



Draft budgetary plan of the Slovak Republic for the year 2019

October 2018



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Summary

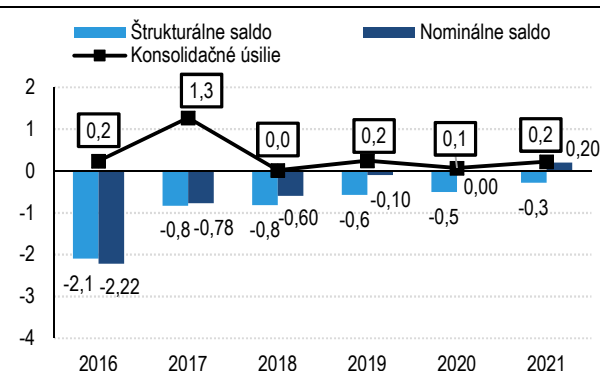
Following the historically smallest general government deficit in 2017, which reached 0.78% of GDP, the current estimate for the 2018 deficit is 0.60% of GDP. The initial budgetary target of 0.83% of GDP in 2018 should therefore be improved upon by 0.23 p.p.. After adjusting for the interest expenditure on public debt, public finances should again be in a primary surplus.

The draft budget for the coming years foresees a continuation of the consolidation of public finances in the context of a positive macroeconomic outlook. In 2019, an almost balanced budget (deficit of 0.1% of GDP) is planned to ensure the achievement of the medium-term budgetary objective (MTO). Compared to this year's Stability Program, the budget slightly tightens the budgetary targets for 2019 and 2021. In 2020, a balanced budget is projected, followed by a first surplus of 0.20% of GDP in 2021. The proposed budgetary targets stem from the requirements of the Stability and Growth Pact rules and are in line with the consolidation requirements of the European Commission.

General government gross debt will decline below the lowest debt brake sanction threshold and remain there over the whole budget horizon. In 2018, debt to GDP will reach 48.7% of GDP, outside national debt brake sanction thresholds. General government gross debt should reach 47.3% of GDP in 2019. For 2019-2021 budget assumes that general government gross debt will fall to 44.8% of GDP in 2021, while keeping the primary surplus on the whole horizon.

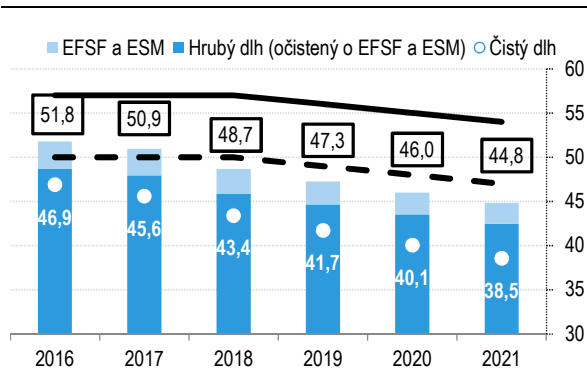
The Slovak economy is experiencing dynamic growth. In 2019, the growth is 4.5%. Export will dominate, which has accelerated again thanks to the rise in production and the continued increase in automotive production. In 2018, it is expected to create 47,000 new jobs and a further 28,000 jobs in 2019. The unemployment rate is overtaking the new minimum and will fall to 6.4% in 2019. By 2021 it will fall below 6%. The average nominal wage will increase by 6,3% in 2019 to reach EUR 1,077. Wage acceleration will be felt across all sectors.

FIGURE 1 - Structural balance (% of GDP)



Source: Ministry of Finance of the Slovak Republic (MoF)

FIGURE 2 - GG Gross debt (% of GDP)



Source: MoF

The integration of Value for Money role in the budget preparation process is being reinforced. Value for money will be anchored in the national legislation. Several spending reviews, namely on agriculture, health, expenditure on the inclusion of groups at risk of poverty and social exclusion, employment and remuneration in general government will be completed in 2019. A new topic of revision is expenditure on culture.

The fight against tax evasion will be supported by new structural measures. According to the European Commission's current estimates, the VAT gap in 2016 fell to 25.7%, which was y-o-y the fifth highest improvement in the VAT gap within the EU. Based on the online linking of all fiscal cashiers to the financial administration portal (eKasa), the financial administration will immediately receive information on transactions and records of revenue. In order to reduce excise duty on mineral oils, it is planned to introduce the obligation to mark mineral oils sold in Slovakia, with so called nanomarkers additives.



The draft budgetary plan is based on the draft budget of the general government for the years 2019 to 2021.

The preparation of the document arises from the European Union legislation. It presents the development of the fiscal position, the anticipated development of the economy, and a description of the budgetary policy measures to achieve the medium term targets. After the publication, the European Commission carries out the assessment of the draft budgetary plan.



I. Macroeconomic assumptions of the budget draft

Slovak economy will expand by 4.5% in 2019. The acceleration will be driven by the export of the automotive industry with new production capacities. Labor market tightness will generate 28,000 additional jobs, robust wage increases, and upward pressure on consumer prices. In 2020, the effect of new car production will start to ease. Economic growth will slide under four per cent and will gradually converge to its potential. The projected increase in public wages, coupled with the robust wage growth in the private sector, will strengthen nominal household consumption.

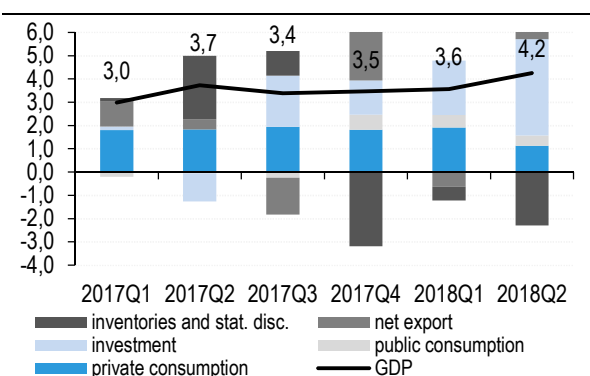
I.1. Macroeconomic Forecast

The Slovak economy will grow by 4.1% in 2018. Household consumption, which was the driving force in the recent period, will be replaced mainly by investment and export activity. Exports accelerate thanks to the automotive industry, where new production starts in the Volkswagen (VW). The Jaguar Land Rover (JLR) car maker is making a major contribution to the capital formation, but the public investment, especially of local government, contributes as well.

In 2019, the economic growth will strengthen by 4.5%. Household consumption, thanks to a steep rise in wages, will keep dynamics comparable to previous years. However, the cyclical position of the economy will dampen greater impact on real household consumption as higher wages will be closely followed by rising prices. In addition, other components of disposable household income will grow slower than the wage base. Overheating of the economy will slowly accelerate due to the tense labor market, but will be hampered by the expanded production capacity of the automotive industry. **Thanks to the rise in production in JLR and the continuing increase in production in VW, the export will dominate the expenditure side of the GDP.** On the contrary, investment will slow down due to the completion of new capacities in automakers, yet core investments¹ in the private sector will keep high pace.

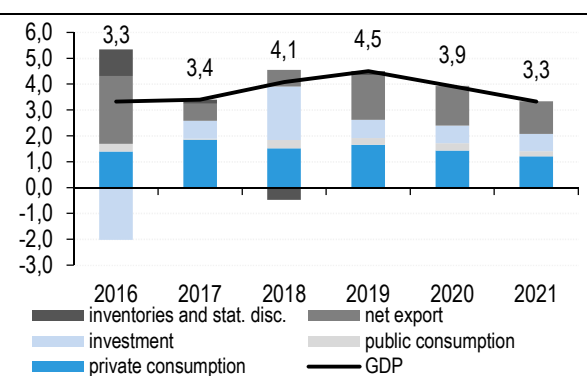
For 2020, the economic growth is expected to slide under four percent. The impact of the automotive production will gradually vanish and export will be hampered by the cyclical slowdown in the economies of Slovak major trading partners. The sharp increase in wages in the public sector will be mirrored in consumer prices. **At the end of the medium-term horizon, the economic growth will ease to 3.3%**, and the output gap will start to diminish. (BOX 2). Without further impulse into wages, the growth in household consumption will slow down as well. Private investment slowdown will be offset by a slight increase in public investment, in view of the upcoming end of the EU's third programming period. A more generous capital formation by EU funds is expected beyond the forecast horizon.

FIGURE 3 - Contributions to GDP Growth - Quarterly (p.p.)



Source: MoF

FIGURE 4 - Contributions to GDP Growth - Forecast (p.p.)



Source: MoF

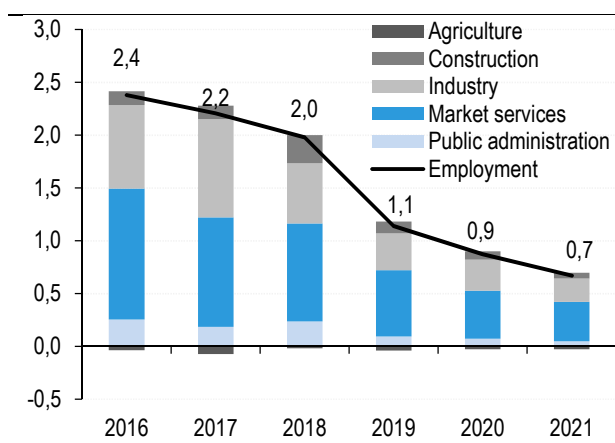
¹ Private investments without JLR and D4/R7.



In 2019, employment will ease and grow by 1.1%. This represents over 28,000 new jobs. Jobs will be generated in all sectors of the economy, but majority will be added in the market services sector. Lack of labour force will be partially mitigated by the lower number of Slovak workers abroad and the continuing increase in the number of foreign workers in Slovakia. **Employment growth will push the unemployment rate to a new minimum of 6.4%.** We expect gradual slowdown in labour market dynamics in the coming years, with year-on-year employment growth below 1%.

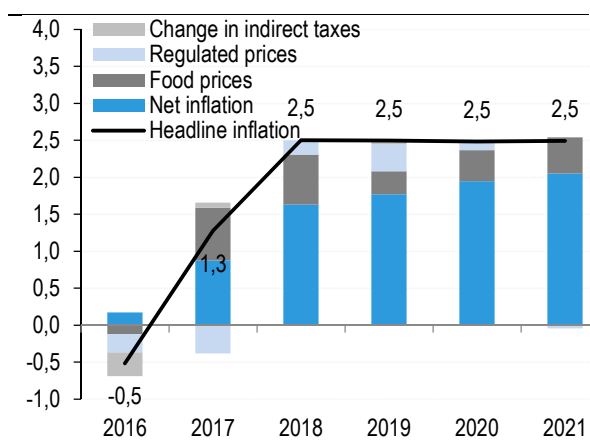
The average nominal wage growth will slightly accelerate in 2019 to 6.3%. Wage rates in the public sector will increase by 10%². The private sector wages will be lead by the industrial sector, which is experiencing the most significant labour shortages. **Even in 2020 wages will increase by more than 6%.** From the sectoral point of view, the development will be similar to 2019. Real wages will keep dynamics above 3.5% by 2020.

FIGURE 5 - Industry Contributions to Employment Growth (p.p.)



Source: MoF

FIGURE 6 - Contributions to inflation (p.p.)



Source: MoF

Prices will increase by 2.5% this year and will grow at the same rate in 2019. The Regulatory Authority will increase energy prices next year on the basis of developments in energy commodity prices on world markets and the development of future contracts. Food prices slow down since the start of this year. Stabilization of oil prices will be reflected in fuel prices as well. Overheating in the labour market will lead to accelerating of growth in market services prices, while growth in commodity prices will be dampened by developments abroad.

