are currently lower.

Chart 119: Quantities of alcohol in storage, 2015-2021 (accrual, hl a.)

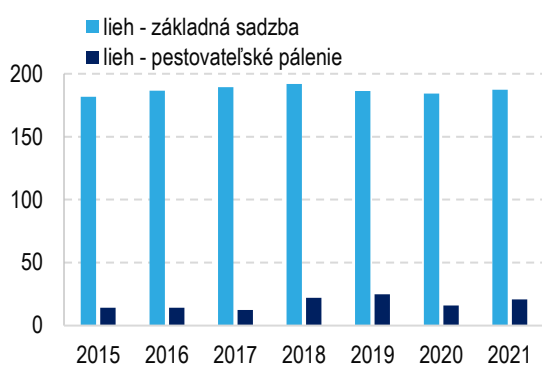
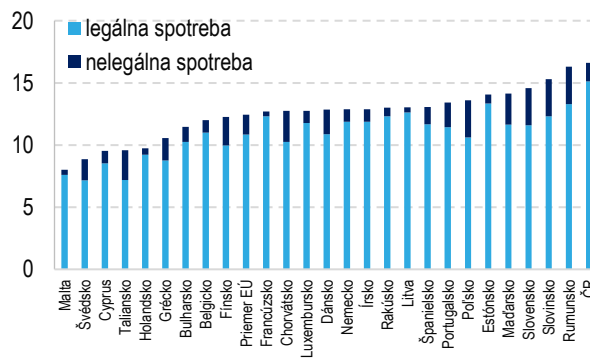


Chart 120: Comparison of alcohol consumption in EU countries, 2009 (l per 1 adult)



Source: Aggregated tax returns

Lieh-základná sadzba	Alcohol-base rate	Luxembursko	Luxembourg
Lieh-pestovateľské pálenie	Alcohol-growers' distilling	Dánsko	Denmark
Legálna spotreba	Legal consumption	Nemecko	Germany
Nelegálna spotreba	Illegal consumption	Írsko	Ireland
Malta	Malta	Rakúsko	Austria
Švédsko	Sweden	Litva	Lithuania
Cyprus	Cyprus	Španielsko	Spain
Taliansko	Italy	Portugalsko	Portugal
Holandsko	Netherlands	Poľsko	Poland
Grécko	Greece	Estónsko	Estonia
Bulharsko	Bulgaria	Maďarsko	Hungary
Belgicko	Belgium	Slovensko	Slovakia
Fínsko	Finland	Slovinsko	Slovenia
Priemer EÚ	EU average	Rumunsko	Romania
Francúzsko	France	ČR	Czech Republic
Chorvátsko	Croatia		

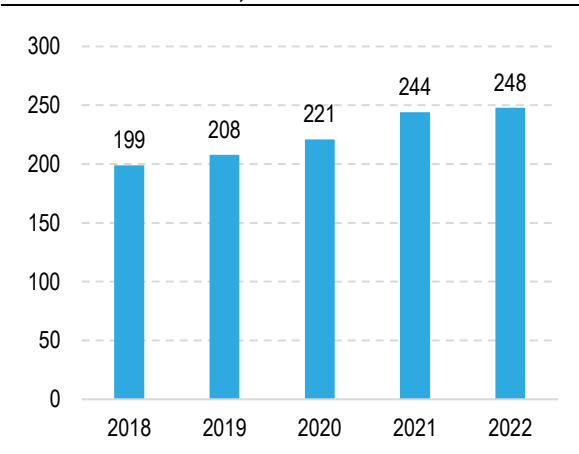
Source: WHO

The total number of growers' distilleries is growing. According to the Financial Administration, around half a million Slovaks, depending on the fruit harvest, use the services of growers' distilleries ([Financial Administration of the SR, 2017](#)).

¹⁴⁹ From 1 July of the current year to 30 June of the following year

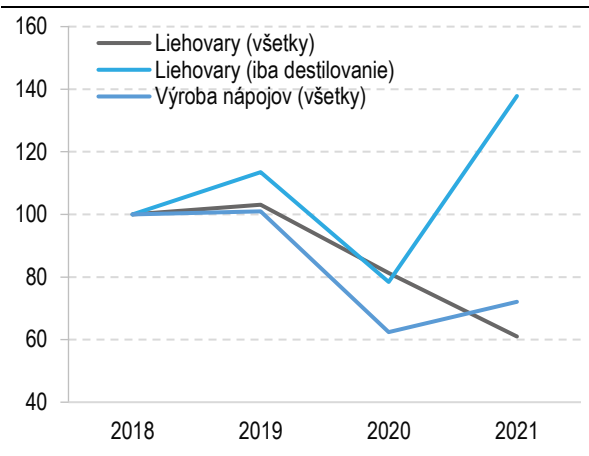
¹⁵⁰ Under Council Directive 92/83/EEC, Hungary, Romania and Slovakia may apply a reduced rate of excise duty of at least 50 % of the standard national rate of excise duty on ethyl alcohol to ethyl alcohol produced in fruit growers' distilleries. The application of the reduced rate of taxation shall be limited to 50 litres of fruit spirits per fruit growers' household per year intended solely for their personal consumption.

Chart 121: Development of the number of growers' distilleries in Slovakia, 2018 - 2022



Source: FA SR

Chart 122: Economic result for selected distilleries



Source: FA SR, Aggregated tax returns

Liehovary (všetky)	Distilleries (all)
Liehovary (iba destilovanie)	Distilleries (distillation only)
Výroba nápojov (všetky)	Manufacture of beverages (all)

Beyond the growers' distilling, private persons may also use so-called private distilling. Private distillation can officially produce distillate containing less than 86 % ethyl alcohol in a volume of not more than 25 litres of alcohol per natural person (i.e., 50 litres of 50 % distillate produced). Distillate produced by private production is subject to a reduced rate of alcohol tax (i.e., EUR 540/hl a. vs. EUR 1 080/hl a.). This is a non-systematic measure which is difficult to control in practice in terms of the quantity produced and the potential health aspects for consumers. The number of registered private producers in each year has gradually increased from 21 in 2019 to 47 in 2022. Compared to the return on the private advantage, the administrative costs of the administration are several times higher, which is considerably inefficient. In the case of changes to excise duties on alcohol, it is advisable to consider abolishing the private advantage for the production of distillates, which creates risks to consumer health.

10.2.3. Beer tax - reduced rate for small breweries

Small independent breweries have a 26 % lower excise duty rate (EUR 2 652 per hl/% volume of actual alcoholic strength) compared to large breweries (3 587). No explicit economic objective was given for the introduction of this measure. The tax advantage is used by 105 small independent breweries in Slovakia with an average drawdown of EUR 11 000.		
Objective and KPIs	No explicit economic objective was given for the introduction of this measure. The lower rate was probably intended to cover higher costs (craft, unpasteurised beers have a shorter shelf life) and to develop the market for small breweries (following the example of the Czech Republic, where there were about 350 mini-breweries in 2017).	
The need for intervention	Economic theory does not justify the need for intervention in the form of a reduced tax rate for small breweries. On the contrary, the consumption of alcoholic beverages imposes additional costs (negative externalities) on the state and society (increased health care costs, social exclusion).	
Form of support	It is a sectoral support to small entrepreneurs in the field of beer production, it is not possible to clearly evaluate its effectiveness.	
Recommendation	Retain and modify. Reconsider whether it is necessary to specifically help the beer sector through excise duties. This is an across-the-board sectoral aid which is not evaluated. It is not clear why it is the small brewers' sector that should receive aid or whether it is value for money.	

Small independent breweries have a 26% lower excise duty rate, the total expenditure amounts to EUR 1.5 million including additional VAT. Small independent breweries (SIBs) have a lower excise duty rate of EUR 2 652 per hl/% volume of actual alcoholic strength) compared to large breweries (3 587). The volume of annual beer production must not exceed 200 000 hl¹⁵¹.

No explicit economic objective was given for the introduction of this measure. The lower rate was probably intended to cover higher costs (craft, unpasteurised beers have a shorter shelf life) and to develop the market for small breweries (following the example of the Czech Republic, where there were about 350 mini-breweries in 2017). The reduced rate represents a sectoral support not only for small brewers, but also indirectly for the restaurant industry - breweries and restaurants can be embedded in the brewing business itself. The lower rate cannot be seen as compensating for administrative costs compared to the big players because small brewers are relieved of tax warehousing obligations.

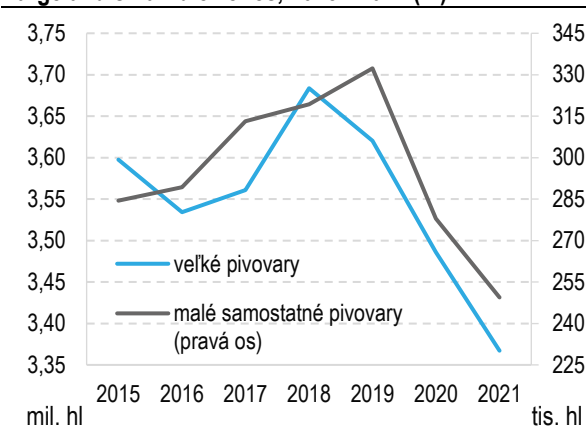
The tax advantage is used by 105 small independent breweries in Slovakia with an average drawdown of 11 thousand euros. The number of small breweries is growing. In 2009 there were only 7 small breweries in Slovakia. In 2018 their number exceeded 70 and currently there are 105 registered breweries.

The pandemic reversed the upward trend in beer consumption, with small breweries being hit harder (Chart 123:). Based on aggregate data from tax returns, half of the registered SIBs are in the "Beer production" sector,¹⁵² but some are also registered as "Hospitality services" or hotels and others. In 2020, there was a decline in the segment of all beer producers, the same trend held true for the reference group of all beverage producers. Small independent breweries (including affiliated businesses) declined more significantly, but did not make a loss in aggregate. Small breweries operating only in the "Beer production" sub-sector declined more significantly and also made a loss (Chart 124).

¹⁵¹ Breweries also cannot be related in ownership or personnel in the production of beer, they do not produce beer under license, and the premises are not technologically connected to the premises of another person who produces beer as part of the business.

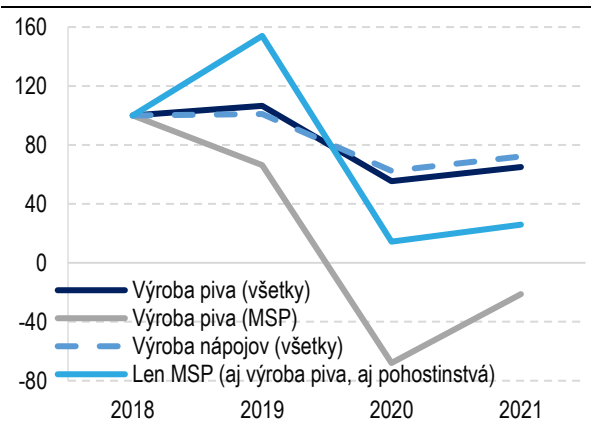
¹⁵² Based on the tax returns, 85 small independent breweries were identified that occur in multiple years and filed tax returns. These entities can determine themselves the so-called NACE code of the sector in which they predominantly operate. Due to self-filing, the data based on NACE may be inaccurate.

Chart 123: Development of the taxed quantity of beer of large and small breweries, 2015 - 2021 (hl)



Source: Aggregated tax returns

Chart 124: Economic result of SIBs vis-à-vis other firms



Source: Individual tax returns

veľké pivovary	large breweries
malé samostatné pivovary (pravá os)	small independent breweries (right axis)
Výroba piva (všetky)	Beer production (all)
Výroba piva (MSP)	Beer production (SIBs)
Výroba nápojov (všetky)	Beverage production (all)
Len MSP (aj výroba piva, aj pohostinstvá)	SIBs only (both beer production and pubs)

10.3. Support for small firms

Table 42: Subsidy schemes in support of small firms, EUR million, 2019-2021

Form	Subchapter	Scheme	Expenditure
Tax expenditure	10.4.1	Reduction of the CIT rate from 21% to 15%	21.3
Tax expenditure	10.4.2	Arbitrary depreciation period of the asset	4.7
Tax expenditure	10.4.2	Tax loss deduction	4.5*
Tax expenditure	10.4.2	Value adjustments	1.1
Total			31.6

*influence of 2022

Source: VfMU and IFP based on data of the MF SR

The amendment to the Income Tax Act introduced the concept of a micro-taxpayer from 2020. This is a natural or legal person whose annual sales do not exceed a specified income threshold¹⁵³. As part of this change, a number of reliefs have been introduced for this group of entrepreneurs, namely:

- **Reduction of the corporate income tax rate (CIT) from 21% to 15%.** From 2020 it applied to companies with a turnover of up to EUR 100 thousand. From 2021, the application was limited to micro-taxpayers only, i.e., entities with a turnover of up to EUR 49 790.
- **Arbitrary depreciation period of assets** - beyond depreciation groups and set depreciation years.
- **Creation and assessment of adjustments to receivables** - adjustments no longer increase the tax base (as a value adjustment not recognised as a tax expenditure), but on the contrary allow for a reduction in the tax base.
- **Tax loss deduction** - loss can be written off arbitrarily over 5 years (effective from 2022).