Inflation will continue at the same pace even after the year 2020. Decreasing oil prices will lead to a drop in fuel prices, while the development of energy futures will slow the growth of regulated energy prices. On the other hand, the persistent overheating of the labor market and the associated wage growth will support the dynamics of service prices. Thus, overall inflation will remain at 2.5% over the medium term horizon.

BOX 1 - External environment assumptions

The Eurozone economy eases cyclically. The slowdown emerges mainly due to lower foreign demand. The gap in the external environment was partially offset by the domestic demand, supported by an accommodative monetary policy and solid labour market. Subdued growth was present especially in large economies, such as Germany, France and Italy. Spain, on the contrary, maintained dynamic economic performance.

Since 2019, we expect a gradual decline in the performance of foreign trade partners of Slovakia. This will be reflected in lower foreign demand, in terms of both foreign imports and GDP. While in 2018 the robust growth in the V3 region compensated the weaker eurozone outcomes, we do not expect this effect in the coming years. Weak foreign demand together with only moderate domestic consumption will dampen the economic growth in the V3 region in 2019. However, domestic labour markets will be the primary factor behind the downturn as they face their limits.

² Following the declaration of representatives of the social partners on the Collective Agreements for the Civil Service and Public Service for 2019 and 2020, the macroeconomic forecast foresees a 10% wage rates increase for all public sector workers in 2019 and 2020



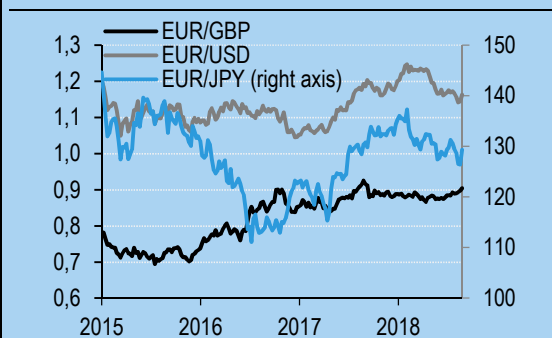
US monetary policy continues to normalize while the euro zone only enters the final phase of quantitative easing.

After the second increase in the Fed's benchmark interest rate this year to the current level of 2%, expectations were set up to four increases in 2018 and the next two increases in 2019. The yield curve of US government bonds was therefore even more flattened, which supports investing in short-term instruments. Normalization will be supported by the gradual reduction of the inflated Balance Sheet of the FED by the end of the year and also in the subsequent period. The ECB mitigated its monthly purchases to \$ 15 billion monthly since September to the end of 2018. It subsequently announced the end of quantitative easing, with the first increase in key rates not expected until the second half of 2019.

The euro exchange rate against the US dollar will gradually strengthen from 2019 onwards. The weakening of the euro during 2018 was mainly due to a cyclical slowdown in the Eurozone and, to a lesser extent, to pressures on US trade measures (FIGURE 7). Fundamentals of the European economy remain solid and will support the strengthening of the euro against other currencies at the horizon of the forecast. The escalation of tensions in world trade poses risks not only for the euro but also for the development of other currencies. In March 2019, it is expected that the conditions of Brexit will be determined, from which the euro position will depend against the British pound.

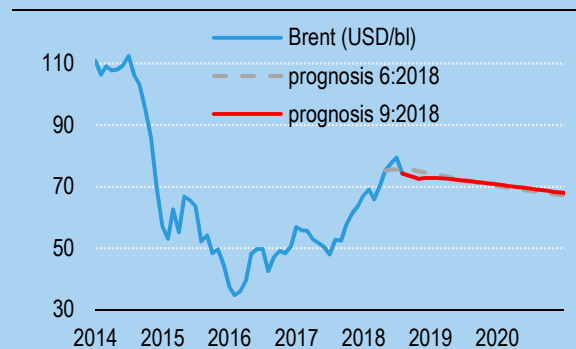
The price of oil will be throughout the 2019 on a declining trajectory (FIGURE 8). Recently, the price has been influenced by two opposing factors. The reduction in supply due to Iranian sanctions and the sharpest decline in oil drilling over the past two years in the US have pushed oil prices up. On the other hand, this effect was offset by the information on higher oil reserves in the US, which initiates the downward pressure on the oil price. At the end of the forecast horizon, we expect a gradual stabilization of the price below \$ 70 per barrel based on future contracts.

FIGURE 7 - The EUR / USD exchange rate stabilized



Source: Bloomberg

FIGURE 8 - Brent oil prices in USD per barrel



Source: Bloomberg

The risk balance of the forecast is balanced. The external environment is dominated by negative risks, in particular the increasing protectionism in international trade. We estimate that the potential increase in import duties on cars in the USA would reduce the GDP of Slovakia to 0.11 p.p. without secondary effects³. The economic situation across the Eurozone may negatively be affected by the political developments in Italy and the rising risk premium of the Italian debt. **In the domestic environment, there are positive risks prevailing.** The first is the risk of a sharp acceleration in wages and household consumption in the private sector due to wages actions taken in general government. On the other hand, the negative risk is to limit the growth potential of the economy in the second half of the forecast horizon when the amount of available labor can reach its limit. This barrier can be overcome by an effective migration policy.

BOX 2 - Estimate of output gap for 2018 and 2019

The Slovak economy will slightly overheat at 0.6% of potential GDP in 2018. In 2019, the output gap will expand to 1.2% of potential GDP but will be dampened by new production capacities in the automotive industry. This estimate is based exclusively on the National Methodology of the Ministry of Finance (MoF), which in the years 2018 to 2019 better approximates the European Commission's (EC) estimate than the EC methodology with the MoF forecast. At the same time, the results of the national methodology of the MoF are economically more intuitive and closer to

³ Growth to 25% from the current 2.5% rate of the US customs tariff.



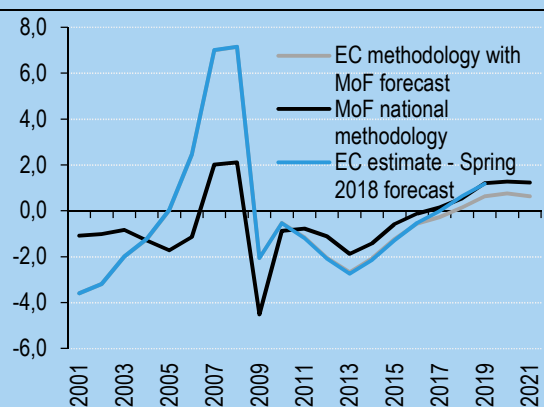
the actual, though unnoticed, output gap. The national methodology is used in this document to estimate the cyclical component needed to calculate the structural balance of general government finances.

The goal of the presented forecast of the output gap is to approximate the EC estimation based on which the structural position of the budget will be evaluated. The Ministry of Finance compared and evaluated two approaches: the MoF forecast with the EC methodology and the national methodology of the MoF. Data on the state of the economy since 2018 in both cases were based on the official September forecast of the Ministry of Finance approved by the Macroeconomic Forecast Committee.

According to the national methodology of the Ministry of Finance, the output gap will reach 0.6% of GDP in 2018 and will increase to 1.2% of GDP in 2019, which is in line with the EC spring forecast (FIGURE 9). The rate of overheating in the economy is therefore accelerating. Estimate of the output gap with the EC methodology using the MoF forecast, on the contrary, indicates counterintuitive negative gap until 2018 and only very slight overheating in the coming years.

Estimate of the output gap using the national MoF methodology provides economically more intuitive results. The launch of automotive production in the new JLR plant represents a positive structural shock for the Slovak economy, similar to the one from 2005 to 2008. As a result of this shock, not only the current growth of the economy but also its potential will increase. The output gap should therefore grow only to a limited extent. While national MoF methodology captures this phenomenon, EC methodology may ex-post indicate larger overheating of the economy, as it does in 2005-2008.

FIGURE 9 - Output gap (% of GDP) - EC approach and methodology of the Ministry of Finance



Source: MoF, AMECO

TABLE 1 - Output gap and contribution of factors to potential product growth - national methodology

	Output gap (% pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital stock	Labor
2012	-1.1	2.3	1.4	0.8	0.1
2013	-1.9	2.0	1.4	0.5	0.1
2014	-1.4	2.4	1.6	0.5	0.4
2015	-0.6	2.9	1.7	0.8	0.5
2016	-0.1	2.9	1.6	0.8	0.5
2017	0.1	3.0	1.9	0.6	0.5
2018F	0.6	3.6	2.3	0.9	0.4
2019F	1.2	3.8	2.7	0.9	0.3
2020F	1.3	3.9	2.7	0.9	0.3
2021F	1.2	3.4	2.2	0.9	0.2

*Total factor productivity

Source: MoF

The difference in EC and MoF output gap estimates (national methodology) is caused by different horizons of forecasts and different total factor productivity (TFP). While the EC methodology estimates the production gap for two years ahead, the MoF forecast is estimated at up to four years. EC methodology is based on trends and filtering of variables, so prolongation of the forecast horizon may result in different estimates of the output gap at a shorter horizon, although the macroeconomic forecast in the given years is unchanged. The second difference lies mainly in the historical data on total factor productivity (TFP). While both institutions calculate a potential product using the Cobb-Douglas production function, the Ministry of Finance increases the potential product through the TFP between 2005 and 2008 to match the structural changes in the economy that the common EC method fails to capture. In these years, Slovakia as a small open economy faced a significant supply shock, which was the result of the adopted structural reforms. The excessively high production gap between 2007 and 2008 resulting from the EC method does not confirm other imbalance indicators such as net inflation, the current account balance, or unit labor costs. A partial exception is the dynamic growth of the real estate market.

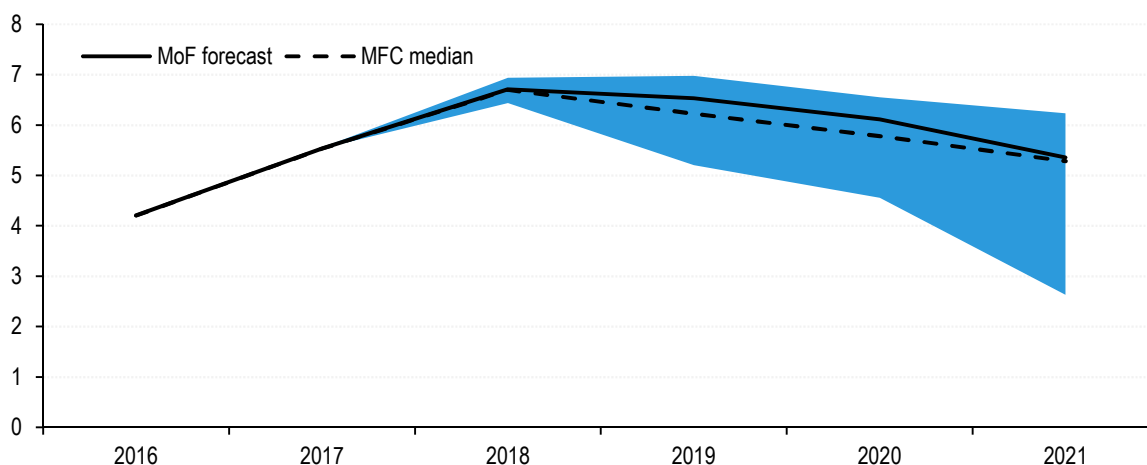
I.2. Evaluation of forecasts by macroeconomic and tax forecast committees

The current medium-term macroeconomic forecast by the Ministry of Finance was evaluated as realistic by the majority of members of the Committee for Macroeconomic Forecast (NBS, ČSOB, Infostat, SAV, SLSP, Unicredit), with the exception of Tatrabanka and VÚB, which considered the forecast to be optimistic.

The Macroeconomic Forecast of the Ministry of Finance is slightly higher than the median of committee members due to its impact on budget revenues for 2019. This effect is expressed as the weighted average of each relevant base for budget revenues, the weights of which are the shares of individual taxes on total budget revenue¹. The

difference lies mainly in the higher wage growth estimate, where the Ministry of Finance incorporated the expected valorisation of tariffs in the public sector in 2019 and 2020.

FIGURE 10 - Comparison of forecasts of macroeconomic bases⁴ for budget revenues with committee members



Source: MoF

BOX 3 - Independent Committees for the estimate of macroeconomic developments and an estimate of tax revenue developments

The Committee for Macroeconomic Forecast and the Committee for Tax Forecast are established in accordance with Constitutional Act 493/2011 Coll. on Budgetary Responsibility as an advisory body to the Minister of Finance. The aim of the committees is to achieve greater transparency, objectivity and the quality of macroeconomic and tax forecasts. Committees under the Constitutional Act produce forecasts at least twice a year, until 15 February and 30 June of the current financial year. However, according to long-standing practice, for the purposes of the budgetary process, forecasts are also developed by the end of September. In extraordinary cases, the committee chair may be convened by the committee chairman, the finance minister, or by an absolute majority of the members of the committee.

Apart from the Ministry of Finance, members of the committees are representatives from the government independent institutions (NBS, SAV, Infostat and private banks). Members of the Macroeconomic Forecast Committee evaluate the macroeconomic forecast of the Ministry of Finance verbally as *conservative*, *optimistic* or *realistic*. The tax forecast of the Ministry of Finance assesses the members of the Committee for Tax Forecast by sending their forecast, their assessment being automatically calculated on the basis of the deviation. **The Ministry of Finance's forecast is accepted as the committee's forecast if the over-majority of members designate it as conservative or realistic.** If the forecast does not receive such an assessment, the Ministry of Finance is obliged to re-elaborate the forecast and re-submit it to the Committee for consideration. The process is repeated until the Ministry of Finance's forecast is accepted for the committee's forecast.

I.3. Comparison with Stability Program

The Draft Budgetary Plan anticipates, in particular, a higher nominal wage growth compared to the Stability Program. Macroeconomic forecast from February 2018⁵, on the basis of which the Stability Program for the years 2018 to 2021 was set, predicted GDP growth at 4.2% in 2018 and 4.5% in 2019. The updated forecast by the Macroeconomic Forecast Committee from September 2018, according to which the Draft Budget for the General

⁴ Macroeconomic bases for budget revenues (the weight of indicators depends on the share of individual taxes on total tax and contribution revenues); Wage base (employment + nominal wage) - 51.1%, Nominal private consumption - 25.7%, Real private consumption - 6.6%, Nominal GDP growth - 9.9%, Real GDP growth - 6.7%.

⁵ Officially approved by the Macroeconomy Forecast Committee.



Government is prepared, reduces the growth estimate in 2018 to 4.1%. In 2019, growth is unchanged (4.5%). In the next years, the GDP growth forecast is at 3.9% in 2020, respectively 3.3% in 2021.

TABLE 2 - Forecast of selected indicators of the Slovak economy

No.	Indicator	unit	Stability programme				Draft budget			
			2018	2019	2020	2021	2018	2019	2020	2021
1	GDP, current prices	bn. eur	90.2	96.1	102.1	108.0	90.5	96.9	103.2	109.3
2	GDP, constant prices	%	4.2	4.5	3.9	3.4	4.1	4.5	3.9	3.3
3	Final consumption of households and NPISH	%	3.5	3.2	2.8	2.5	3.0	3.2	2.8	2.4
4	Final consumption of general government	%	0.6	1.3	1.2	1.2	1.8	1.5	1.7	1.2
5	Gross fixed capital formation	%	5.2	3.3	3.3	3.0	9.6	3.1	3.0	3.0
6	Export of goods and services	%	7.9	8.5	7.1	5.9	6.8	7.9	6.6	5.7
7	Import of goods and services	%	7.1	7.2	6.2	5.2	6.6	6.8	5.7	5.1
8	Output gap (share of potential output)	%	0.6	1.1	1.1	0.8	0.6	1.2	1.3	1.2
9	Average monthly wage (nominal growth)	%	5.2	5.4	5.2	5.2	6.2	6.3	6.2	5.4
10	Average employment growth (LFS)	%	1.2	0.8	0.7	0.4	1.0	0.6	0.5	0.3
11	Average employment growth (ESA 2010)	%	1.7	1.0	1.0	0.7	2.0	1.1	0.9	0.7
12	Average unemployment rate (LFS)	%	7.3	6.7	6.1	5.9	6.9	6.4	5.9	5.7
13	Average unemployment rate (registered)	%	6.1	5.6	5.1	4.9	5.5	5.1	4.8	4.6
14	Harmonized index of consumer prices (HICP)	%	2.0	2.0	2.2	2.3	2.6	2.5	2.5	2.5
15	Current account balance (share on GDP)	%	-1.6	-0.7	-0.1	0.5	-2.2	-1.5	-0.8	-0.4

Source: MoF



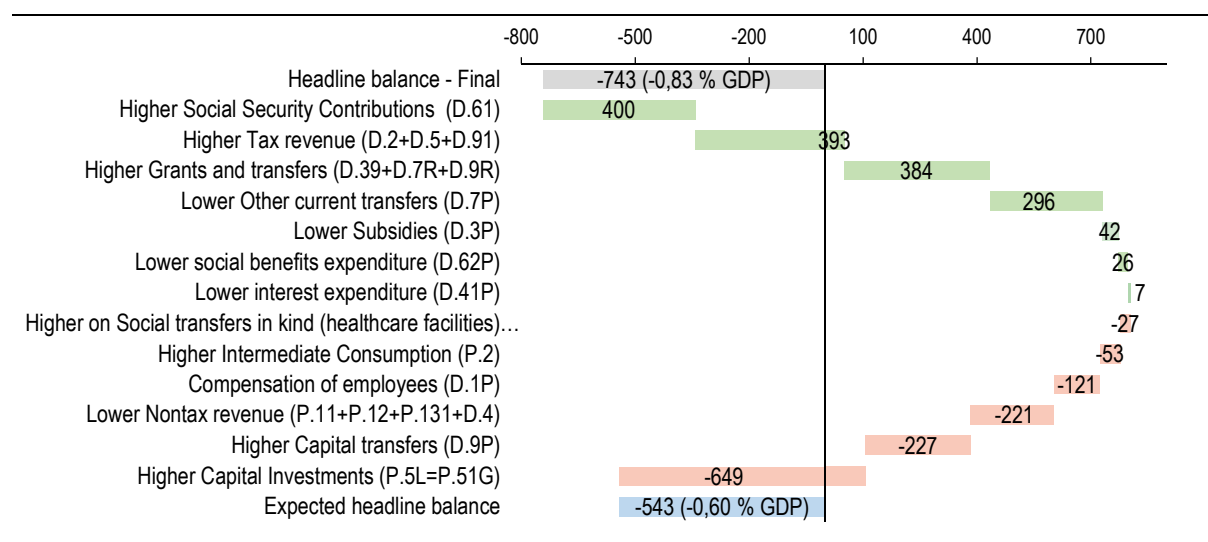
II. Current development of public finances

Following the historically lowest general government deficit in 2017, which is expected to reach 0.78% of GDP, the current estimate for the 2018 deficit is estimated at 0.60% of GDP. The initial budgetary target of 0.83% of GDP for 2018 should therefore be exceeded by 0.23 p.p.. After adjusting for the impact of interest costs on public debt, public finances should remain in primary surplus.

According to the MoF estimate, the general government deficit for the year 2017 reached 0.78% of GDP. Compared to 2016, it decreased by 1.44 p.p. of GDP year-on-year. Improvement of the deficit by 0.26 p.p. compared to the Eurostat spring notification was mainly caused by the update of tax revenues due to better corporate tax settlement from deferred tax returns until the end of August.

According to the preliminary monitoring, the general government deficit will fall to 0.60% of GDP in 2018, which represents an improvement by 0.23 p.p. compared to the budget target of 0.83% of GDP. The monitoring of public finance developments is based on the current macroeconomic and tax forecast from September 2018⁶ as well as the current estimate of other revenue and expenditure items of the general government budget, which are continuously monitored⁷.

FIGURE 11 - Differences in the current estimate of the balance of the GG in 2018 compared to the budget estimate (individual items ESA2010, EUR million)



(+) / (-) corresponds to positive / negative impact on GG balance
In brackets the ESA2010 codes are shown.

Source: MoF

The total tax revenues of the general government exceed the budgetary level by EUR 393 mill. (0.43% of GDP). Tax revenues are higher mainly due to a better collection of VAT (EUR 245.1 million) and CIT (EUR 122.6 million). On the contrary, the estimated performance is weaker for the separate corporate tax levy in regulated sectors (EUR -13.9 million). A positively evolving labor market is positively reflected in the development of the personal income tax (EUR 113 million)⁸. Revenue correction occurs in excise duties (EUR -13.8 million), gambling revenue tax (EUR -55 million)⁹. Lower interest on bank deposits impacts on the tax-deductible tax revenue (EUR -12.9 million). The lower yield is also recorded in the revenues of the Agency for Emergency Supplies of Oil and

⁶ The forecast of the Committee for Macroeconomic Forecasting according to its [Statute](#) and in accordance with Art. 8 par. 2 of the Constitutional Act on Budgetary Responsibility no. 493/2011 Coll. and the forecast of the Tax Forecast Committee (VpDP) according to its September 2018 [Statute](#).

⁷ The Public Finance Management and Monitoring Committee provides an internal process of monitoring public finances at the Ministry of Finance.

⁸ In accordance with the ESA 2010 methodology, tax revenues of self-government are recorded in the state budget as their collection is made by the financial administration and the government decides on its amount.

⁹ Due in particular to the effectiveness of the amendment to the Gambling Act, which also reassessed the budgetary impact.