The objective of these tax expenditures is to support micro-taxpayers, but key performance indicators are not set. Primarily, these tax expenditures are intended to create a better business environment for micro-taxpayers. As in other OECD countries, this support was part of a broader package under the Entrepreneurship Action Plan¹⁵⁴. Support for micro-taxpayers may be justified in the context of economic policy. Micro-taxpayers have more difficult access to finance or have higher compliance costs (OECD, 2015). In the tax area, the above tax expenditures reflect this, aiming to reduce the administrative burden (relaxed depreciation and creation of receivables), to bridge

¹⁵³ The threshold is the VAT registration threshold: Article 4(1) of Act No. 222/2004 Coll. on value added tax.

¹⁵⁴ Entrepreneurship Action Plan 2020, the Manifesto of the Government of the Slovak Republic for the period 2020 - 2024, which aims to create a favourable environment for the development of small and medium-sized enterprises and other programmes aimed at SMEs.

a financially challenging period (relaxed loss deduction) and to provide financial incentives through a reduced tax rate ([OECD, 2021b](#)).

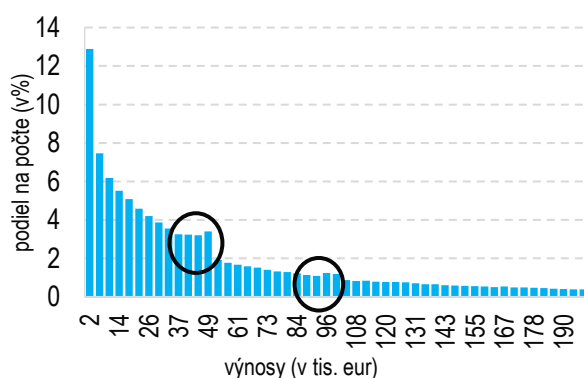
10.3.1. Reduction of the CIT rate from 21% to 15%.

<p>The objective of the support is to improve the business environment through a lower rate of CIT. From 2020 it was valid for companies with turnover up to EUR 100 thousand, after 2021 the application was limited only to micro-taxpayers, i.e., entities with turnover up to EUR 49 790. In theory, the reduced rate is supposed to compensate for the higher costs associated with limited access to finance for micro-enterprises and compliance with legislation. In practice, it is difficult to determine how significantly the rate should be reduced or whether there are other more appropriate instruments to achieve this objective. The review only compares tax aspects across firms and does not analyse sole traders separately, as data is not available or sole traders mostly use flat-rate expenditure and do not keep accounts.</p>	
<p>Objective and KPIs</p>	<p>The scheme does not have explicit objectives. The lower rate is intended to offset the higher administrative or fundraising costs of micro-taxpayers.</p>
<p>The need for intervention</p>	<p>The need for intervention according to economic theory can offset the higher costs associated with limited access to finance for micro-enterprises and compliance with legislation. In practice, the recommendation is not clear on how significantly the rate should be reduced to meet the stated objective. The definition of a micro-taxpayer may be justified within the tax system but the selective promotion of micro-taxpayers may lead to the growth of the grey economy in order to meet the criteria for inclusion in the preferential tax category for SMEs.</p>
<p>Form of support</p>	<p>It is not possible to evaluate the effectiveness of the form of support. The benefits of the reduced rate may also be used by companies whose sales have fallen in a given period (regardless of the reasons), which may have also led to subsidising inefficient companies.</p>
<p>Recommendation</p>	<p>Retain and reassess the appropriateness of the measure. Not all micro-taxpayers can take advantage of the measure as a taxable profit is needed. Thus, in 2021, only 37% of micro-taxpayers (65 thousand) took advantage of the reduced rate. The reduced rate is also used by businesses whose sales have fallen over the period, which may have also led to the subsidisation of inefficient firms.</p>

In theory, the reduced rate is intended to compensate for the higher costs associated with limited access to finance for micro-enterprises and compliance with legislation. In practice, it is difficult to determine how significantly the rate should be reduced to meet the stated objective. At the same time, only firms that have already made a profit can benefit from the reduced rate. Conversely, it has no effect on firms that are making a loss or have achieved a zero tax base. From this point of view, the reduced rate is seen as a “reward” for small profitable entrepreneurs rather than a general support for small business. Firms that are not yet profitable, which is particularly the case for small and start-up businesses, cannot benefit from the reduced rate and use other measures aimed, for example, at reducing the administrative burden.

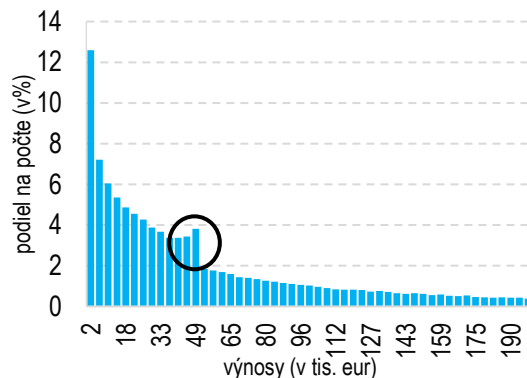
Setting fixed thresholds in the tax system can cause the marginal tax burden to increase by leaps and bounds. This can be seen in the thresholds for achieving a reduced tax rate for micro-taxpayers. For a firm, a small growth in revenue (above EUR 49 790) will increase the tax burden, which in practice means that firms optimise their revenue levels so as not to exceed the threshold. This can be observed in the distribution of firms by revenue level. In 2020, the threshold for claiming the reduced tax rate was EUR 100 thousand and in 2021 it has moved to EUR 49 790. In both years, we can see a clustering of entities at the level of the threshold for reaching the reduced rate (Chart 125 and Chart 126). This suggests that a group of firms optimised to achieve the lower rate. A similar effect was induced by the introduction of the tax licence ([Bukovina and Remeta, 2018](#); [Šaling and Porubský, 2017](#)).

Chart 125: Distribution of firms by revenue in 2020



Source: Aggregated tax returns

Chart 126: Distribution of firms by revenue in 2021

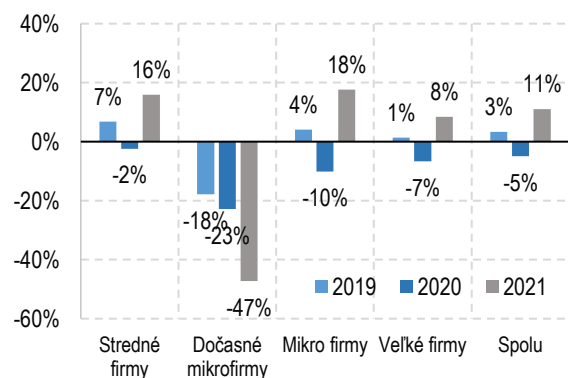


Source: Aggregated tax returns

Podiel na počte (v %)	Share of the number (%)
Výnosy (v tis. eur)	Revenues (EUR thousand)

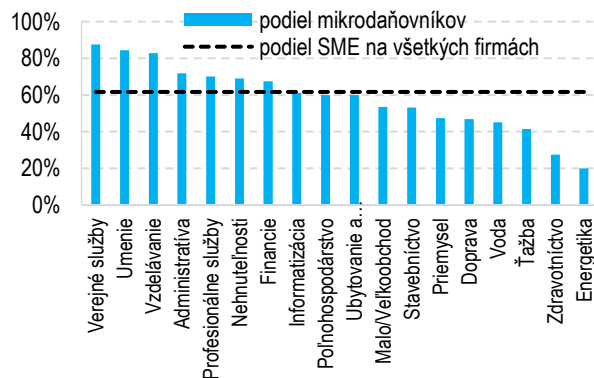
The preferential rate of 15 % with a fixed revenue threshold identifies the group of beneficiaries, but the purpose of the support is not clear. The micro-enterprises identified in 2021 had sales averaging around EUR 400 thousand in 2018-2020, which is almost 10 times the threshold for the definition of a micro-taxpayer. The measure thus supports, to some extent, enterprises in difficulty or subsidises less productive enterprises. Tax support for small and medium-sized enterprises in their early years can be seen as a development tool for firms, but the aim should not be to compensate for long-term business problems.

Chart 127: Development of sales for each category of enterprises (year-on-year changes)¹⁵⁵



Source: Aggregated tax returns

Chart 128: Share of micro-taxpayers in the total number of firms in each sector (2021)



Source: Aggregated tax returns

Stredné firmy	Medium-sized companies
Dočasné mikrofirmy	Temporary micro-enterprises
Mikro firmy	Micro-enterprises
Veľké firmy	Large firms
Spolu	Total
Podiel mikrodaňovníkov	Share of micro-taxpayers
Podiel SME na všetkých firmách	SME share of all firms
Verejné služby	Public services
Umenie	Arts
Vzdelávanie	Education
Administratíva	Administration
Profesionálne služby	Professional services
Nehnutelnosti	Real estate
Financie	Finance
Informatizácia	Computerisation
Poľnohospodárstvo	Agriculture
Ubytovanie a...	Accommodation and...
Malo/Veľkoobchod	Retail/Wholesale
Stavebníctvo	Construction

¹⁵⁵ Technically, the term temporary micro-taxpayer refers to a firm that, although classified as a micro-taxpayer in 2021, would not have met the income threshold in previous years. Thus, this could be firms that have experienced a fall in revenue for a variety of reasons and have become a micro taxpayer.

Priemysel Doprava Voda Ťažba Zdravotníctvo Energetika	Industry Transport Water Mining Healthcare Energy
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In the case of a reduced rate, it is a matter for consideration to abolish or reassess the appropriateness of the measure. Not all micro-taxpayers can take advantage of the measure, as a taxable profit must be made. Thus, in 2021, only 37% of micro-taxpayers (65 thousand) took advantage of the reduced rate. The reduced rate is also used by businesses whose sales have fallen over the period, which may have also led to subsidising inefficient firms. In this case, a partial counter-cyclical effect could be considered in times of exogenous shocks (such as pandemics), but the measure was not presented or designed in this way.

Although the growth in sales of micro-enterprises was the highest in 2021 (18% year-on-year growth), their growth was not significantly different from the group of medium-sized enterprises, for which there was no specific support (16% year-on-year growth) (Chart 127). However, this effect is not empirically supported due to its short duration and the specific conditions created by the pandemic, which may have had a more negative impact on smaller enterprises.¹⁵⁶

A more targeted instrument for productive firms is precisely the support of research and development (R&D) for SMEs. In the context of economic policy, it is necessary to assess the productivity of firms. It is productive firms that are the source of economic growth and consequently generate higher employment and wages. R&D support for SMEs is thus more targeted and focuses on businesses that are engaged in research and can create additional value. Currently, added value is mainly generated by a small number of corporations.

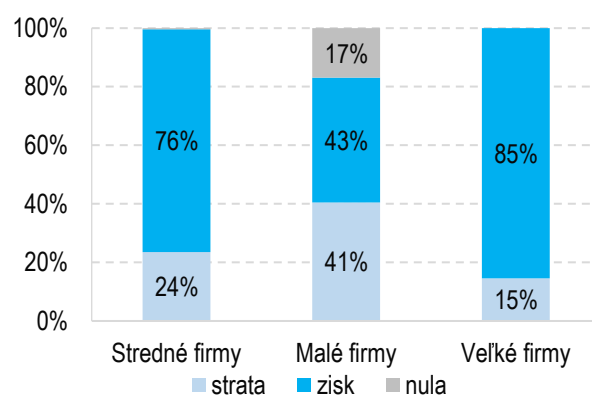
10.3.2. Other tax reliefs for micro-taxpayers

Measures such as arbitrary depreciation periods, tax loss deductions and the creation of value adjustments for receivables provide more targeted support to micro-enterprises. The aim is to improve the business environment, in particular by reducing the administrative burden associated with detailed record-keeping for tax purposes.		
Objective and KPIs	The objective is just broadly defined as improving the business environment. Key performance indicators are not set.	
The need for intervention	The definition of a micro-taxpayer may be justified within the tax system, but selective support for micro-taxpayers may lead to the growth of the grey economy in order to meet the criteria for inclusion in the SME preferential tax category.	
Form of support	It is not possible to evaluate. Selective support for micro-taxpayers may lead to the growth of the grey economy (e.g., through informal employment or non-reporting of sales) in order to meet the criteria for inclusion in the SME tax-advantaged category.	
Recommendation	Retain and modify. We recommend reassessing the concept of the micro-taxpayer. Currently, only sales are considered for the micro-taxpayer. Other factors, such as number of employees or balance sheet, can be taken into account as part of the definition improvement.	