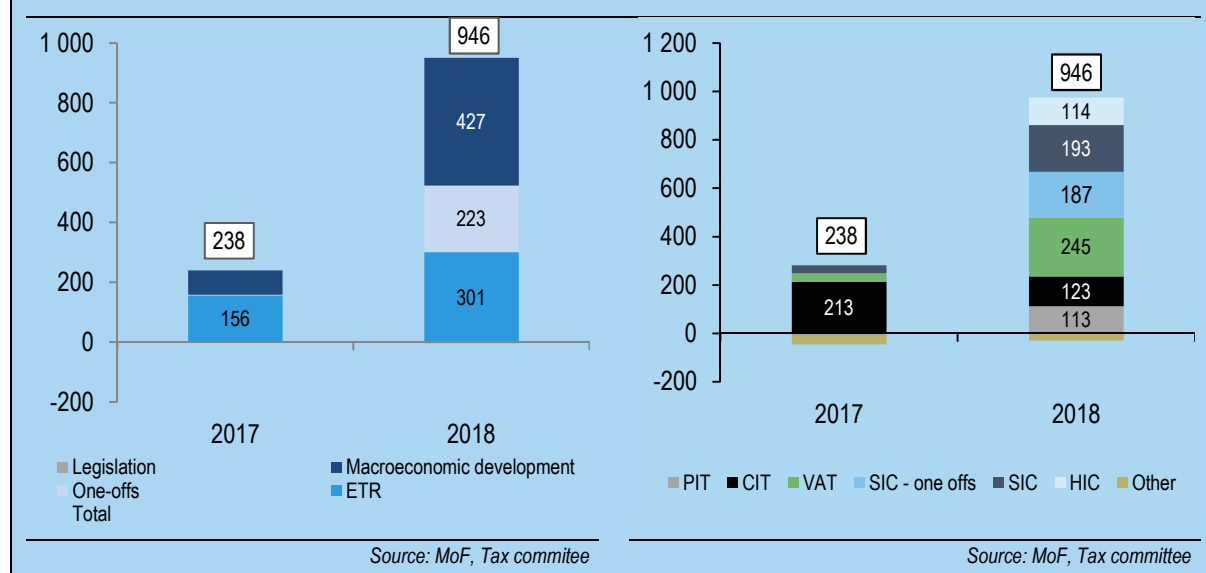
Oil Products (EUR -31.5 million), where the expected increase in fees has not occurred. Compensating factor is the positive development of revenues from emission allowances (EUR 46.5 million).

Public revenues from social security contributions exceed the budget by EUR 400 million (0.44% of GDP). Approximately half of these revenues are linked to the one-off impact of hospital extraction (EUR 187 million)¹⁰. Favorable labor market developments are reflected in a higher collection of social and health contributions from economically active persons (EUR 307 million). The increase in this item over the budget compensates for the lower contributions paid by the state for the legally defined group of persons¹¹ (of which EUR -61.1 million lower revenue of the Social Insurance Company and EUR -53.4 million lower revenue of public health insurance). Analytically describes the development of tax - levy revenues **BOX 4**.

BOX 4 - Analytical decomposition of tax-levy revenues compared to the budget

The current estimate of tax revenue developments, based on the September forecast of the Tax Forecast Committee (VpDP), increases revenue over the approved budget (**FIGURE 12**). The most important impact was a better macroeconomic environment that explains half of the revenue growth in 2018. Increasing efficiency of collection also positively impacts on tax and levy revenues of general government. A positive surprise vis-à-vis the budget is the yield on social and health contributions, which are dragged on by an improving labor market.

FIGURE 12 - Contributions to a change in the forecast compared to the GG budget for the years 2017 and 2018 (EUR million)¹²



Non-tax revenues of the general government compared to the budget are expected to be lower by EUR 221 mill. (0.24% of GDP). Lower revenues for medical facilities (EUR 72.5 million) are expected to be offset by their lower intermediate consumption¹³. Furthermore, lower revenues are expected for MH Invest¹⁴ (due to lower yields from land sales, EUR 37.2 million), municipalities (EUR 10 million) and SR Railways (ŽSR, EUR 7 million). On the contrary, higher revenues are expected by public higher education institutions (EUR 26.5 million)¹⁵. The NDS (National Motorway Company) expects to exceed the budgeted level of revenues from tolls and motorway vignettes

¹⁰ Deleveraging will have a positive impact on revenues of the Social Insurance of the debt, but this was partially offset humiliation original amount of transfer from the state budget EUR 106 million. One-off revenues on social contributions were funded by higher capital transfers from higher capital transfers and thus have a neutral impact on the general government budget.

¹¹ As well as the impact of deleveraging healthcare facilities is the effect on the overall accrual balance neutral.

¹² Contributions to the change in the current VpDP forecast against the VpDP forecast used to prepare the 2018 budget. It does not include the difference in non-tax revenue according to the national classification (EKRK) that VpDP does not forecast, but which is tax revenue in the ESA 2010 methodology.

¹³ Lower revenue from healthcare facilities is partly due to the failure to provide reports on part of these facilities.

¹⁴ Accrual revenue from the sale of land at MH Invest was recorded at the end of 2017, while the budget expected the revenue to be in 2018.

¹⁵ Under the Higher Education Act, the type of revenue derived from corporate activities (subsistence allowance, boarding fee, administrative fees, etc.) is not budgeted.

(EUR 21.7 million). Lower property contributions (P.131 + D.4R) also contribute to the drop in non-tax revenues over the budget by EUR 135 million, of which revenue from dividends represents EUR 144.2 million¹⁶. These are partly offset by higher profits of public higher education institutions (EUR 8.9 million).

Increase in grants and transfers revenues by EUR 384 million (0.42% of GDP) is explained, in particular, by the increase in drawdown of EU funds¹⁷ (by EUR 325 mill.). Higher revenues from domestic and foreign grants and transfers are expected mainly in case of healthcare facilities (EUR 31.8 million) and public higher education institutions (EUR 23.6 million). Conversely, the drop is recorded in other general government entities (EUR -22.3 million).

Expenditure on compensation of employees in general government is higher than budgeted by EUR 120.5 million (0.13% of GDP). The state budget foresees an overrun of EUR 65.4 mill.. Expenditure on compensation in relation to the budget also grew in public higher education institutions (EUR 51.8 million), state-funded organizations (EUR 34.7 million), Social Insurance Agency (EUR 22.3 million) and Railway Company Slovakia (ŽSSK, EUR 10.7 million). Within the territorial self-government, the budget is expected to decrease by EUR 64.7 mill. due to the originally higher budgeted EU funds.

Intermediate consumption exceeds the budget by 53 mill. EUR (0.06% of GDP). Exceeding the budget estimates is expected mainly in the case of municipalities (EUR 149.8 mill.), public universities (EUR 32 mill.), both railway companies (EUR 37.8 mill.), Social Insurance Company (EUR 21.4 mill.) and NDS (EUR 15.6 million).¹⁸ Intermediate consumption is also lower for health care facilities (EUR 93.8 million), where there was a one-off obligations decrease in the amount of EUR 108 million as a result of their debt relief.

There is a positive impact on the deficit and savings on subsidies of EUR 42 million. All savings are due to lower co-financing on agricultural subsidies.

Total social transfers are higher compared to the budget by EUR 1.4 million. Expenditure of public health insurance increases by EUR 27.2 million and expenditure on social benefits (D.62P) is lower by EUR 25.8 million. In the case of social benefits, the monitoring comprises higher expenditure of the Social Insurance Company's sickness benefits (EUR 42.4 million), state social benefits (EUR 24.5 million), social pension benefits (EUR 9.5 million) and benefits in unemployment (EUR 7.2 million). On the contrary, lower expenditure is expected to be paid for state insurers (EUR 114.5 million). Active labor market policies also expect slightly lower expenditure (EUR 3.4million).

The other current transfers positively contribute to deficit development amounting to EUR 295.8 mill. (0.33% of GDP). Savings on this expenditure item are linked to the expected EU resource outage, especially for direct payments in agriculture, resulting in a decrease in co-financing of EUR 143.4 million. Significant part was also saved by lower than the other current budgeted transfers under state budget chapters (EUR 157.3 million). They are offset by higher expenditure of municipalities, especially on inter-consumption. This item also includes savings on EU budget contribution of EUR 3.1 million.

Capital investments compared to the budget are expected to be higher by up to EUR 649 million (0.72% of GDP). The largest share of this increase is represented by ŽSR (EUR 183.5 million), NDS (EUR 175.7 million) and local government (EUR 147.0 million). In ŽSR and NDS, the increase in capital expenditures is mainly due to higher drawing of EU funds. Capital expenditures also increase for state funded organizations (EUR 54.1 million), public

¹⁶ A loss of accrual revenue from dividends of the Slovak gas industry (SPP a.s.) is expected in the amount of EUR 131 mill., of the Stredoslovenská energetika, a. s. in the amount of EUR 27.2 million, of the Východoslovenská energetika, a.s. in the amount of EUR 23.6 million and of Transpetrol, a. s. in the amount of EUR 7.0 mill.. Conversely, the exceedance of the budgeted level is assumed by the companies Slovenská elektrizačná a prenosová sústava, a.s. in the amount of EUR 33.6 million, Západoslovenská energetika, a. s. in the amount of EUR 2.0 mill., Javys, a.s. in the amount of EUR 3.3 mill., Tipos, a. s. in the amount of EUR 3.0 mill. and Slovenská záručná a rozvojová banka, a. s. in the amount of EUR 1.4 mill.

¹⁷ The budget did not envisage drawing on EU funds budgeted in previous years, which can be shifted to the next years.

¹⁸ On the contrary, expenditure than budgeted is expected in the state budget as a result of bundling provisions for worsening tax and non-tax revenues (EUR 100.1 million) and addressing the effects of new statutory adjustments (EUR 30 million).



higher education institutions (EUR 36.0 million) and health facilities (EUR 20.5 million). The state budget anticipates an overspend in capital expenditures by EUR 30.8 million.

Negative influence on the deficit are also the higher capital transfers by EUR 276.8 million (0.31% of GDP). Higher capital transfers are due to the debt relief of medical facilities (EUR 296.8 million). These expenditures are offset by the increased revenue of the Social Insurance Company on debt insurance and the reduction of the liabilities of healthcare facilities to intermediary suppliers. The state budget envisages a saving on capital transfers (EUR 39.8 million), while municipalities take into consideration exceeding (EUR 17.9 million).



III. Budgetary targets

The draft budget for the upcoming years confirms the ongoing consolidation of public finances in the context of positive macroeconomic developments. In 2019, almost balanced budget (deficit of 0.10% of GDP) is proposed to ensure the achievement of the medium-term budgetary objective (MTO). In 2020, a balanced budget is projected, followed by the first surplus of 0.20% of GDP in 2021. The proposed budgetary targets stem from the requirements of the Stability and Growth Pact rules and are in line with the consolidation requirements of the European Commission.

The current Draft Budgetary Plan slightly toughens the budgetary targets for 2019 and 2021. The budget policy in the coming years is based on the Government's manifesto and focuses on the gradual improvement of the budgetary position of the general government in order to achieve the long-term sustainability of public finances. The budget proposal expects to be almost balanced in the next year. The target of the general government deficit for 2019 is set at 0.10% of GDP. A balanced budget is proposed in 2020 and then a surplus of 0.20% of GDP for 2021.

TABLE 3 - Comparison with the Stability Programme

	ESA code	2017 F % GDP	2018* % GDP	2019 E % GDP	2020 E % GDP	2021 E % GDP
Target balances of general government	B.9					
Stability Programme (1)		-1,04	-0,8	-0,32	0	0
Draft Budgetary Plan (2)		-0,78	-0,60	-0,10	0,00	0,20
Difference (2-1)		0,3	0,2	0,2	0,0	0,2

* 2018 – expected headline balance

Source: MoF

III.1. Compliance with European fiscal rules

Since 2014, the fiscal policy of the Slovak Republic has been subject to the rules of the preventive part of the Stability and Growth Pact, aimed at achieving the medium-term budgetary objective in the form of a structurally balanced budget (MTO, structural deficit of 0.5% of GDP). Orientation to the MTO is continually evaluated through the structural balance and the expenditure rule. Both indicators, which are complementary in assessing compliance, make it possible to clarify the fiscal position of the country more meaningfully than the nominal general government balance.¹⁹ In recent years, the EC has increased its emphasis on expenditure rule when assessing fiscal developments, which may better capture potential risks in fiscal developments at a time when the economy is accelerating above its medium-term growth potential.