The tax loss deduction for Slovak companies is quite strict in the international context. Losses may be more common for micro-taxpayers than for larger firms (Chart 129). The reasons may be that micro-taxpayers are in the initial stage of firm development (Chart 130), during which they are not yet profitable, or because of their size they have less room to manoeuvre in case of difficulties. Thus, the freedom to write off losses allows them to more easily bridge the loss-making period.

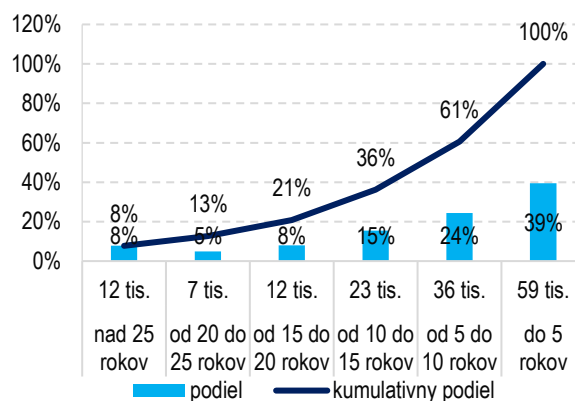
¹⁵⁶ The impact of the measures could also be tested statistically to see whether businesses with benefits grew more than businesses without benefits. The problem is that for the above, data are only available for the first year and there is no longer history.

Chart 129: Distribution of firms by profit and size (2021)



Source: Aggregated tax returns

Chart 130: Distribution of micro-enterprises by length of operation (2021)



Source: Aggregated tax returns

Stredné firmy
Malé firmy
Velké firmy
strata zisk nula
nad 25 rokov
od 20 do 25 rokov
od 15 do 20 rokov
od 10 do 15 rokov
od 5 do 10 rokov
do 5 rokov
podiel
kumulativny podiel
tis.

Medium-sized companies
Small companies
Large companies
loss profit zero
over 25 years
from 20 to 25 years
from 15 to 20 years
from 10 to 15 years
from 5 to 10 years
up to 5 years
share
cumulative share
thousand

Measures to reduce the administrative burden, such as freer creation of depreciation and value adjustments for receivables, appear similarly expedient. The measures can be used by virtually all micro-taxpayers without the need to make a profit. In addition to reducing the administrative burden and simplifying the business, these measures allow them to regulate the cash flow of the firm more closely. From a budgetary point of view, their impact is negligible (between EUR 1.1 and 4.7 million per measure).

Definition of a micro-taxpayer

The definition of a micro-taxpayer may be justified in the context of the tax system, but it should not give the impression that it is necessary from the point of view of the state to divide companies according to size. Selective support for micro-taxpayers may lead to the growth of the grey economy (e.g., through informal employment or non-reporting of sales) in order to meet the criteria for inclusion in the favourable tax category for SMEs. In particular, the lower CIT rate based on turnover, whose negative effects on the behaviour of micro-enterprises have been mentioned above, is problematic (Chart 129 and Chart 130).

Box 19: Concept of micro-taxpayer

The concept of micro-taxpayer needs to be embraced more broadly, not only in tax legislation, but also by creating opportunities for those interested in entrepreneurship. The review therefore recommends that the concept of micro-taxpayer be reconsidered. Currently, only sales are considered for the micro-taxpayer. Other factors, such as the number of employees or the balance sheet, can also be taken into account in improving the definition.¹⁵⁷ The age of the firm could also be taken into account. Currently, only 39 % of micro-taxpayers have been operating for less than 5 years, while a similar number of micro-taxpayers have been operating for more than 10 years (Chart 130). It is a matter for consideration whether established firms need help in coping with the pitfalls of entrepreneurship, or whether support should be directed more towards start-ups that may have

¹⁵⁷ Similarly, this concept is also considered within the international definition of SME https://single-market-economy.ec.europa.eu/smes/sme-definition_en.

greater growth potential. A better definition of micro-taxpayer could help to increase the effectiveness of the measure.

The concept of micro-taxpayer could be monitored by the Financial Administration. Currently, the Financial Administration has sufficient tools and data to be able to assess whether an entity meets a number of the criteria listed above. At the same time, there could be a link to a tax reliability index that could be taken into account.

10.4. Advantageous investment in equity interests

Table 43: Subsidy schemes in the advantageous investment in equity interests, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure 2021 (EUR million)
Tax expenditure	10.5.1	Exemption of capital income from the sale of securities on a regulated market	5.0
Tax expenditure	10.5.2	Exemption of capital income from the sale of a business interest	21.0
Total			26.0

Source: VfMU and IFP based on data of the MF SR

The following chapters refer only to advantages affecting legal persons and do not provide information on the tax advantages of investment products for individuals in the context of financial literacy and potential risks for the investor/saver.

10.4.1. Exemption of capital income from the sale of securities on a regulated market

Income from the sale of securities is exempt from income tax provided that the securities are traded on a regulated market (stock exchange) and the minimum holding period of the security is 1 year. However, the exemption of capital income benefits not only domestic investors on the Bratislava Stock Exchange, but also domestic investors who invest on stock exchanges abroad.		
Objective and KPIs	The exemption has a clearly stated objective as part of the overall concept. However, specific KPIs for the measure itself are missing. It is not clear from the individual measures of the capital market development concept which and to what extent they are intended to contribute to the stated objectives.	
The need for intervention	The need for intervention is questionable if the more significant barriers of the Bratislava Stock Exchange - such as the outdated technical infrastructure of the stock exchange - are not removed. However, the design of the measure is broader and also allows individuals who invest private funds also on foreign exchanges to benefit from the exemption, which is not the subject of this review.	
Form of support	The effectiveness of the form of support cannot be assessed in the light of the set of measures that are part of the capital market development concept. However, exempting capital income alone will not contribute to an increase in stock exchange trading unless more significant stock exchange barriers are removed.	
Recommendation	Retain and modify. We recommend that the measure be reconsidered, particularly in the context of its potential to make investing more attractive or to increase the potential for retirement savings. The availability of savings and investment product offerings, financial literacy, and potential risks to the investor/savers should also be considered in the reassessment of the measure. It is also appropriate to evaluate the minimum holding period, as the current period of 1 year does not create strong incentives for long-term investment.	

In 2016, the exemption from income tax on income from the sale of securities came into force, provided that the securities are traded on a regulated market (stock exchange) and the minimum holding period of

the security is 1 year. From 1 January 2020, this 1-year test is refined so that the 1-year period is calculated not only from the acquisition of the security sold but also from its admission to the regulated market.

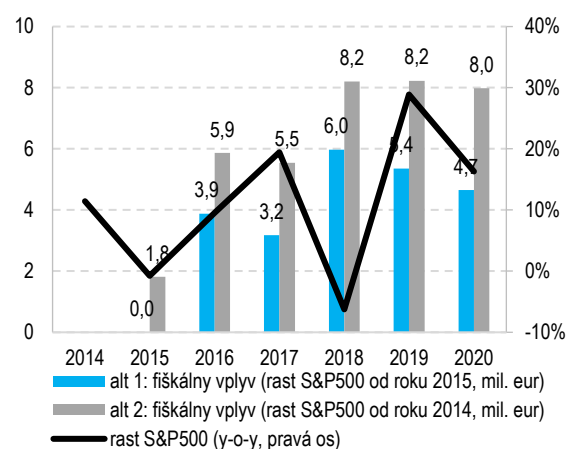
The above capital income exemption was introduced as part of the capital market development concept.

The aim of the concept is to achieve the development of the Slovak capital market to levels of capitalisation and liquidity comparable to the markets of neighbouring V4 countries, and the quality of infrastructure or service standards corresponding to countries with a developed market economy. The measures of the concept are divided into four areas - market infrastructure, market liquidity, system costliness and financial education and consumer protection. The introduction of the 1-year time test was intended to contribute to increasing market liquidity on the Bratislava Stock Exchange by reducing the tax and levy costs of trading on the exchange.

At the time of its introduction, the loss of tax and levy revenue was quantified at between EUR 4 and 4.5 million¹⁵⁸, today it may be between EUR 5 and 8 million. By exempting the income, the tax administrator loses information on the amount of income that would otherwise be included in the tax return and therefore the tax shortfall cannot be easily quantified. Currently, only taxable income is observed in tax returns. We use an approximation through the evolution of the US S&P 500 index to estimate potential price developments. Given that discussions about the measure have been going on for a long time¹⁵⁹, forward-looking investors may have waited to sell stocks to meet the time test condition. Based on this reasoning, we quantify 2 alternatives. We index the amount of the tax base achieved before the exemption by the growth of the S&P 500 index in alternative 1 starting in 2015 or in alternative 2 starting in 2014 (Chart 131). This quantification, due to missing data, does not account for other effects such as a possible increase in the volume of deposits allocated by NPs in financial markets, for reasons ranging from wage growth to the greater availability of stock market investing directly through online intermediaries.

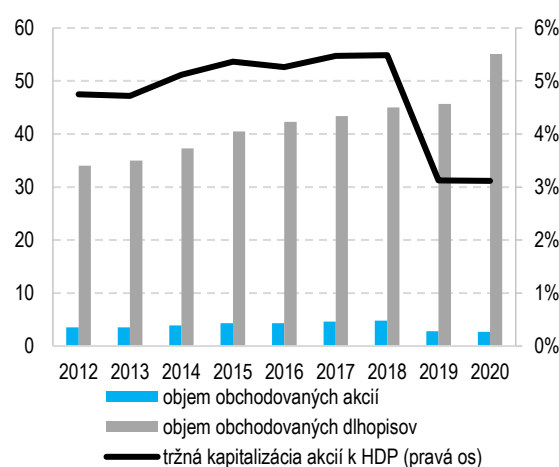
The design of the tax expenditure in the form of the capital income exemption from the regulated market is not targeted and creates scope for tax optimisation beyond the addressed objective. The capital income exemption benefits not only domestic investors on the Bratislava Stock Exchange, but also domestic investors who invest on stock exchanges abroad. Stock exchanges in neighbouring countries, as well as the main world stock exchanges in London and the USA, offer investors a greater supply of liquid stock opportunities. The exemption of income from the sale of capital income has made investing on foreign exchanges even more attractive. Last but not least, these foreign exchanges, unlike the Bratislava Stock Exchange, are also increasingly accessible to ordinary NPs (so-called retail investors) thanks to the growing range of services offered by online brokers and declining fees for trading on exchanges.

Chart 131: Estimate of the tax and levy shortfall from the exemption on the sale of securities



Source: Tax returns

Chart 132: Volume of shares traded on the Bratislava Stock Exchange



Source: Bratislava Stock Exchange

¹⁵⁸ https://www.mfsr.sk/files/archiv/priloha-stranky/3446/50/VpDP_prezentacia_jun_vybor_final.pdf

¹⁵⁹ The measure came into force in 2016, while the details of the concept were already discussed during 2014 and 2015

alt 1: fiškálny vplyv (rast S&P500 od roku 2015, mil. eur) alt 2: fiškálny vplyv (rast S&P500 od roku 2014, mil. eur) rast S&P500 (y-o-y, pravá os) objem obchodovaných akcií objem obchodovaných dlhopisov tržná kapitalizácia akcií k HDP (pravá os)	alt 1: fiscal impact (S&P500 growth since 2015, EUR million) alt 2: fiscal impact (S&P500 growth since 2014, EUR million) S&P500 growth (y-o-y, right axis) volume of shares traded volume of bonds traded stock market capitalisation to GDP (right axis)
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The capital market development concept has not brought the expected revival of the Bratislava Stock Exchange and we recommend that the capital market support package be reconsidered. The potential of the measures, which aimed at significantly reducing the cost of issues and speeding up the service process, has not been realised in practice. Bonds continue to be the main traded “product” of the exchange, the stock market is virtually non-existent (Chart 132). The exemption of income from the sale of securities is only one of a package of measures aimed at the development of the stock exchange. We recommend a reassessment of which of the measures need to be modified or repealed to achieve the desired objectives of stock exchange development.

The exemption of income from the sale of securities needs to be more comprehensively evaluated, for example, in the context of measures to encourage saving and investment of private resources. In view of the scope of the review to target business entities, investment support for private individuals is not under review. In general, Slovaks are conservative savers/investors in international comparison. If they do decide to invest, investments in bond or mixed funds predominate. However, the majority of savings are still in current accounts. The current design of the tax expenditure allows any domestic investor who invests directly in global stock markets to benefit. In the context of the increasing availability of investing directly for retail investors, or through intermediaries allowing them to invest directly on exchanges, whether in specific titles or ETFs, the existing exemption may be one of the measures to increase the performance of invested savings. In a separate analysis, this tax expenditure should be assessed in the context of the available range of savings and investment products, financial literacy and the potential risks for the investor/savers. The minimum holding period should also be evaluated, as the current holding period of 1 year does not create strong incentives for long-term investment.

10.4.2. [Exemption of capital income from the sale of a business interest](#)

In 2018, the exemption of income from the sale of a business interest from corporate income tax came into force, provided that certain conditions are met. The exemption of income from the sale of a business interest from income tax applies to the direct sale of an equity interest where the legal person has held more than 10% for a minimum period of 24 months. The aim of the measure was to make the conditions for the establishment of holding companies in Slovakia more attractive and at the same time to attract foreign capital for the development of the capital market.		
Objective and KPIs	The objective of the measure is to make the conditions for the establishment of holding companies in Slovakia more attractive and at the same time to attract foreign capital for the development of the capital market. However, there is a lack of specific KPIs of the measure which would allow to evaluate the fulfilment of the set objectives.	
The need for intervention	The measure may contribute to making the domestic capital market more attractive, but at the same time it creates conditions for tax optimisation through the purposeful creation of holding structures.	
Form of support	Due to the short period of validity of the measure and the lack of data, it is not possible to evaluate whether the form of support is effective.	
Recommendation	Retain and modify. We recommend improving the reporting of data on the sale of a business interest, which would subsequently allow for the evaluation of the stated objectives.	

In 2018, the exemption of income from the sale of a business interest from corporate income tax came into force, provided certain conditions are met. This is a sale of a direct equity interest where a legal person acting

as a shareholder in a joint stock company¹⁶⁰ has held more than 10% of the share capital of that company for at least 24 months. However, this period only started to apply from 1 January 2018. Thus, the effective exemption of the business interest only occurred at the sale of business interests in 2020. The exemption applies only to business interests of companies operating in the territory of the Slovak Republic, and the company must have the personnel and material equipment to operate. The aim of this condition is to reduce the scope for the purposeful creation of shell companies for the purpose of tax optimisation.

The objective of this measure was to make the conditions for the establishment of holding companies in Slovakia more attractive and at the same time to attract foreign capital for the development of the capital market. A holding company is a grouping of legally separate commercial companies which are linked to each other by property or personnel. At the “head” of the holding structure is the parent company, which owns one or several subsidiaries. In the context of the exemption of capital income from the sale of a business interest, the sale of a subsidiary at the level of the parent company is exempt from income tax, provided that the conditions set out above are met. From the perspective of foreign capital, the exemption in question may create incentives to move the parent company to Slovakia - especially in cases where the purpose of the business is investment and development of small and medium-sized companies subsequently intended for sale. Among the neighbouring countries within the V4 and Austria, the Czech Republic also provides a similar tax benefit, but a holding period of 12 months is sufficient¹⁶¹.

The benefits of increasing the attractiveness of the capital market for holding companies should also be assessed in terms of the possibility of purposeful tax optimisation, for which there is currently no data available. For domestic business owners, tax expenditure has created an incentive to create purposeful holding structures. In a normal corporate structure that is owned by a natural person (NP), the income from the sale of the business is taxed at an income tax rate of 19% or 25%. In the case of a holding structure, the income from the sale of a subsidiary (provided the above conditions are met) is exempt. The NP standing behind the parent company can pay out the above gains in the form of dividends with an effective tax rate of 7%.

Due to the short duration and limited data availability, it is not possible to update the amount of the tax expenditure, which was quantified at the time of implementation at EUR 21 million for 2020. The quantification of this exemption was based on an approximation of 2015 data. The main source of data was the income statement, which shows the income and expenses related to the sale of securities. However, such data detail is only provided by firms following the Slovak Accounting Act. The largest firms in Slovakia, which are usually owned by a foreign company, follow IFRS accounting standards and do not report this level of detail. Thus, the approximation of the data to the whole population was made through the volume of total assets. The quantification did not take into account the assumptions on the time and volume test, which are a condition for applying the relief.

Given the current data limitations, we recommend improving the reporting of data on the sale of a business interest through tax returns and subsequently reconsidering the application of the tax expenditure. The corporate income tax return form could be supplemented in Part III (*Tables of auxiliary calculations and supplementary data*) with mandatory information on the volume of total income from the sale of the business interest and the volume that qualifies for the relief. For large holding companies, the provision of such additional data should not constitute an unacceptable administrative burden. Such an expanded level of data would help both to quantify the fiscal impact and to assess its targeting, i.e., whether the exemption in question is used by firms oriented towards investment and business development or is merely being used on purpose for tax optimisation purposes.

10.5. Reduction of the depreciation period for electric vehicles

Table 44: Reduction of the depreciation period for electric vehicles, EUR million, 2019-2021

Form	Subchapter	Name of the scheme	Expenditure
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¹⁶⁰ Alternatively, a partner or limited partner in a commercial company
¹⁶¹ <https://taxsummaries.pwc.com/czech-republic/corporate/income-determination>

Tax expenditure	10.6	Reduction of the depreciation period for electric vehicles	4.1
Total			4.1

Source: MF SR

Since 2020, a reduced depreciation period for electric vehicles has been in force, with a depreciation period of 2 years instead of 4 years. The switch to alternative fuel vehicles, such as electricity or hydrogen, and the increasing reduction of petrol and diesel engines is a common goal of EU countries. Taking into account the environmental targets set and the practices applied in other countries, it is appropriate to review the current options for a form of support for electromobility that could include a wider target group than just companies.

Objective and KPIs	The objectives are set too broadly and key performance indicators for reduced depreciation periods for electric vehicles are not set. Implicitly, this is an effort to increase the availability of electric vehicles.	
The need for intervention	Implicitly, the form of reduced depreciation period is one of several channels through which states seek to make electric vehicles more accessible, in this case specifically to businesses. This intention is reinforced by the EU's desire to reduce CO2 emissions also through electromobility.	
Form of support	The scheme contributes to the fulfilment of implicit objectives, but the potential of the money spent is not fulfilled. It is not possible to assess from the available data whether the purchase of electric vehicles and plug-in hybrids would have occurred without the support. At the same time, there is a lack of charging station infrastructure in Slovakia, which is a natural barrier to the use of alternatively powered cars.	
Recommendation	Retain and modify. Depreciation is only available to entrepreneurs and companies and the benefit comes primarily from a reduction in their tax liability.	

In 2020, a new depreciation group for electric vehicles was introduced with a depreciation period of 2 years instead of 4 years. Only passenger cars registered as battery electric vehicles (BEVs) or plug-in hybrid electric vehicles (PHEVs) in any combination with another type of fuel or energy source can be included in this group. Electric vehicles so classified may only use the straight-line method of depreciation when applying tax depreciation. A hybrid electric vehicle (HEV) falls into depreciation group 1 with a depreciation period of 4 years and is not covered by this tax aid.

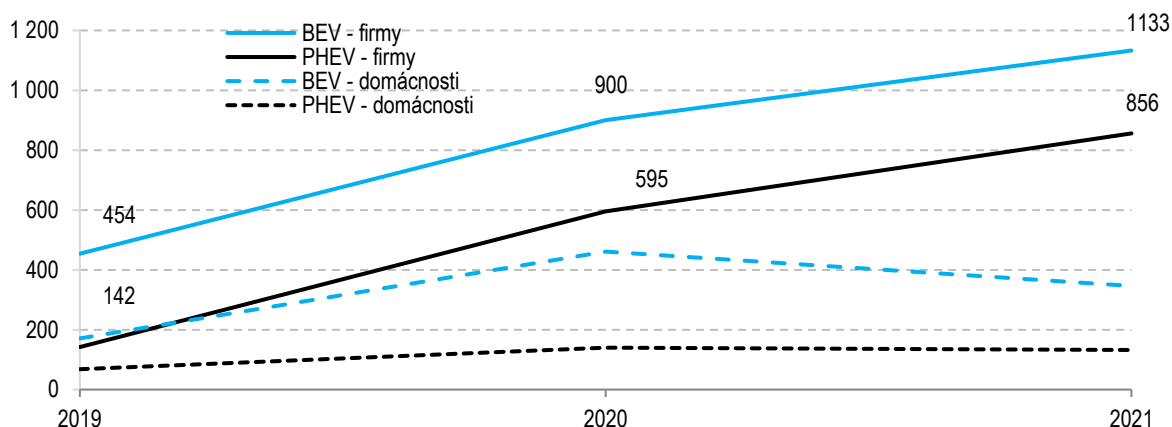
Specific objectives and key performance indicators for the reduced depreciation period for electric vehicles are not set. Implicitly, the form of accelerated depreciation is one of several channels through which countries seek to make electric vehicles more accessible, in this case specifically to businesses. In the past, a direct form of subsidy was also provided in Slovakia, which was also available to households. The scheme was last used in 2019 for an amount of EUR 6 million. For the purchase of an electric vehicle, support of EUR 8 000 was provided and for PHEVs EUR 5 000¹⁶².

The volume of tax expenditure for 2021 is approximately EUR 6 million¹⁶³ (the average for 2019-2021 was EUR 4.1 million). In 2021, domestic entrepreneurs had cumulatively 4 080 registered electric vehicles. Almost 75% of these vehicles were registered after 2019. Despite the strong growth, electric vehicles account for only 0.65% of the fleet of entrepreneurs.

¹⁶² <https://www.mojelektromobil.sk/nazivo-registracia-dotacie/>

¹⁶³ Assuming average prices of EUR 38 thousand for a battery vehicle and EUR 46 thousand for a plug-in hybrid (IEA, 2022)

Chart 133: Number of newly registered battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs) by ownership



Source: IFP, Police Force of the SR

Firmy	Companies
Domácnosti	Households

Benefits in the form of depreciation can be a tool to increase productivity through faster take-up of new technologies, especially in capital-intensive industries. An example is the advantageous depreciation for Industry 4.0. As such, electric cars make little contribution to increasing firms' productivity at the level of fuel cost savings (courier companies may be an exception). However, accelerated depreciation allows the sale of a depreciated vehicle by a firm, usually to a private individual, thereby bringing the vehicle to the secondary market. This channel can be one of the tools to expand the use of vehicles on the market, taking into account the risk of tax optimisation at the level of firms.

The widespread promotion of alternatively fuelled vehicles is one of the areas of reducing mobility-related emissions and climate costs at international level. Providing support to all, natural and legal persons, increases the chances of achieving the targets set out in the 2030 Environment Action Programme¹⁶⁴. From this point of view, it seems preferable to move from tax depreciation to support in the form of subsidies through a single system for both NPs and LPs. The amount of the subsidy should be differentiated according to the type of vehicle (BEV and PHEV) and set up to a maximum amount according to the type of vehicle.