III.1.1. Structural balance

The interpretation of the EU's fiscal rules of the EC requires the year-on-year structural consolidation of Slovakia at 0.5% of GDP since 2017 until the MTO is reached. The medium-term budgetary objective of the Slovak Republic is set in the form of a structural deficit of 0.5% of GDP²⁰. While the economy was close to its potential in 2016 and 2017, a gradual increase in the positive gap is expected from the current year, which will significantly help to improve the headline balance of the GG's management. To maintain the MTO throughout the budget horizon, a balanced and small surplus budget will be needed in the last year.

TABLE 3 - Consolidation effort (ESA 2010,% of GDP)

	2014 F	2015 F	2016 F	2017 F	2018***	2019 E	2020 E	2021 E
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¹⁹ Vade mecum on the Stability and Growth Pact – 2016 edition, European Economy. Institutional Paper. 021. March 2016.

²⁰ MTO confirmed in the SR Stability Program for the years 2017 to 2020.



Net lending/borrowing	-2,70	-2,56	-2,22	-0,78	-0,60	-0,10	0,00	0,20
Cyklical component	-0,6	-0,2	-0,1	0,1	0,2	0,5	0,5	0,5
One-off effects	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Structural balance (1-2-3)	-2,4	-2,3	-2,1	-0,8	-0,8	-0,6	-0,5	-0,3
Consolidation effort	-0,4	0,1	0,2	1,3	0,0	0,2	0,1	0,2
Required consolidation effort	-0,4	0	0,25	0,5	0,5	0,3	MTO	MTO
Deviation over one-year horizon	-0,2	-0,3	0,5	0,4	-0,5	MTO*	MTO	MTO
Deviation over two-year horizon		-0,3	0,1	0,5	0,0	MTO*	MTO	MTO

* A deviation up to 0,25 % of GDP from the MTO to be interpreted as MTO ex-post fulfillment (otherwise one-year deviation of 0,1 and two-year of 0,3 % of GDP)

** Subject to rounding differences

*** 2018 – expected headline balance

**** 2017 deviations are frozen in line with EC spring forecast of 2018.

Source: MoF

This year, the structural deficit should stabilize at 0.8% of GDP. Due to the slight overheating of the economy, the fall in the nominal deficit corresponds only to a neutral fiscal policy under the required consolidation effort. However, there is no significant deviation. Taking into account the significant consolidation from the previous year (the highest since 2013), the pace of deficit reduction at the two-year horizon is in line with the rules of the Pact.

Since 2019, the structural deficit of the general government will already be around²¹ the level of medium-term budgetary objective (MTO). The structural deficit should reach 0.6% of GDP. A deviation of up to 0.25% of GDP from a specified target MTO is interpreted as meeting the MTO ex-post.

In the years 2020 and 2021, the GG Balance Sheet will gradually get into surplus, creating an additional reserve compared to the MTO. In these years, the draft budget envisages an additional consolidation of 0.1 and 0.2 p. p., with a structural deficit falling to 0.3% of GDP.

BOX 5 - Fiscal Position of Slovakia

In addition to achieving long-term sustainability of public finances, the objective of fiscal policy is also to stabilize the fluctuations in the economic cycle. In order to achieve an anti - cyclical fiscal policy, the structural difference between the revenue and the GG expenditure should increase during the recession. At the time of stronger overheating of the economy, on the other hand, budget deficits should be reduced more strongly.

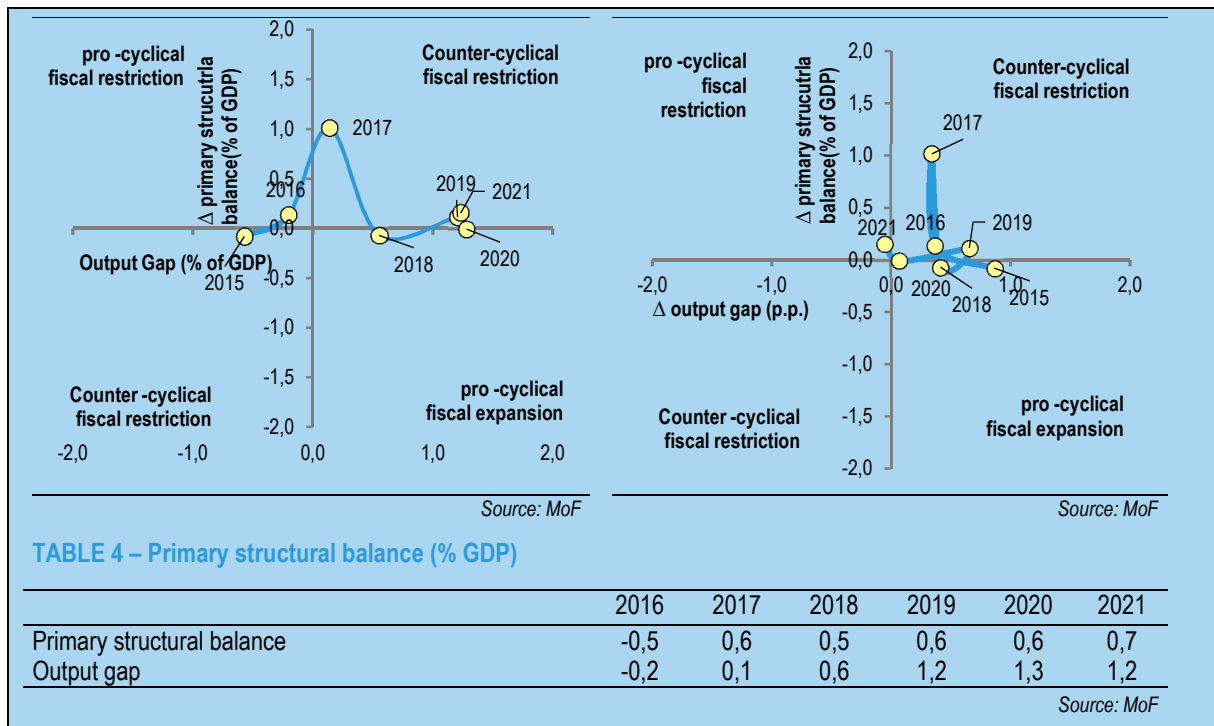
The basic analytical method for assessing the anti - cyclicity of fiscal policy is to compare the change in the primary structural balance against the current level of production gap. The second approach uses the pace of its year-on-year change rather than tracking the development of production gap. The main difference is the lower sensitivity of this approach to production gap revisions that are more often triggered than in the case of change. The pace of change at the same time indicates the trends of the economic cycle. Both approaches are combined in determining the required consolidation effort within the Pact.

Since 2017, the Slovak economy is in a moderate expansion phase of the economic cycle, which adequately responds to the chosen pace of consolidation. Fiscal policy has been more pro - cyclically responsive in 2017, while in 2018 budgetary policy is even more neutral in boosting economic growth than its potential. A moderate dampening of the continuing expansion of the economy over its balance is again expected from 2019 until the MTO is fully attained. Even at the end of the horizon, the Slovak economy should not show any significant signs of overheating, which should also be addressed in a more fundamental way by fiscal policy.

FIGURE 13 - Change in primary structural balance versus output gap level (% of GDP)

FIGURE 14 - Change in primary structural balance versus output gap change (% of GDP)

²¹ The explanation is given in the European Commission's interpretation of the Stability and Growth Pact ([Vade Mecum k SGP](#)), on page 36 (chapter 1.3.2.2).



III.1.2. Comparison with Stability Program

More strict budgetary targets in 2019 and 2021 respond to stronger economic overheating. Slightly improved nominal budget targets result in roughly unchanged structural balance levels after the update of the economic cycle. The main explanatory factor is the update of the estimate of the production gap towards a slightly stronger overheating of the economy²².

FIGURE 15 - Comparison of the structural balance under the Stability Programme and the Draft Budgetary Plan

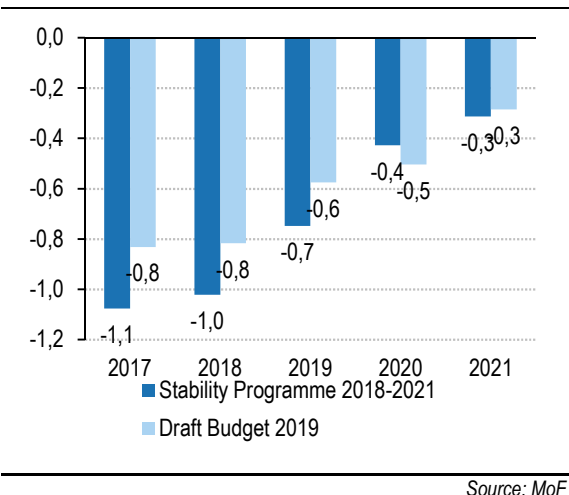
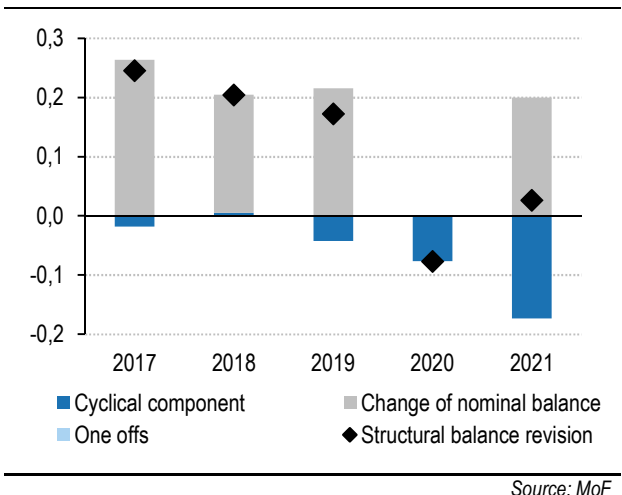


FIGURE 16 - Contributions of factors to the revision of the structural balance



²² Estimation of production gap approved by the Macroeconomic Forecast Committee of September 2018. More at [BOX 2](#).



III.1.3. Expenditure rule

The expenditure rule serves to calculate the permitted year-on-year growth of adjusted expenditures²³, which should correspond to the medium-term potential growth of the economy²⁴. The permitted growth rate of adjusted expenditure also respects the fact whether the country has achieved its MTO. In case that the MTO has not been met, the expenditure dynamics must contribute to its achievement. The structural balance of Slovakia is not yet at the MTO level and therefore the value of permitted growth of expenditure is adjusted by the required consolidation of the structural balance²⁵.

In 2017, adjusted expenditure grew at about the pace that was allowed by the expenditure rule. At the two-year horizon, expenditures grew more slowly, by 0.1 p.p. of GDP. The expenditure rule was also fulfilled thanks to the additional revenue measures, which increased the revenues of the GG by 0.4% of GDP.