Countries in Europe encourage the purchase of electric vehicles through various incentives, with the predominance of providing rebates for the purchase or ownership of electric vehicles¹⁶⁵. In most cases, there is a maximum car price at which support is still provided. In terms of tax support, the most common are registration tax reductions (Finland, France, Italy, Spain), motor vehicle tax reductions/exemptions (Germany, Luxembourg, Sweden), reduced VAT (Germany, Norway, the Netherlands). Green taxes are also being introduced (e.g. the Netherlands) to motivate the purchase of electric cars and reduce the amount of CO₂ produced. Similarly, Slovakia has an advantage for alternative fuel vehicles in the registration fee, where the fee is reduced by half. Electric vehicles also pay the lowest fee. Beyond the subsidies, an important factor in the decision to buy an electric car is the possibility of replacing an old diesel/petrol vehicle with an alternative fuel vehicle. In this respect, France provides a "scrappage" bonus for electric vehicles of up to EUR 5 000. Finland applies a similar procedure with a limit of up to EUR 2 000. Similar support through depreciation as applied by Slovakia is found in the United Kingdom,

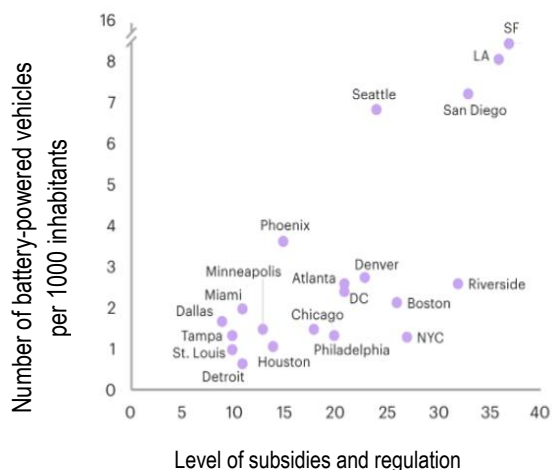
¹⁶⁴ https://environment.ec.europa.eu/strategy/environment-action-programme-2030_sk

¹⁶⁵ Finland, Germany, Spain, France provide grants for the purchase of fully electric cars or plug-in hybrid cars. The amount of support varies from country to country, with Germany being the most generous (BEV EUR 9 000 / 7 500 and PHEV EUR 6 750 / 5 625, depending on the price).

where they differentiate cars according to the size of CO₂ emissions produced. It is then determined what part of the purchase price can be written off.¹⁶⁶

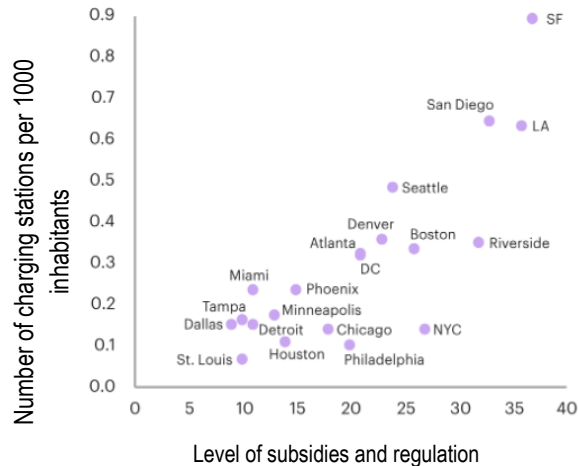
Experience from the USA indicates that for the development of electromobility it is appropriate to focus also on the development of a charging station network (Chart 134 and Chart 135). In Slovakia, in addition to increasing the number of charging stations, it is also necessary to gradually reduce the currently significant disproportion in the number of charging stations between western, central and eastern Slovakia.¹⁶⁷

Chart 134: The relationship between the number of electric vehicles and support in the form of regulation or subsidies



Source: IHS, Kearney analysis¹⁶⁸

Chart 135: The relationship between the number of charging stations and support in the form of regulation or subsidies



Source: IHS, Kearney analysis

The support for the expansion of electric vehicles on the market in the form of tax depreciation needs to be further analysed. Depreciation is only available to entrepreneurs and companies and the benefit comes primarily from the reduction of their tax liability. The faster the depreciation of the asset can be achieved, the higher the tax expenditure after the purchase of the asset and the lower the tax liability (assuming the company makes a profit). A form of direct support through subsidies can help to increase the availability of electric vehicles also for households, but in practice it is necessary to establish criteria and a fair redistribution mechanism. It is also advisable to set up a systemic medium-term approach with measurable criteria rather than a one-off form of subsidy.

10.6. Subsidies from the prime minister's reserve, government reserve and MF SR subsidies

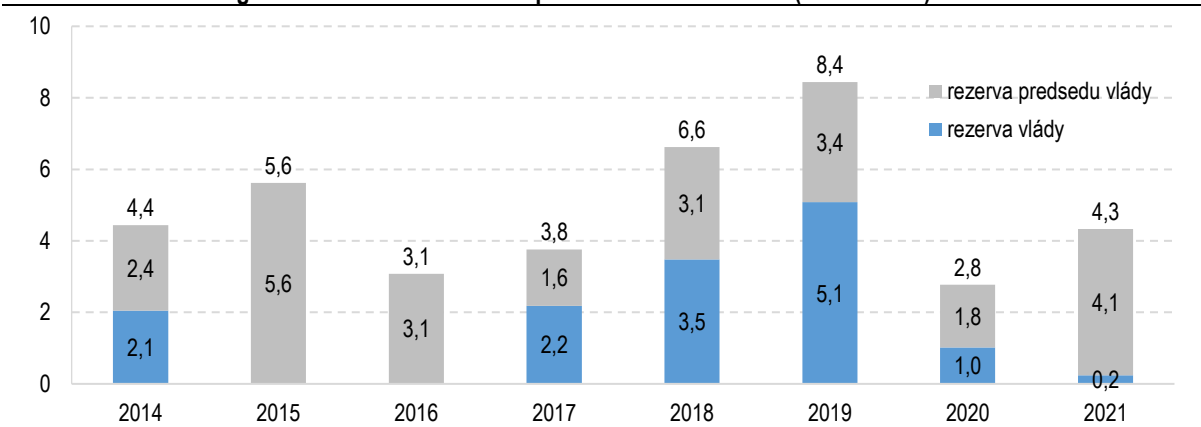
The government reserve and the prime minister's reserve are budgeted to cover unavoidable or unforeseeable expenses that are uncertain in time or amount, according to the Act on the Budgetary Rules of General Government. However, it has become customary to use them to finance subsidies, often for purposes that do not appear to comply with the unavoidable or unforeseeable condition. The prime minister's reserve has terms and conditions for submitting applications, which are published and according to which it is to be used mainly for public purposes, and the money can be applied for both by invitations and directly by unsolicited applications. Applications are decided by a committee, the evaluation form specifies based on what information the applications are scored. The use of both reserves over the last 8 years follows the election cycle.

¹⁶⁶ Parking support for electric vehicles is also common, offering free parking for a certain period of time, reserved parking spaces, use of the bus lane, toll discounts and more. These measures tend to be applied at regional level and are not the subject of this review.

¹⁶⁷ Map of the charging station network, https://zsedrive.sk/mapa?query=gpsNorthWestLat-51.473605064589606_gpsNorthWestLon-13.006638830988862_gpsSouthEastLat-45.4590773130723_gpsSouthEastLon-29.519090002863862_lat-48.55562014055505_lng-21.262864416926362_zoom-7_id-null_ac-acResident-dc-ufc-zse-foreignRoaming-homeRoaming-partnerRoaming-

¹⁶⁸ Ng et al. (2020)

Chart 136: Use of the government reserve and the prime minister's reserve (EUR million)



Source: GO SR

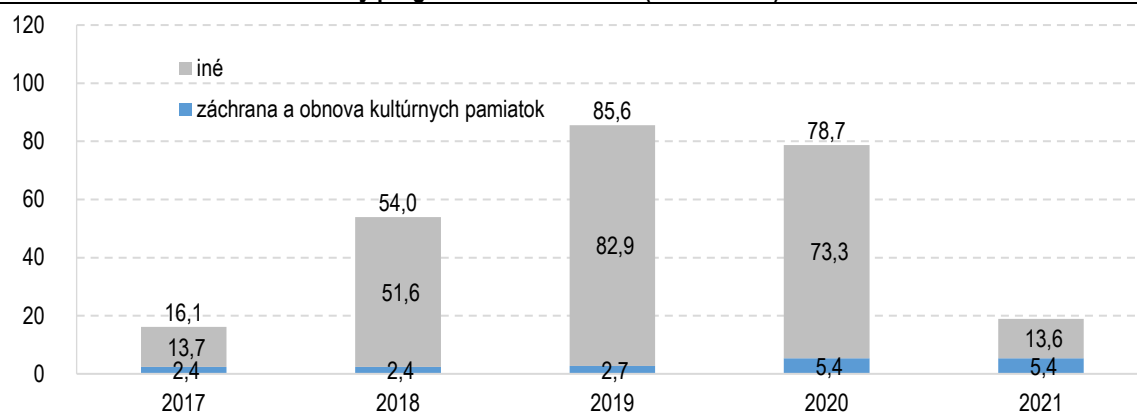
rezerva predsedu vlády	prime minister's reserve
rezerva vlády	government reserve

Although some of the activities supported may fall under the definition of “unforeseeable or unavoidable expenditure”, a number of funded areas do not. For example, the prime minister's reserve has allocated approximately EUR 1 million in 2021 for the repair of damage from natural disasters for which it is earmarked. However, it allocated almost EUR 1.5 million for services for victims of domestic violence and used about EUR 1 million for restoration of memorials or war graves. Important as these purposes may seem, they should be financed within the expenditure of the relevant chapters and not from the prime minister's reserve, as they can hardly be considered unforeseeable or unavoidable. However, the reserve has long been used for purposes other than unforeseen or unavoidable ones, often funding sports infrastructure, the organisation of various events or the activities of various organisations.

Table 45: Use of funds from the reserve of the prime minister of the SR (2021)

Purpose of the subsidy	Subsidy (EUR thousand)
victims of domestic violence	1 424.8
flood damage repair	978.0
restoration of memorials or war graves	952.4
other	351.0
helplines	310.0
Total	4 016.1

Thus, it is not so much that subsidies are not assessed transparently that seems problematic, but rather the use of a reserve that is supposed to be used to finance unforeseen expenditure to finance expenditures that are not unforeseen. **The prime minister's reserve should not be used for such purposes; it is preferable to keep it for financing unforeseen expenditure and to fund the activities in question within the subsidy schemes of the relevant chapters.** In the case of activities such as helplines or assistance to victims of domestic violence, which are financed from subsidy programmes over a long period of time, it seems more appropriate to find funds within the budget of the relevant chapter (Ministry of Labour, Social Affairs and Family of the SR or Ministry of Health of the SR) to systematically finance these activities.

Chart 137: Drawdown of the subsidy programme of the MF SR (EUR million)

Source: MF SR

iné záchrana a obnova kultúrnych pamiatok	other rescue and restoration of cultural monuments
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A similar subsidy scheme is also funded by the Ministry of Finance of the SR; the vast majority of the supported activities do not fall under the scope of the Ministry of Finance. For example, in 2021 it provided more than EUR 5 million for the rescue and restoration of cultural monuments, or EUR 2.7 million for sports infrastructure and the organisation of the European Youth Olympic Festival (EYOF), both of which fall under existing subsidy schemes of the respective ministries. Part of the money from the subsidy programme of the MF SR is earmarked for undefined purposes in advance, so the objectives of the subsidy scheme and the possibility to measure their fulfilment are missing. The subsidy scheme for the rescue and restoration of cultural monuments was permanently moved under the chapter of the MC SR in 2022. However, there remain other purposes that should be addressed.

The purposes of the subsidy scheme of the MF SR should not overlap with the subsidy schemes of the individual chapters, which are specific, have defined objectives and key performance indicators. In case of a need for a higher financial allocation, the subsidy schemes of the chapters concerned can be strengthened.

Table 46: Use of funds from the subsidy programme of the MF SR (2021)

Purpose of the subsidy	Amount (EUR million)
Visit of Pope Francis	6 168.0
Rescue and restoration of cultural monuments	5 380.0
Culture (Andy Warhol Museum)	4 000.0
Sport, including EYOF	2 712.2
Other	570.9
Flood relief work	119.7
Total	18 950.8

The government reserve should, like the prime minister's reserve, be used to cover unforeseen and unavoidable expenses. It is not clear why two separate reserves are established for the same purpose. In past SAO reports (SAO, 2021), the SAO has criticised the fact that the funds are only marginally provided for the purposes under the law and most of the expenditure funded was not unforeseen. In 2021, only about EUR 250 thousand of the budgeted EUR 5 million was spent from the government reserve, for two projects where it is not clear whether they fall within the use of the reserve as defined by the law.

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List of abbreviations

Abbreviation	Meaning
ABTO	Area-Based Tourism Organisation
ASF	Art Support Fund
AVF	Audiovisual Fund
BEV	Battery Electric Vehicle
BIS MF SR	Budgetary Information System of the Ministry of Finance of the SR
BRT	Bratislava Region Tourism (Regional TO)
BTB	Bratislava Tourist Board
CIT	Corporate Income Tax
COFOG	Classification of the Functions of Government
CR	Czech Republic
CRC	Central Register of Contracts
CULT MINOR	Fund for the Support of National Minority Culture
DESI	Digital Economy and Society Index
DG	Deaflympic Games
EC	European Commission
ECh	European Championship
EIS	European Innovation Scoreboard
ESA 2010	European System of National and Regional Accounts
ETS	EU Emissions Trading Scheme
EU	European Union
EU27	Designation for all members of the European Union
EYOF	European Youth Olympic Festival
FA SR	Financial Administration of the Slovak Republic
GDP	Gross Domestic Product
GG	General Government
GO SR	Government Office of the Slovak Republic
GTA	General Treasury Administration
HBP	Hornonitrianske bane Prievidza, a.s. (joint-stock company)
HE CHP	High-Efficiency Combined Heat and Power generation
HEV	Hybrid Electric Vehicle
HT	High Tatras
HTU	Higher Territorial Unit
ICP	Institute for Cultural Policy
ICT	Information and Communication Technologies
IFP	Institute for Financial Policy
IMF	International Monetary Fund
KEGA	Cultural and Educational Grant Agency of the MESRS SR
KPIs	Key Performance Indicators
LDD	Least-Developed Districts
LP	Legal Person
MARD SR	Ministry of Agriculture and Rural Development of the Slovak Republic
MC SR	Ministry of Culture of the Slovak Republic
MD CR	Ministry of Defence of the Czech Republic

MD SR	Ministry of Defence of the Slovak Republic
ME SR	Ministry of Economy of the Slovak Republic
MEnv SR	Ministry of Environment of the Slovak Republic
MESRS SR	Ministry of Education, Science, Research and Sport of the Slovak Republic
MEYS CR	Ministry of Education, Youth, and Sports of the Czech Republic
MF SR	Ministry of Finance of the Slovak Republic
MI SR	Ministry of Interior of the Slovak Republic
MIRDI SR	Ministry of Investments, Regional Development and Informatization of the Slovak Republic
MTC SR	Ministry of Transport and Construction of the Slovak Republic
NACE	Statistical Classification of Economic Activities
NCM	National Cultural Monument
NGO	Non-Governmental Organisation
NP	Natural Person
NPS	Non-Profit Sector
OECD	Organisation for Economic Co-operation and Development
OG	Olympic Games
OP	Operational Programme
PG	Paralympic Games
PHEV	Plug-In Hybrid Electric Vehicle
PS	Private Sector
R&D	Research and Development
RES	Renewable Energy Sources
RONI	Regulatory Office for Network Industries
RUR	Registered Unemployment Rate
SAO	Supreme Audit Office
SAS	Slovak Academy of Sciences
SB	State Budget
SCM	Synthetic Control Method
SCSTI	Slovak Centre of Scientific and Technical Information
SE	Slovenské elektrárne, a.s. (joint-stock company)
Sec	Security
SEP	Self-Employed Person
SIB	Small Independent Breweries
SME	Small and Medium-Sized Enterprises
SO SR	Statistical Office of the Slovak Republic
SOE	State-Owned Enterprise
SOSC	Slovak Olympic and Sports Committee
SR	Slovak Republic
SRDA	Slovak Research and Development Agency
SS	State Sector
SSF	Sport Support Fund
ST	Slovakia Travel
TO	Tourism Organisation
TSO	Tariff for System Operation
Uni	University
V3	Visegrad Group countries without Slovakia

V4	Visegrad Group
VAT	Value Added Tax
VEGA	Scientific Grant Agency of the MESRS SR and SAS
VfMU	Value for Money Unit
WHO	World Health Organization

List of annexes

Annex 1: Administrative costs of schemes

- Administrative costs are an important criterion for the effectiveness of subsidy schemes as they drain funds that could otherwise be used for the support provided.
- Slovak subsidy schemes have costs comparable to foreign funds (4-5%). Private endowment funds tend to be less efficient (in terms of the share of administrative costs in the support distributed) than the state, mainly because of the lower overall volume of support.
- Schemes that redistribute smaller unit subsidies on average tend to have a higher administrative cost ratio. Allocating support by formula reduces the cost of schemes.
- It is preferable that schemes which allocate smaller subsidies per unit should be less administratively burdensome so that the schemes deliver the greatest overall benefit to society.

An important criterion for evaluating the effectiveness of subsidy schemes is also the complexity of their processing and the associated administrative costs. In addition to the amount of subsidies provided, administrative and transaction costs should also be considered when evaluating schemes. These costs need to be kept as low as possible while maintaining the quality of the subsidy process.

The cost of the schemes is more strongly influenced by the unit amount of the subsidy, the number of beneficiaries and their thematic focus ([European Commission, 2018](#)). A comprehensive assessment of the technical quality of applications for monument restoration can be more challenging than allocating subsidies to companies based on the amount of their energy consumption. The administrative costs of schemes are also predetermined by the form of support. For eligible support, which has a defined amount, there is no need to assess the quality of subsidy applications and projects (e.g. sports support at the MESRS SR paid on the basis of a formula). The opposite example is the quality assessment for competitive schemes in culture support. Schemes that redistribute a small amount of support are often the least efficient, as administrative costs are not directly proportional to the size of the scheme (Foster et al, 2000; [European Commission, 2018](#)).

The assessment of the adequacy of administrative costs should include the burden on beneficiaries in addition to the costs on the providers' side. If the provider and beneficiary of the subsidy spend more on administration than the amount of the subsidy itself, such an activity is overall inefficient for the whole of society. The administrative costs are mainly staff costs on both the provider's side (drawing up schemes, assessing applications, checking accounts) and the beneficiary's side (drawing up the application, obtaining the necessary documents, proving utilisation and reporting).

Box 20: Methodology of analysis

The review focused on the cost of subsidies provided for culture and sport between 2019 and 2021. Separate subsidy funds (Art Support Fund, Audiovisual Fund, Fund for the Support of National Minority Culture and Sport Support Fund) and subsidy schemes administered by the Ministries of Education and Culture were considered. These schemes were then compared with the costs of similar schemes in both the public and private sectors.

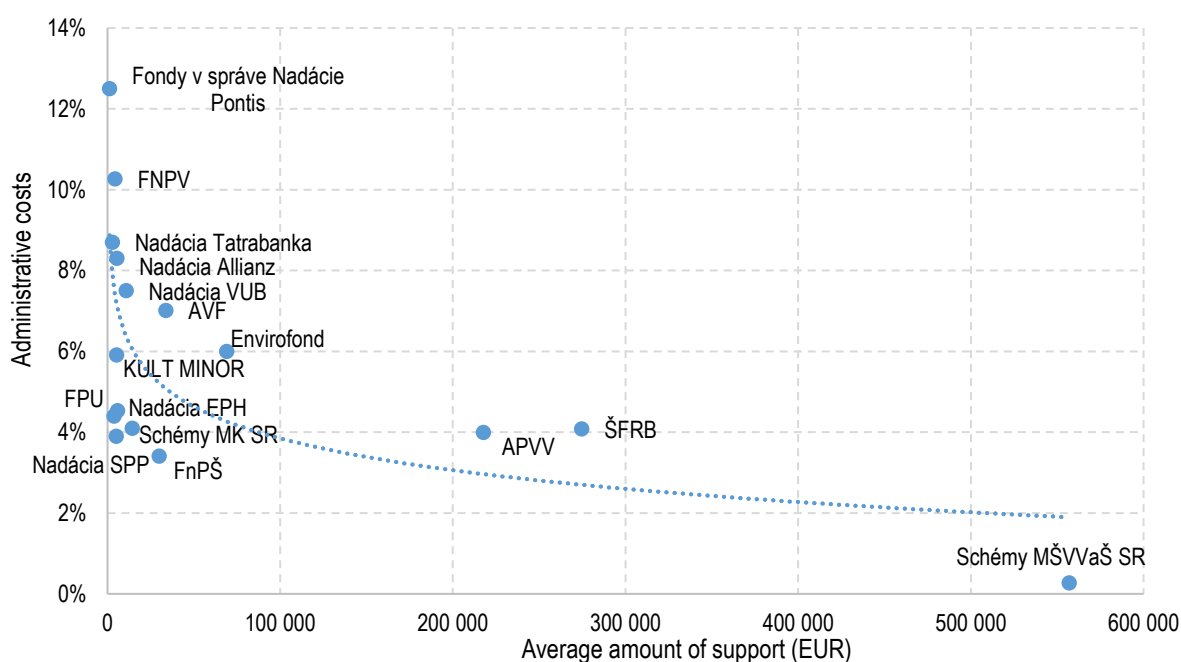
The definition of operational and support activity expenditure of the funds differs slightly from the definition used for the analysis (e.g., inclusion of remuneration for evaluators of applications in support activity expenditure). The administrative costs analysed include labour costs, goods and services and any capital expenditure related to the provision of subsidies. The administrative costs of the subsidy schemes at the ministries were provided directly by the ministries concerned and are to some extent an estimate. Their costs mainly represent the labour costs of the departments providing the support. The overhead and salary costs of staff involved in the agenda only partially and the cost of the necessary information systems were estimated. For the separate subsidy funds, data from the budget information system were used. Costs are also represented by the activities involved in

assessing the large number of applications submitted, of which only a part is recommended for support, and in the end the support is not paid to all successful applicants¹⁶⁹.

The subsidy funds have a limit on operating expenditure defined in the laws establishing them as 5%¹⁷⁰ of the contribution from the state budget or from other types of income. Statutory cost limits defined as a share of income may not be the most appropriate. A more logical solution would be to link them to expenditure in the form of allocated support, as this is the activity in which the actual operating costs are incurred. However, planning expenditure can often be more complex than linking the level of administrative costs to a clearly defined income (government contribution). The problem arises if the scheme does not reallocate all available income. An example is the Envirofond, which has a statutory limit on operating expenditure of 2 % of income, but which is significantly higher than the amount of support allocated. In relation to the reallocated support, Envirofond had operating costs of 6 %.

Schemes that allocate larger unit support appear to be less administratively burdensome compared to schemes that distribute smaller unit subsidies. The form of redistribution, i.e., whether subsidy applications are evaluated on the basis of quality or whether the support is distributed by formula, also plays a significant role. It is preferable that schemes which allocate smaller subsidies per unit are less administratively burdensome so that the schemes deliver the greatest overall benefit to society.

Chart 138: Relationship between administrative costs and average support amount



Note: Two private endowment funds were omitted due to significantly high costs.

Source: BIS MF SR, annual reports of organisations, VřMU calculation

Fondy v správe Nadácie Pontis	Funds administered by the Pontis Foundation
FNPV	Education Support Fund
Nadácia	Foundation
KULT MINOR	CULT MINOR
FPU	ASF
Schémy MK SR	Schemes of the MC SR
FnPŠ	SSF
APVV	SRDA
ŠFRB	State Housing Development Fund
Schémy MŠVVaŠ SR	Schemes of the MESRS SR

¹⁶⁹ E.g., due to withdrawal from the contract or the support is only paid in the following calendar year.

¹⁷⁰ All the examined funds have a limit of 5%, except for the Fund for the Support of National Minority Culture, which was increased to 6% in year XY. The Sport Support Fund has a limit set only from the contribution from the state budget, for other types of income, unlike the other three funds, it has no limits set.

Apart from the Audiovisual Fund, the administrative costs of cultural subsidy schemes do not differ substantially. The Audiovisual Fund has higher costs (7%) than the other two cultural funds. This is mainly due to both higher average salaries and higher expenditure on goods and services compared to the Art Support Fund, which has more staff and a significantly larger number of applications. The higher administrative costs for the AVF may be due to the longer process and inspections involved in making films. The higher costs are also due to the fact that the Slovak Film Commission operates within the AVF, which is not primarily dedicated to the subsidy agenda. The AVF also has a higher cost ratio compared to the Czech State Cinematography Fund, which has a slightly broader scope and a significantly higher budget (almost EUR 70 million in 2020). Costs were comparable in 2018 (7.6%), when the Czech fund paid out three times less cash rebates than in subsequent years.

If the separate subsidy funds were to work together, there may be potential scope for savings. While the existence of a separate Audiovisual Fund is supported by foreign practice, it would be worth considering combining the back-office activities of the Fund for the Support of National Minority Culture with the Art Support Fund or AVF in supporting minority audiovisual affairs. A more in-depth analysis is needed to assess the possibility of increasing the efficiency of the funds and saving operational costs.

Table 47: Average administrative costs of selected subsidy schemes (2019-2021)

Scheme	Ratio of cost to support		Cost of 1 application (€)		Average support (€)
	Paid	Approved	Approved	Submitted	
Schemes requiring an assessment of the quality of applications					
Sport Support Fund (2021)	3.4 %	-	1 018	914	29 854
Slovak Research and Development Agency	4.0 %	-	-	-	217 771
State Housing Development Fund	4.1 %	3.5 %	11 268	8 968	274 596
Subsidy schemes of the MC SR	4.1 %	-	563	350	14 322
Art Support Fund	4.5 %	4.8 %	281	148	5 768
Fund for the Support of National Minority Culture	5.9 %	5.5 %	293	207	5 282
Audiovisual Fund	7.0 %	6.6 %	2 187	1 348	33 818
Education Support Fund	10.3 %	8.2 %	357	317	4 364
Schemes partly using a formula to reallocate resources					
Envirofond (2020-21)	6.0 %	-	-	-	69 012
Schemes largely using a formula to reallocate resources					
Subsidy schemes of the MESRS	0.3 %	-	-	-	556 987
Foreign schemes					
EU funds (the whole EU 2014-20)	4.0 %	-	-	-	-
State Cinematography Fund (2018-20)	4.8 %	-	-	-	-

Note: For the Audiovisual Fund, cash rebates are part of the support disbursed, so their cost has been added to the recommended support. Similarly, the number of applications for film project registration was counted towards the number of subsidy applications submitted and the number of rebates paid towards the number of projects recommended. However, the process for rebates differs from conventional subsidies and thus may have different administrative requirements.