TABLE 5 - Calculation of Expenditure Rule Implementation (ESA 2010)*

		2016 F	2017 F	2018 E	2019 E	2020 E	2021 E
Total expenditure	mil. eur	33 685	34 103	35 931	37 258	39 745	40 858
Primary expenditure aggregate	mil. eur	31 520	32 280	34 092	35 814	37 428	38 275
Change of revenues due to discretionary revenue measures	mil. eur	59	326	-52	289	27	-190
Nominal growth of expenditure aggregate net of revenue measures	%	1,8	1,4	5,2	4,2	4,4	2,8
Real growth of expenditure aggregate net of revenue measures	%	0,6	0,2	3,6**	2,3	1,9	0,3
Expenditure benchmark (reference rate)	p.p.	2,1	1,3	1,3	2,3	3,0	3,2
Deviation from expenditure benchmark	p.p.	1,5	1,1	-2,3	0,0	1,1	2,9
One-year deviation from expenditure benchmark*	% GDP	0,3	0,0	-0,8	0,0	0,4	1,0
Two-year deviation from expenditure benchmark*	% GDP	-0,3	0,1	-0,4	-0,4	0,2	0,7

* The values until 2017 are frozen as per EC's spring forecast.

** In 2018 the value is adjusted for debt relief for hospitals.

Source: MoF

The gradual shift of the Slovak economy to the positive phase of the economic cycle requires a more intensive dampening of expenditure growth since 2017. This is reflected in the permitted real growth rate of around 1.3%²⁶ until the achievement of the MTO. The aggregate of expenditures grew y-o-y in real terms by 2.3% in 2018, above the level of the expenditure rule. Both the one-year and the two-year horizon correspond to a significant deviation.

Given that the MTO is expected to be reached approximately in 2019, the expenditure rule only serves to identify the risks to its maintenance. At the budget horizon, revenues are not rising above their potential, minimizing the risk of diverting from the MTO in the event of an error in estimating the output gap (FIGURE 18). Growth of budgeted expenditures in 2019, taking into account the government's program priorities and a slow start in drawing on EU funds²⁷, is roughly in line with the rule and contributes to the convergence to the MTO²⁸. At the two-year horizon there is a deviation, which is due to an increase in expenditure in 2018.

²³ Adjusted expenditures are expenditures cleared for items outside government control (interest costs related to debt financing, economic cycle expenditure responses, expenditure funded by EU funds, levelled national investments), discretionary revenue measures and one-off effects.

²⁴ The expenditure rule assumes a unit revenue elasticity (1% nominal GDP growth corresponds to 1% of revenue growth). In addition to revenue, as well as expenditure, growth in GG balances is stabilized.

²⁵ Developments in expenditure are expected to help accelerate the year-on-year consolidation of the structural balance at 0.5% of GDP, which is recalculated in the expenditure rule via so-called convergence clause by which the reference rate of long-term growth in the potential of the economy is reduced.

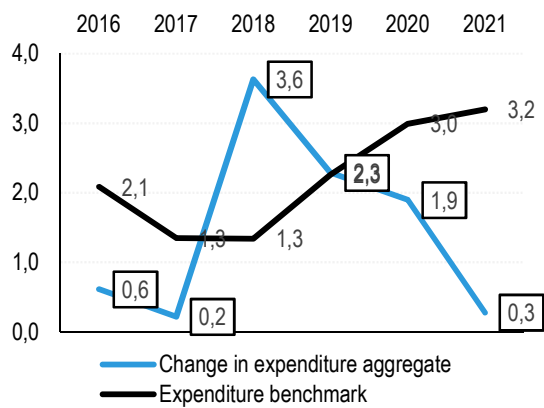
²⁶ The expenditure rule is influenced by the higher convergence rate due to the overheating of the economy, which requires a higher consolidation effort of the structural balance. Moreover, according to the expenditure rule, the expected continued excess of revenue over the growth potential of the economy (FIGURE 18) should not be used for higher expenditure.

²⁷ Replacing the EU's resources with domestic resources in the context of capital and, in particular, current expenditure has a negative impact on the implementation of the expenditure rule. Drawing on EU funds has a neutral impact on public finances (after abstracted from co-financing costs).

²⁸ Since the MTO has been reached, the expenditure rule is looser, since no additional consolidation is needed to maintain the MTO.

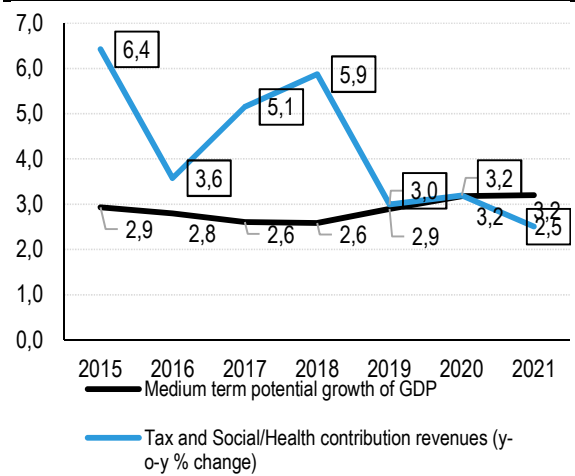


FIGURE 17 - Development of the expenditure aggregate versus the expenditure rule (% increase)



Source: MoF

FIGURE 18 - Development of tax and contributions revenues²⁹ versus medium term potential GDP growth (% increase)



Source: MoF

²⁹ Adjusted for the change in revenue due to discretionary revenue measures and the state paid insurance.



IV. Forecast of gross general government debt

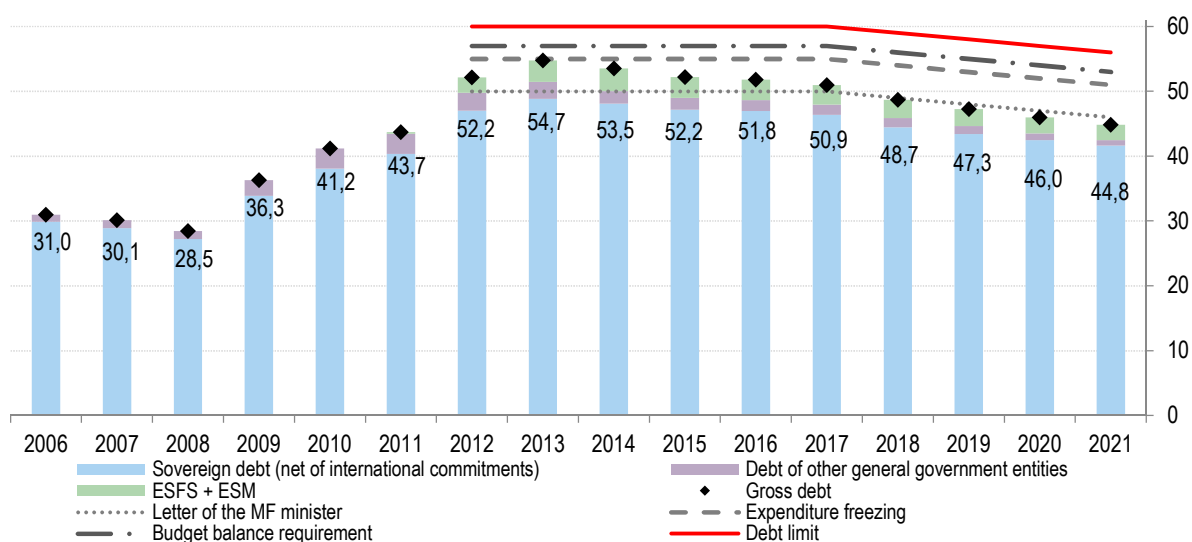
General government gross debt will decline below the lowest debt brake sanction threshold and remain there for the overall budget horizon. In 2018, debt to GDP will reach 48.7% of GDP, outside the national debt brake sanction thresholds. General government gross debt should reach 47.3% of GDP in 2019. For 2019-2021 budget assumes that general government gross debt will fall to 44.8% of GDP in 2021, while keeping the primary surplus on the whole horizon.

GG total debt at the end of 2017 amounted to 50.9% of GDP³⁰. Year-on-year debt-to-GDP reduction was by 0.8 p.p.. The decline in debt was positively influenced mainly by the historical primary surplus of the GG³¹ (0.6% of GDP) and continuing of strong economic growth in Slovakia, also with the help of renewed inflationary developments. From the culmination of the debt in 2013, there was a cumulative decline in debt by almost 4 p.p..

Gross debt could reach 48.7% of GDP in 2018 and get for the first time since the introduction of the constitutional law on budgetary responsibility³² outside the penalty bands of the national debt brake. Year-on-year debt is reduced by 2.3 p.p., which represents the largest decline since the pre-crisis period. The main reason is the accelerating growth of GDP and the continuing primary surplus of general government.

According to the draft budget, gross debt between 2019 to 2021 will decline by nearly more 4 p.p., below 45% of GDP. A gradual increase in the primary surplus and the achievement of a total balanced public finance in 2020 is projected. In 2019, debt is expected to be at 47.3% of GDP. Also the real GDP growth above 4% and a further slight increase in inflation over the inflation target of the European Central Bank contributes to the fall in debt. Together with declining interest costs to 1% of GDP, the so called snowball effect³³ throughout the budget horizon will be the most favorable since 2007. Beyond the currently favorable market conditions, the government will also seek to rationalize debt portfolio risks and interest costs through an advanced analytical apparatus (**BOX 6**). At the end of the forecast, in 2021, a debt of 44.8% of GDP is expected. A fiscal budffer of 1.2 p.p. should be created under the lower penalty band.

FIGURE 19 - General government gross debt (% of GDP)



³⁰ Presented gross debt forecast also reflects a retroactive revision of GDP for 2017 (according to the expected Eurostat autumn notification). By joining the nominal annual GDP growths for the years 2018 to 2021 from the latest forecast of the Macroeconomic Forecast Committee, a revised time series of expected GDP levels is compiled. These assumptions are also used for other indicators in relation to GDP.

³¹ The primary balance represents the general government balance net of interest expense.

³² Effective from 2012.

³³ The difference between the contribution of nominal GDP growth and the interest paid on public debt servicing.

FIGURE 20 - Contributions to gross debt change (% of GDP)

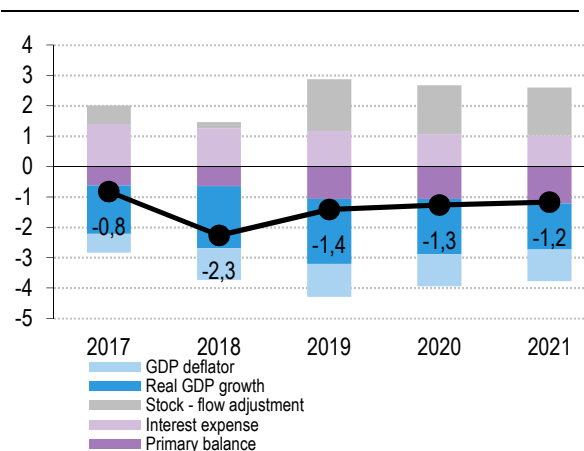
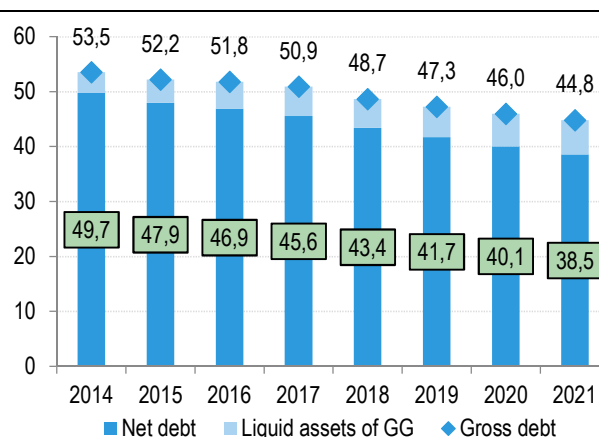


FIGURE 21 - Net debt (% of GDP)



Source: MoF

Source: MoF

Net debt will fall compared to the dynamics of gross debt faster. General government net debt³⁴ should reach 43.4% of GDP in 2018. Within the year-on-year comparison there is a decrease by 2.2 p.p.. Due to the expected rising level of liquid financial assets, net debt at the end of the budget horizon will fall below 39% of GDP. The decline in net debt should be cumulatively more pronounced by 1.0 p.p. between 2019 and 2021 than the forecast for a decline in gross debt. This is mainly due to the projected ongoing cumulative surplus of municipalities that will raise the liquid financial assets of the general government to the end of the forecast at more than 6% of GDP.