Source: BIS MF SR, MESRS SR, MC SR, Annual reports of organisations, EC, State Cinematography Fund

Subsidy schemes administered by the Ministry of Culture appear to be slightly more efficient compared to the subsidy funds. However, the ratio of administrative costs in the period under review is distorted by the provision of COVID support through the Ministry's subsidy scheme in 2021. The total volume of support provided was thus more than EUR 23 million higher than in previous years. In 2019 and 2020, administrative costs accounted for an average of 5.3%, thus comparable to the separate funds in the current period.

Subsidy schemes administered by the Ministry of Education have low administrative costs because they distribute the grants mainly according to a formula. This is a different way of allocating support - over 90% of the amount of support is paid according to the entitlements set out in the Sports Act. Only a small part of the

available funds is redistributed in other ways. The administration consists mainly in checking the input parameters to the formula for the payment of the allowance for recognised sports or other criteria and in checking the use of the funds granted on an ongoing basis. The Sport Support Fund has not yet provided the full amount of support available and therefore it is not possible to assess its administrative costs.

Slovak subsidy schemes have costs comparable to foreign cultural funds. The costs of Arts Council England in 2021-2022 amounted to 4.24% of income ([Arts Council England, 2022](#)). The California Arts Council reported the cost of developing pilot programmes as 4.8% of the total amount allocated to them ([Legislative Analyst's Office, 2020](#)).

Private endowment funds are not always more effective than the state in making grants. Endowment funds by law disclose the costs of administering the funds and provide grants supporting a wide range of public purposes. In many cases, endowment funds redistribute a smaller total amount of funds, so the average amount of support is lower than for state subsidies. The data on the costs of the funds administered by the Pontis Foundation confirm that the ratio of administrative costs is closely related to both the amount of grants awarded and the total amount of support available. Even in the private sector, there are endowment funds with a significantly high cost ratio that cannot be easily explained without closer examination.

Table 48: Average administrative costs of endowment funds

	Ratio of cost to support paid	Average amount of support	Cost of 1 application (€)	
			Recommended	Submitted
Funds administered by the Pontis Foundation (2021-22)	12.5 %	1 200	281	144
Foundation Volkswagen Slovakia (2019)	1.8 %	-	-	-
Foundation EPH (2017-2019)	4.4 %	3 793	179	-
Foundation SPP (2020-2021)	3.9 %	5 172	187	-
Foundation VUB (2019-2021)	7.5 %	10 856	803	-
Foundation Allianz (2019-2021)	8.3 %	5 538	457	-
Foundation Orange (2019-2021)	32.9 %	2 572	738	-
Foundation Tatrabanka (2019-21)	8.7 %	2 890	255	-
Foundation Tesco (2019-21)	3.5 %	-	-	-
Foundation J&T (2019-21)	39.3 %	7 824	2 996	-

Source: Pontis Foundation's own calculations, annual reports of endowment funds

There is no quantification of the administrative burden on subsidy applicants in the Slovak environment.

The time spent in the online registration system of a given scheme may give some idea of the complexity of the application process, but it does not take into account the time spent in obtaining the required documents. An inspiration to start tracking these costs could be the so-called Paperwork Reduction Act from the USA, which aimed to make authorities estimate how much time it takes people to fill in questionnaires. For example, reading instructions and obtaining the technology/systems needed to process and send the information were also seen as burdensome for respondents¹⁷¹.

For EU funds, the financial burden on beneficiaries amounted to 11% of eligible funds (EUR 108 thousand or 1.5 FTE per EUR 1 million of eligible funding).

State subsidy schemes usually require a higher number of documents compared to private endowment funds. The higher demands are logical given the redistribution of the state budget. The basic criteria for subsidy beneficiaries are laid down in Act No 523/2004 Coll. on the budgetary rules of general government. The applicant must have settled financial relations with the state budget, must not be in bankruptcy or restructuring, must not have a registered fine for violation of the ban on illegal employment, etc. The anti-bureaucratic law replaced part of

¹⁷¹ Available online: <https://pra.digital.gov/burden/activities/>

the confirmation of compliance with these criteria with affidavits or the provision of data necessary for requesting an extract from the criminal record. The burden of private grants is also lower for documents with the same content – endowment funds, for example, do not require official confirmation of account maintenance from a bank.

The administrative costs of the subsidy provider and its beneficiary are communicating vessels. The larger the number of documents, or the more complicated in terms of their content, which the provider requires for the subsidy application and its settlement, the more work it produces for itself in checking them. The computerisation of the application process in private endowment funds through the e-grant system has contributed significantly to reducing administrative costs on both sides.

The administrative burden of state subsidy schemes can be reduced. In the case of cultural subsidy funds and schemes, the possibility of introducing accreditation for entities that apply annually is offered. Applicants' basic criteria would be checked at the initial application for accreditation, which, once approved, would be valid for a number of years. For the duration of the accreditation period, applicants would only submit documents relating specifically to the subsidy application or, in the case of a successful application, to its settlement. The most likely option is to further relieve the administrative burden on applicants in connection with the next rounds of the anti-bureaucratic law. However, this easing of the burden on applicants does not contribute to the overall reduction of the administrative burden of the schemes, as the subsidy providers are still obliged to verify the data. It is worth considering whether the same level of administrative burden in terms of documents and certificates required is justified for applicants with multiply different amounts requested.

To reduce administrative costs after 2020, the European Commission recommends in particular a reduction in the number of verifications and a greater use of Simplified Cost Options (SCOs). At the same time, however, according to the European Commission, administrative costs alone are not indicative of the effectiveness of a scheme and need to be compared with the results achieved in order to assess their adequacy.

Annex 2: Theoretical background to subsidies

Broadly defined, subsidies are state aids that either reduce the prices of goods and services or increase the incomes of producers relative to the outcome of the free market (Schwart and Clements, 1999). Subsidies mainly take the form of direct government expenditure (subsidies), tax credits (tax expenditures) or soft loans.

The aim of state subsidies is to reallocate productive resources to achieve better public welfare outcomes compared to the free market. The most common argument in favour of subsidies is market failure, which makes production and resource allocation decisions that are optimal from the perspective of individual firms suboptimal from the perspective of society as a whole (Schwart and Clements, 1999; Wilson and Pomfret, 2009).¹⁷² According to second-best theory, the use of subsidies is justified if they increase social welfare (Lipsey and Lancaster, 1956). Examples are subsidies for green energy investments, which are costly for firms but have high social benefits, or subsidies for basic research, the results of which are public goods with a high degree of spillover effects.¹⁷³ In both cases, producers are not able to earn an income on the free market commensurate with the social value created. Thus, without state subsidy, the production of these goods would not reach the socially optimal level.

Subsidies can be used by the state to influence the behaviour of economic actors in the right direction. For example, subsidising public transport reduces its price and thus makes it more attractive to less environmentally friendly modes of travel (Ling et al. 2019). Conversely, an example of misaligned incentives in the context of the climate crisis is the promotion of fossil fuel extraction and processing (Erickson et al., 2017). Subsidies can also serve to promote socially beneficial industries or reduce regional disparities by supporting specific producers in socio-economically weaker regions. However, it should always be the case that the social benefits of subsidies are greater than their social costs.

Box 21: Other objectives and use of subsidies

When deciding whether to provide subsidies, it is not only economic objectives that need to be pursued, but also social and political objectives, or various combinations thereof.

An example of a policy objective that may not increase overall welfare but rather has a redistributive effect is the desire to maintain some level of local agricultural production (Gibson and Luckstead, 2017). Even with politically motivated subsidies, it is necessary to set clear criteria, such as the long-term sustainability of agricultural production or the promotion of healthy food, and to avoid negative phenomena such as increasing income inequalities (Springman and Freud, 2022; Scown et al. 2020).

Subsidies can also be an appropriate instrument to achieve some social objectives. For example, if non-profit organisations are more effective than the state in tackling poverty-related problems, then their financial support through subsidies may be justified.

An example combining political, social and economic objectives is subsidies for strategic employers in less developed regions (Slattery and Zidar, 2020). However, it is always necessary to weigh all costs and benefits of the subsidy to ensure that an entity producing negative externalities is not designated as strategic employer (e.g., Hornonitrianske bane), the support of which reduces overall societal welfare.

The final form of subsidies is the result of a political decision that may not be socially optimal (van Beers and de Moor, 2001). It may be influenced by pressure from interest groups (Yu, 2005), which, in addition to direct lobbying, also influence public opinion and thus create pressure from the electorate (Groothuis et al., 2004; Siegfried and Zimbalist, 2000). The activities of interest groups often constitute economic rent extraction, i.e. the

¹⁷² The annex lists all the major market failures and their negative social consequences taken from Weimer and Vining (2017). Weimer and Vining define specific cases where the use of subsidies is appropriate. Primarily, these address externalities.

¹⁷³ In economics, a spillover effect is a benefit or cost that occurs as a result of another event in a seemingly unrelated context. In research, for example, it may be the discovery of a new mathematical method that enables the development of complex algorithms in IT that accelerate research in other fields such as medicine, pharmacy, environmental sciences, other natural sciences, or social sciences. The appropriate size and structure of research support (both basic and applied) can therefore have a significant positive impact on social welfare and its dynamics (Akcigit et al., 2021).

extraction of returns above the level necessary to motivate the owners of the factors of production to engage in production. Rent extraction always reduces social welfare.

In reality, subsidies often fail to deliver the desired results, are socially costly and are perceived as unfair. Subsidies can distort competition, distort pricing, reduce the rationalisation of resource use, and thus reduce pressure for efficiency (Diaz Arias and van Beers, 2013). Thus, subsidies generate not only direct financial costs but also indirect costs. It is true that the more costly subsidies are, the less efficient they are. When subsidies are used as a redistributive tool, they can create a sense of injustice in some parts of society (Schwartz and Clements, 1999).

A high number of small subsidy schemes with a low average contribution per beneficiary creates the risk of high administrative and transaction costs on both sides. Thus, small average contributions per beneficiary may lead to disproportionately high administrative costs on the beneficiary side, which may ultimately be comparable to or higher than the subsidy received. Higher administrative costs may be incurred on the part of the subsidy provider, thus reducing the overall efficiency of subsidy provision. For example, a number of funds may use 5 or 6 % of the state budget contribution for their own operations. There would be potential scope for savings if funds in similar areas operated together. One of the features of a well-designed subsidy should be low administrative and transaction costs on the part of both the provider and the beneficiary.

Box 22: Types of inefficiency of subsidies

Three types of inefficiencies emerge in the literature on subsidies. **Allocative inefficiency** means that subsidies are not properly targeted to market failures. The correct allocation of resources determines whether the outcome is closer to or further away from the social optimum compared to the free market. An example of allocative inefficiency is the promotion of activities that cause negative externalities, as in the case of subsidising oil companies (Erickson et al. 2020). **Technical inefficiency** arises when subsidy schemes are not properly set up (Allen and Tommasi, 2001). This is a situation where subsidies do not meet the desired objectives or more resources are spent on implementation than is objectively necessary (Van Beers and de Moor, 2001). It does not have to be only a failure on the part of the subsidy provider. Indeed, the relationship between the provider and the beneficiary of the subsidy creates an information asymmetry where the beneficiary of the subsidy may benefit from reporting higher than minimum costs (Ling et al. 2019). **Dynamic inefficiency** means that there is a reduction in achievable progress over time. For example, if the state subsidises fossil fuel energy production, it lowers its relative price, thereby limiting innovation in the use of alternative fuels (Diaz Arias and van Beers, 2013).

Annex 3: Policies to address selected market failures (adapted from Weimer and Vining, 2017, *Policy analysis*)

	Market release, creation or simulation	Subsidies, grants, tax expenditures	Legislation	Provision directly by the state	Insurance and protection
Traditional market failures					
Public goods	S	S	S	P	
Externalities	S	P	P	S	
Natural monopoly	S	S	P	P	
Information asymmetries			P	S	S
Other limitation of the competitive framework					
Imperfect competition			P		
Real consumer preferences vs. preference theory	S	S	P		

Risk and uncertainty		P		S
Current vs future consumption		S		P
Economic cycle	P			S
Distribution				
Equality of opportunity	S	P		S
Equality of results		S	S	P

Solution sources: P – primary, S - secondary *Source: Policy analysis, Weimer and Vining, 2017*

Market failures

In an ideally competitive market, goods and services are efficiently reallocated at the Pareto optimal level¹⁷⁴. However, the market mechanism operates efficiently only under conditions of perfect competition. In real economic life there are many factors distorting its functioning. The result is an imperfectly functioning system, which brings with it inefficiencies in the use of available resources. The economy thus produces below its potential and there is a market failure.

Market failure occurs when individuals acting in their own rational self-interest produce less than the economically efficient outcome. The most common market failures include the existence of public goods, externalities, natural monopolies and information asymmetry.

Public goods and mixed goods

Public goods are goods and services that are characterised by their non-rivalry and non-excludability from consumption. Non-rivalry means that the consumption of a good by a given individual does not restrict the consumption of the same good by another individual, and non-excludability from consumption means the impossibility of restricting the consumption of an individual who does not pay for the consumption of a public good.

One easily illustrated public good is national defence, which is a public good because every citizen receives similar benefits regardless of how much he or she pays, and at the same time citizens do not compete in its use. It is very difficult to privately produce the optimal amount of national defence. Since governments cannot use a competitive pricing system to determine the right level of national defence, they also face great difficulty in determining the ideal level of defence required.

Externalities

Externalities are the consequences of the economic activity of one entity on another entity that are not compensated for (do not pass through the market). There are two basic types of externalities, positive and negative.

Positive externalities arise when one entity positively influences another entity without compensation. A typical example is the promotion of science and research, where knowledge is shared between workers in technology firms, resulting in new innovative solutions in different fields. Negative externalities, on the other hand, represent a reduction in welfare for an individual or group without compensation. An example is the discharge of hazardous waste into a river, where there is a welfare reduction for local fishermen in the form of fish kills without any financial or other compensation.

Natural monopoly

A natural monopoly arises when the most efficient number of firms in a given industry is one. Such a situation is closely linked to economies of scale, where the high fixed costs associated with the provision of a good or service

¹⁷⁴ The Pareto optimum is the state in society where an individual cannot increase his or her level of welfare without decreasing the level of welfare of another individual. It is the theoretical state where everyone is as well off in aggregate as is possible at a given level of economic development.

cause average costs to fall with increasing output over the full range of the market, which are at the same time lower than they would be if there were competition in the market.

An example of a natural monopoly is a water supply network. Fixed costs in this sector are high, as a complete water supply infrastructure must be built to provide this good. Thus, unit costs naturally fall as the provision of the good increases, which represents economies of scale of production. The existence of two identical water supply networks is inefficient, since the unit cost would be higher (assume twice as high) and hence the resulting price to consumers would have to be higher. However, natural monopolies need to be regulated in order to avoid price abuse of their dominant market position.

Information asymmetries

Information asymmetry in the market arises when one of the two parties in a transaction has more information than the other and thus has the ability to make a more informed decision. Asymmetric information leads to market failure by distorting the law of supply and demand that regulates the pricing of goods and services.

In the case of the sale of a house, the seller can exploit the higher information on his side in the form of concealing the shortcomings of the offered property (old beams on the roof, creaky stairs, non-functioning air conditioning). This information asymmetry may cause the buyer to pay more for the house than he would have been willing to pay if he had known about the defects.

Imperfect competition

Imperfect competition refers to any economic market that does not meet the strict assumptions of a hypothetical perfectly competitive market. Economic operators in this environment sell a variety of products and services, set their own individual prices, compete for market share and are often protected by barriers to entry and exit in the industry. Imperfect competition is part of our society and can be found in the following types of market structures: monopolies, oligopolies, monopolistic competition, monopsony and oligopsony. Schools of economic thought generally agree that real markets rarely meet the conditions for perfect competition and that the state is therefore entitled to use instruments to regulate the abuse of dominant positions by actors in society in order to ensure the efficient use of resources.

Real consumer preferences vs. preference theory

Economic theories assume that each person has a fixed utility function that expresses different combinations of consumption of goods into an index of total happiness - a preference. A consumer acquires part of the preferences at birth and later they are shaped by participation in society. Preferences in the real world are neither as stable nor as simple as assumed in basic economic theory. The extent to which this difference prevents the economy from achieving Pareto efficiency, however, remains unclear.

The change in consumer preferences that reduces Pareto efficiency may be due to advertising. Advertisements may persuade consumers that, with their constant consumption and constant income, they need to buy, for example, a new automatic vacuum cleaner to maintain their level of happiness, which reduces their overall welfare.

Risk and uncertainty

The assumption that there are efficient markets for all goods under all contingencies implies that it must be possible to buy fair insurance to maintain one's current well-being regardless of contingencies. Risk is defined as contingencies with known probabilities and uncertainty as contingencies with unknown probabilities.

Observations from insurance markets and individual responses to risk suggest that public policies may have the potential to increase economic efficiency in situations involving elevated levels of uncertainty. For example,

public risk assessments may be an appropriate response when people make important systematic errors in their private assessments, and public insurance may be justified when private coverage is significantly incomplete.

Current vs future consumption

The consumer is able to not only save but also borrow money at a certain interest rate, thus influencing the size of his current and future consumption. If the consumer puts aside part of his income in the form of savings, he forgoes present consumption at the expense of higher consumption in the future (his savings grow exponentially thanks to the interest rate). On the other hand, if the consumer decides to take out a loan today, he increases his current consumption at the expense of lower consumption in the future (the interest rate on the loan granted reduces his consumption in the future).

Budgetary constraints prevent consumption to the extent desired. Governments and individuals often prefer current consumption to consumption in future years or by future generations. Concerns about the appropriateness of the weight given to the preferences of future generations can serve as plausible reasons for public policies aimed at improving the intertemporal allocation of resources and goods.

Economic cycle

By economic cycle we mean fluctuations in real final output above (expansion) or below (recession) its potential level. If real economic performance is below its potential (not reaching maximum efficiency in the use of factors of production), the living standards of citizens fall, which justifies the state to implement stabilisation measures. During recessionary periods, the government tries to stimulate demand using fiscal and monetary instruments, even at the expense of the government deficit. Expansionary monetary instruments (such as a fall in key interest rates) are intended to stimulate investment growth and thus, indirectly, real output growth.

Distribution of income

In economics, the distribution of income is the way in which total wealth is distributed among individuals or among the factors of production (labour, land and capital). The state ensures the distribution of public income among entities so as to achieve greater equity in distribution (distributive allocation). It uses the public finances of the state budget for redistribution. The basic objective is to reduce social inequalities and contribute to social consensus, whereby the state guarantees a certain basic level of living standards necessary to meet the basic needs of the population. In redistribution, an important question is to what extent public finances should be redistributed to ensure economic efficiency.

Equality of opportunity

Equality of opportunity is a state of justice in which individuals are treated similarly, without artificial barriers, prejudices or preferences. According to the concept's proponents, opportunities for advancement should be open to everyone, regardless of wealth, status or membership of a privileged group. However, there is a section of people within society who would be at risk of social exclusion without external help (widows, orphans, disabled people). Charities were set up in the past to help these people, and after the 1930s the public sector became involved. Furthermore, to ensure equality of opportunity, the state provides retraining courses, supplementary education and rehabilitation courses to ensure that people's participation in the labour market increases.

Equality of results

Respect for human dignity empowers public policy makers to ensure a minimum level of consumption for all members in society. The minimum level of consumption varies between countries and also between time periods. As consumption increases, marginal utility decreases, and hence we can assume that additional income for the most socially vulnerable population groups results in the highest increase in marginal utility and additional happiness. This argument leads us to conclude, in the context of tax policy, that rich citizens should be taxed at higher rates at the expense of poor citizens in order to ensure equality of marginal utilities. However, such a

system would lead to a massive decline in investment and economic growth, as people would no longer be motivated to create wealth, which would then still be redistributed. In general, therefore, the more wealth we redistribute among citizens, the more we reduce the incentive to create it and hence the amount of wealth itself. Public policy has to answer the question of what is the optimal amount of redistribution that is worth the partial loss of total wealth.

There are many possible solutions to market failure. These can take the form of private market solutions or government mandated solutions. Governments can enact legislation in response to market failure. For example, if businesses hire too few low-skilled workers after raising the minimum wage, the government can create exemptions for less-skilled workers. Governments can also introduce taxes and subsidies as possible solutions. Subsidies can help encourage behaviour that can lead to positive externalities. Meanwhile, taxation can help reduce negative behaviours. For example, introducing a tax on tobacco may increase the cost of consumption and therefore make it more expensive for people to smoke.

Annex 4: Common Agricultural Policy measures

The main objectives of the EU's Common Agricultural Policy (CAP) are to support farmers, improve agricultural productivity, contribute to tackling climate change and preserve the EU's rural areas. The CAP is a common policy for all countries in the European Union, managed and financed at European level through the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The CAP is implemented through the following measures:

1. **direct payments** provide income support for farmers and reward them for carrying out farming activities in an environmentally friendly way and providing public services for which they are not usually paid by markets, such as countryside care
 - a. **decoupled direct payments** - they are not conditional on the production of a specific crop or animal husbandry, the applicant just needs to meet the conditionality conditions (e.g. year-round arable land coverage). Examples are the single area payment, the redistributive payment or the payment for agricultural practices beneficial for the climate and the environment.
 - b. **coupled direct payments** are linked to the cultivation of a specific crop or the rearing of specific animal species. They are used to support sectors that have significant economic, environmental or social benefits without being sufficiently profitable. An example is vegetable growing, which has a positive impact on rural employment and on the health of the population that consumes local vegetables (Institute for Agricultural Policy, 2022).
2. **market measures** address difficult market situations, such as a sudden drop in demand due to a health threat or a price collapse caused by temporary oversupply on the market.
3. **rural development measures** address the specific needs and challenges faced by rural areas
 - a. **project-based measures** - implemented through the submission of projects, examples include support for cooperation in the development of new products and practices in agriculture or support for local development.
 - b. **non-project measures** - support aimed, for example, at areas with natural constraints or ensuring animal welfare.

In the new programming period 2023-2027, the CAP is implemented through:

1. **direct payments and sectoral interventions (Pillar I)**
 - a. **decoupled direct payments** (basic income support for sustainability, redistributive income support for sustainability, complementary income support for young farmers, climate, environment and animal welfare schemes)
 - b. **coupled direct payments** (income support linked to the cultivation of a specific crop or the rearing of specific animal species)
 - c. **sectoral interventions** are an additional form of support for the fruit and vegetables, wine, bees and apiculture products, milk and milk products, pigmeat, sheepmeat, goatmeat and potatoes sectors
2. **41 types of Pillar II support, in 8 basic groups**
 - a. environmental, climate and other management commitments
 - b. natural or other specific constraints of particular areas
 - c. the specific handicaps of particular areas resulting from certain compulsory requirements
 - d. investments, including investments in irrigation
 - e. the setting up of young farmers and new farmers and the establishment of rural enterprises
 - f. risk management tools
 - g. cooperation
 - h. exchange of knowledge and dissemination of information

Source: [EC, The common agricultural policy at a glance](#) and [Farmer's Manual](#)

Annex 5: Absorption of EU funds in the 3rd programming period (EUR million)

	2014-2018 S	2019-2021 S	2022-2024 N	Total
TOTAL	6 231	7 748	7 634	21 614
Subsidies	2 748	2 479	1 433	6 659
Pillar 1 Common Agricultural Policy	2 086	1 368	489	3 943
Rural development SR 2014 - 2020	506	412	934	1 851
<i>Areas with natural or other specific constraints</i>	242	206	133	582
<i>Investments in tangible assets</i>	0	0	313	313
<i>Animal welfare</i>	68	77	61	207
<i>Organic farming</i>	52	49	102	203
<i>Other</i>	143	79	325	547
OP Research and Innovation and Integrated Infrastructure	75	470	10	555
Other	81	229	0	310
Other transfers	690	1 473	478	2 641
OP Human Resources	468	1 205	366	2 038
<i>For active labour market measures</i>	379	375	325	1 079
<i>For cash contributions for compensation</i>	0	526	0	526
<i>To the municipality (not for delegated competences)</i>	57	198	0	256
<i>Other</i>	31	106	41	178
Regional development operational programmes 2014-2020	185	76	0	261
Other	38	191	113	342
Employee compensation	230	517	0	748
Goods and services (including advances for EU projects)	229	400	2 790	3 420
Of which advances for EU projects	25	44	1 351	1 421
other	204	356	1 439	1 999
Capital expenditure	2 334	2 879	2 933	8 146
Capital transfers	2 097	2 490	2 637	7 224
<i>Transport</i>	1 188	857	890	2 936
<i>Environmental protection</i>	438	530	1 157	2 125
<i>General economic, business and labour area</i>	65	567	388	1 020
<i>Agriculture, forestry, fishing and hunting</i>	221	285	111	617
<i>Other</i>	185	251	91	526
Capital expenditure - not transfers	237	389	296	922

Source: BIS, MF SR