BOX 6 - Stochastic debt simulator

The government defines risk aversion via maximum limits of refinancing risk on 1 and 5-year horizon within the Debt Management Strategy. Debt management seeks to optimally balance the risk parameters of the debt portfolio, taking into account the conditions in the financial markets and cost-effectiveness over the long term. The state's financial needs and interest costs are jointly determined by the macroeconomic performance of Slovakia and the eurozone, and by the conditions of the financial markets. Modeling of the relationship between risk and the debt portfolio requires an advanced analytical apparatus³⁵, which captures the following macroeconomic and financial links :

- Eurozone yield curve and its link to the macroeconomy of the eurozone
- The business cycle in the eurozone and Slovakia, as well as the degree of their mutual movement
- Spreads of Slovak government bonds against the risk-free yield curve of the eurozone, their interconnection with the Slovak business cycle and the financial market variables.

Two macroeconomic trends - inflation³⁶ and the equilibrium real interest rate³⁷ - explain in the long run a substantial part of the change in nominal yields (FIGURE 22). Building a model therefore begins by modeling of these two macro trends that are reflected in nominal government bond yields with AAA-rating in the Eurozone. After identifying macroeconomic trends, we subtract them from the short-term nominal yield to obtain a short-term interest rate cycle. The short-term cycle reflects variations in the production gap and the cyclical portion of inflation. The time premium reflects the cyclical deviation in long-term yields.

³⁴ At present, there is no standardized methodology that would clearly define the quantification of net debt. The Ministry of Finance uses the concept of gross debt settlement for liquid financial assets (LFA), in particular deposits on the accounts of individual GG entities. Net Debt = Maastricht (Gross) Debt - Gold and SDR - Cash - Securities - Quoted Shares. When calculating the net debt, account is taken of cash in the accounts of all general government entities. At present, general government does not have any quoted shares in the accounts, neither gold nor SDR.

³⁵ An example of an advanced analytical apparatus is the Canadian simulation model, which served as the main inspiration for our model. See „The Canadian Debt-Strategy Model: An Overview of the Principal Elements“.

³⁶ „Expected Returns in Treasury Bonds“.

³⁷ „Measuring the natural rate of interest: International trends and determinants“.



Slovak government bond spreads are based on financial conditions (modeled by the VIX index) and the debt level of Slovakia (measured by the gross debt-to-GDP ratio). The eurozone yield curve model, to which the spreads are added, includes: the persisting component of inflation expectations, the equilibrium real rate, interest cycles, and the time premium.

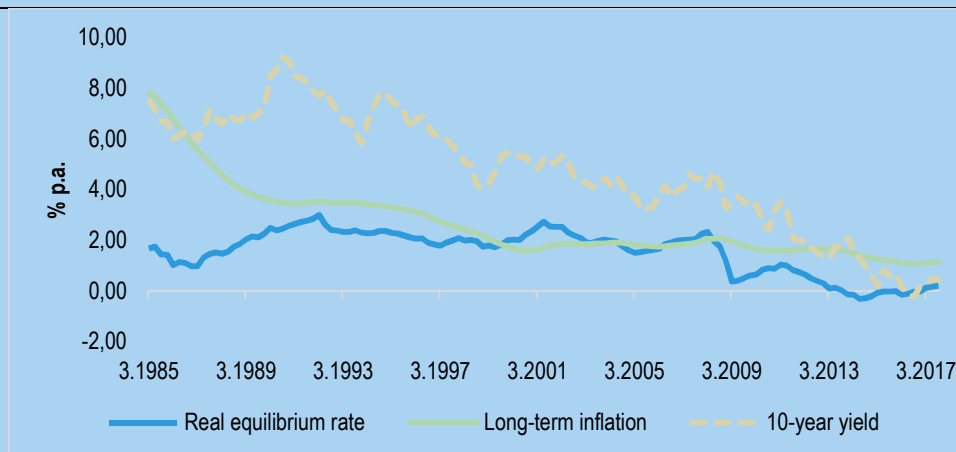
Slovakia as a small and open economy is influenced by macroeconomic developments in the Eurozone. To predict Slovak public debt, we use a stochastic forecasting model. The debt equation summarizes the stochastic behavior of debt determinants - nominal GDP growth, interest rates, primary surplus and exogenous debt financing. The primary surplus is the result of the estimation of the fiscal reaction function, while the debt is the result of the debt equation. The primary surplus is modeled as a function of the output gap in the eurozone and the level of the Slovak debt. Macroeconomic and fiscal variables in Slovakia enter the curve through risk premia.

We also simulate the macroeconomic model of the eurozone and Slovakia in order to show the relationship of risks and costs, which is directly linked to the yield curve of the eurozone and spreads of Slovak government bonds. Simulations are limited to the following cost measures:

- The ratio of debt to nominal GDP to capture the real and nominal aspect.
- Risk indicators of debt costs (maximum future interest costs with a certain probability, interest rate volatility, volatility of funding needs), contingent probability of default and refinancing risk.

Results of the simulation serves for debt management recommendations. The MoF Debt and Liquidity Management Committee, uses them together with other debt management instruments to set up the strategy and to evaluate it. After a multi-year test phase, the analytical tool could serve as an anchor when setting up the debt management strategy, taking into account the risk-aversion of the government and conditions on the financial markets.

FIGURE 22 - Estimates of long-term inflation expectations and equilibrium real interest rates



Source: MoF

From the point of view of the cash factors influencing the dynamics of the nominal level of the debt, the need to cover the cash deficit will continue to dominate. The cash deficit of the state budget (SB) is expected to be slightly above EUR 2 billion in the first two years of the forecast with the projected fall below this value at the end of the horizon. Compared to the Stability Program for the years 2018-2021, the higher deficits of the SB are mainly the result of strategic investments in the defense sector. In addition to issues of financial market bonds that increase the nominal level of debt, the cash deficit of the SB will be continuously funded by the active management of funds in the Treasury. The reduction in total nominal debt will be made more significant by other general government entities that will use their expected surpluses to reduce their liabilities. The value of the debt at the horizon of the budget will also be affected by methodological adjustments, such as discount on issue and repayment of bonds.³⁸ The negative impact is mainly based on the issue discount on bonds with longer maturities. Other

³⁸ Discount on issuing government bonds and government treasury bills increases debt, as at the time of bond issuance, the state's debt obligations are rising by the value of the bonds. However, the state receives a lower amount in cash (reduced by discount). On the contrary, the discount on debt repayments reduces debt. The reason for this is that the debt increase is already on the issue of bonds, in the nominal value of the bond, and not on its repayment.



changes in the debt forecast are related to exchange rate differences and changes in client deposits at the Treasury, outside the general government.

TABLE 6 - Cash effects on the change in nominal government gross debt (million EUR)

	2016 F	2017 F	2018 E	2019 E	2020E	2021 E
A. General government gross debt (as of 1 Jan)	41 295	42 053	43 230	43 968	45 719	47 381
B. Total y/y change in the GG gross debt	758	1 177	738	1 752	1 662	1 512
- Cash-based state budget deficit	980	1 220	1 134	2 138	2 211	1 899
- State Treasury funds used for the financing of government operations	45	1	-344	-377	-541	-444
- Slovakia's contributions to EFSF and ESM	-93	3	-57	-98	-122	-148
- Issue discount	32	8	-8	0	-2	-27
- Discount at maturity	-40	-36	2	-37	-37	-37
- Balance of loans to GG entities	-23	-4	-2	-3	-4	-4
thereof: ŽSR + ŽSSK	-62	50	-88	-94	-93	-92
thereof: NDS	0	0	0	0	0	0
thereof: Municipal public transportation companies	43	68	10	90	175	211
thereof: Local government	-61	-62	-7	2	-59	-4
- other	-155	-55	2	-4	-2	-1
C. General government gross debt (as of 31 Dec)	42 053	43 230	43 968	45 719	47 381	48 894
in % of GDP	51,8	50,9	48,7	47,3	46,0	44,8
D. Change of general government gross debt against Stability Programme (p.p.)	0,0	0,1	-0,6	0,7	1,1	1,5
thereof: GDP forecast revision	0,0	0,1	-0,1	-0,3	-0,5	-0,5
thereof: Debt forecast revision	0,0	0,0	-0,5	1,0	1,6	2,0

Note: Plus amounts increase the general government debt as at 31 December of the relevant year, minus amounts decrease the debt.

Source: MoF

State debt without the impact of international commitments accounts for over 90% of public debt. In 2017, government debt accounted for 46.4% of GDP and should fall to 41.6% of GDP by the end of the budget horizon. From 2012, the total GG gross debt also increases due to the participation of the Slovak Republic in the European rescue mechanisms. Liabilities related to the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) amounted to around 3% of GDP in 2017. For the years 2019-2021, the additional effects on public debt are no longer expected. In relation to GDP, commitments to the EFSF and ESM will decrease by more than 0.5 p.p. by 2021 due to projected GDP growth. The indebtedness of other general government entities outside the state budget made 1.6% of GDP in 2017. By 2021 it should fall below 1% of GDP.

TABLE 7 - General government gross debt (% of GDP, ESA 2010, as at 31 December)

	2016 F	2017 F	2018 E	2019 E	2020E	2021 E
GG gross debt	51,8	50,9	48,7	47,3	46,0	44,8
- Sovereign debt (no international commitments)	47,0	46,4	44,4	43,4	42,5	41,6
- contribution to EFSF	2,3	2,2	2,1	1,9	1,8	1,7
- contribution to ESM	0,8	0,8	0,7	0,7	0,6	0,6
- debt of other general government entities	1,7	1,6	1,4	1,2	1,0	0,9

* 2018 – expected outcome, 2019 – 2021 - Budget

Source: MoF



BOX 7 – Contingent liabilities in the European Union

At the beginning of 2018, Eurostat released a report on contingent liabilities by individual Member States of the European Union (EU)³⁹. The data processing objective has been to increase the transparency of public finances in the European Union, thus creating a more comprehensive picture of potential fiscal risks from contingent liabilities. Contingent liabilities are defined as potential liabilities that may become true liabilities if the conditions are precisely defined. The current methodology for recording items that do not explicitly affect the country's balance sheet identifies several basic items of contingent liabilities⁴⁰.

Based on the level of contingent liabilities identified in the Eurostat report, Slovakia⁴¹ ranks among the EU countries as the lowest proportion of such liabilities in proportion to the size of the economy. The bulk of the liabilities stem from PPP projects whose volume (in% of GDP) in the EU, on the other hand, is among the highest. The relatively low level of total contingent liabilities of Slovakia stems mainly from the low level of government guarantees and liabilities of state-owned enterprises. In view of the potential risks, the identified level of liabilities should not fundamentally undermine the sustainability of public finances. Published data can also assist Slovakia in evaluating the optimal level of contingent liabilities on the basis of benchmarking with countries with a similar structure of the economy.

Government guarantees

Slovakia, with the volume of the guarantees ranks at the end of the EU ranking. According to data for 2016, the volume of guarantees provided is 0.03% of GDP. Government guarantees define the mechanism by which the guarantor (the government) undertakes to the creditor that in case the debtor stops performing the pre-agreed performance, the guarantor will take over the debts resulting from the agreement between the creditor and the debtor. The data for 2016 show that the level of government guarantees provided in the member countries differs. In some countries, in the past, guarantees have been directed mainly to financial institutions to mitigate the effects of the financial crisis. Eurostat's methodology distinguishes two basic types of government guarantees, one-off and standard. In the case of a one-off guarantee, the guarantor is not in a position to reliably estimate the risk in advance of its materialization. One-off guarantees are provided primarily in relation to financial instruments such as, for example, loans or bonds. Standard warranties are typically provided for a larger number of similar activities in smaller volumes (e.g. mortgage credit guarantees). However, the risk of default on individual small loans can not be reliably estimated, as in the case of one-off guarantees, but it is possible to estimate approximately how much of the total amount of such loans is likely to fail.

State liabilities outside the balance sheet

Such liabilities include, in particular, assets implemented through the so called PPP projects or public-private partnerships. PPPs are usually intended to conclude long-term contracts between two parties, one of which represents a private sector also called a concessionaire, and the other representing the government sector, or contracting authority.

Data for 2016 show that the volume of PPP projects in Slovakia with 3.1% of GDP belongs to the highest in the EU. In the year 2016, two PPP projects were registered, both of which were implemented in the field of construction and operation of road infrastructure⁴². PPPs are primarily focused on the implementation and financing of major investment activities that are subsequently operated to provide services either to the government itself or to the public. From the point of view of the impact on government performance, PPPs are recorded outside the government balance sheet as the assets themselves are not considered to be economically owned by the government, and the expenditures on these assets are not at the time they were recorded as government expenditures. An important characteristic of PPP is the sharing of the risks associated with the construction and operation of the work between private and public partners and the long-term contractual relations between private and public partner.

³⁹ The Eurostat report is based on the reporting of Member States' contingent liabilities. The methodology across countries may differ and therefore the comparative relationship is limited to the noticeable value. The report itself is available on - [The extent of contingent liabilities and nonperforming loans in the EU Member States](#).

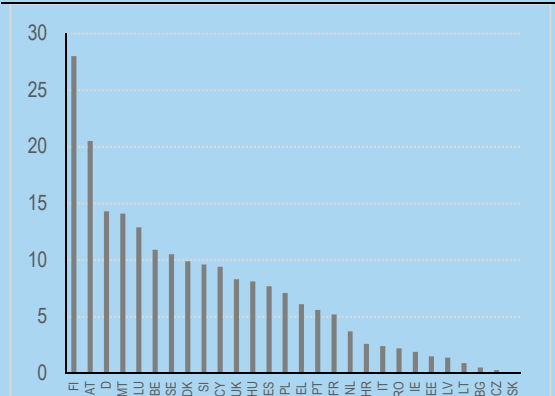
⁴⁰ With regard to the potential fiscal risks arising from the existence of contingent liabilities, it is important to note that these categories are of a diverse nature with a varied impact on public finances. In addition, in some cases, the same fiscal risk can be manifested in a number of ways.

⁴¹ The Eurostat methodology used in the report is not fully compatible with the methodology for reporting contingent liabilities of the Ministry of Finance used for the purpose of the Comprehensive Annual Report, which also includes for example liabilities related to the membership of Slovakia in international institutions, or open litigation and arbitrations involving Slovakia.

⁴² These are PPP projects - the highway R1 and Bratislava bypass D4 / R7.

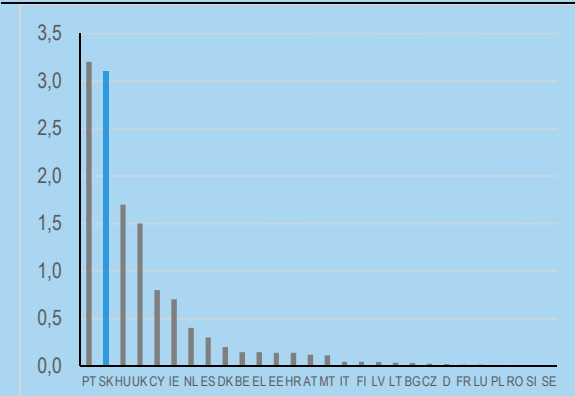


FIGURE 23 - Government guarantees provided (% of GDP, 2016)



Source: Eurostat

FIGURE 24 - State obligations outside the balance sheet (% of GDP, 2016)



Source: Eurostat

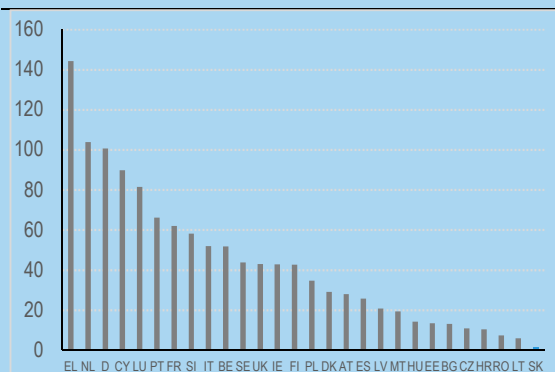
Liabilities of state-owned enterprises outside the GG

State-owned enterprises controlled by the government of the Slovak Republic have registered at the end of 2016 liabilities amounting to 1.3% of GDP. On a European scale, they represent the low value of such liabilities. The liabilities of state-owned enterprises are defined as the balance of business liabilities at the end of the year on the basis of the financial statements. These state-owned enterprises are usually classified outside the general government sector because of their behavior as market entities. The high volume of liabilities in some countries also relates to the state ownership of certain financial institutions (e.g. banks) operating in the countries concerned. Banks in their balance sheets record a high volume of liabilities from received deposits, which are usually offset by a reasonable volume of assets.

Nonperforming (classified) loans

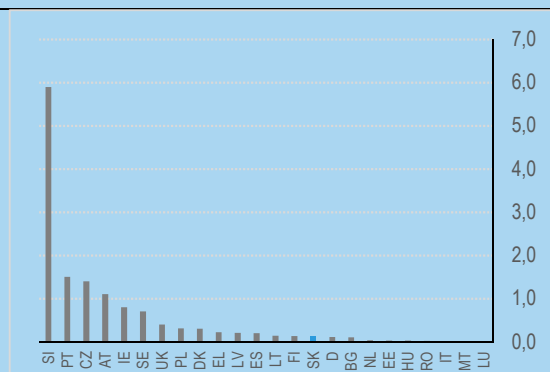
Slovakia is not exposed to significant risks arising from non-performing loans. The volume of such loans is 0.1% of GDP, which does not significantly increase the risks. While in some countries, the rise in non-performing loans was directly related to the state's rescue efforts to improve the banking sector (SI, PT, AT), others include such loans conducted directly in the bank balance sheets of public sector (CZ). The methodology defines loans for classified and interest rate payments or principal repayments in excess of 90 days or interest payments in a delay of 90 days that have been capitalized, refinanced or delayed by mutual agreement⁴³.

FIGURE 25 - Liabilities of state-owned enterprises (% of GDP, 2016)



Source: Eurostat

FIGURE 26 - Liabilities from non-performing loans (% of GDP, 2016)



Source: Eurostat

⁴³ Classified loans are also considered when individual payments are less than 90 days late but were, for example, a bankruptcy petition has been filed and there are doubts that the requested payments will be made in full.

V. General government balance in the no change policy scenario and description of new budgetary measures

Considering no change in economic policies, the general government performance in 2019 would get slightly into surplus of 0.15% of GDP (compared with a budgeted deficit of 0.10% of GDP). On the expenditure side, a stimulus of 0.9% of GDP results from an increase in current expenditure. This is mainly due the developments in employee compensation (0.4% of GDP), intermediate consumption (0.2% of GDP) and other current transfers (0.2% of GDP). On the revenue side, higher revenues are recorded compared to the no – policy change scenario by 0.7% of GDP. The surplus in the no-policy-change scenario would continue to grow in 2020 and 2021.

The No-Policy-Change scenario (NPC) illustrates the reference point in the development of public finances, assuming unchanged legislation and macroeconomic development. Its contribution is to quantify the approximate size of the measures needed (or fiscal space) to meet the medium-term objectives. The extent of such measures can be quantified by comparing the GG balance management in the NPC scenario against the agreed medium-term budgetary objective. Taking into account the difference in budgeted revenues and expenditures compared to the structure in the NPC scenario, it is also possible to estimate the impact of government measures (consolidation or stimulus) on the economy. The starting point for the no-policy-change scenario for 2019-2021 is the ongoing monitoring of the general government deficit in 2018 at 0.60% of GDP. It also does not take into account one-off effects in the base year (BOX 8).

Assuming no change in economic policies, general government would achieve a slight surplus of 0.15% of GDP in 2019 (compared to a budgeted deficit of 0.10% of GDP). The difference in the balance of general government compared to the budget proposal for 2019 and the no change policy scenario represents 0.25% of GDP (EUR 240 million). On the expenditure side, a stimulus of 0.9% of GDP results from an increase in current expenditure. This is mainly the development of employee compensation (0.4% of GDP), intermediate consumption (0.2% of GDP) and other current transfers (0.2% of GDP). On the revenue side, there are higher revenues compared to the NPC by 0.7% of GDP. Budgeted revenue is mainly higher for tax revenue (0.3% of GDP) and for grants and transfers (0.2% of GDP).

The surplus in the no-policy-change scenario continues to grow in 2020 and 2021. There is a continuing stimulus on the expenditure side in 2020 and 2021, while there are no further revenue-side budget measures. Compared to no-policy-change scenario, the draft budget envisages, for the 2020-2020 horizon, the rising expenditure on compensation for employees and the purchase of goods and services. Capital expenditures moderately offset this development.

TABLE 8 - Comparison of Expenditure and Revenue Balance and NPC in 2019 to 2021 (% of GDP)

	ESA code	NPC			DBP			DBP-NPC		
		2019	2020	2021	2019	2020	2021	2019	2020	2021
Total revenue	TR	37,8	38,0	37,1	38,4	38,6	37,7	0,7	0,6	0,6
Taxes on production and imports	D.2	10,8	10,6	10,3	11,0	10,8	10,4	0,2	0,2	0,2
Current taxes on income, wealth	D.5	7,3	7,2	7,2	7,4	7,3	7,3	0,1	0,1	0,1
Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Social security contributions	D.61	14,4	14,1	13,9	14,5	14,2	13,9	0,1	0,0	0,0
Property income	D.4R	0,6	0,6	0,5	0,6	0,6	0,5	0,0	0,0	0,0
Other*		4,7	5,4	5,1	5,0	5,7	5,5	0,3	0,3	0,4
Total expenditure	TE	37,6	37,5	36,3	38,5	38,6	37,5	0,9	1,1	1,1
Compensations for employees	D.1P	8,8	8,8	8,7	9,2	9,5	9,3	0,4	0,7	0,5
Intermediate consumption	P.2	5,4	5,5	5,1	5,6	5,8	5,6	0,2	0,4	0,5
Subsidies	D.3P	0,4	0,4	0,3	0,5	0,4	0,3	0,0	0,0	0,0
Interest cost	D.41P	1,2	1,1	1,0	1,2	1,1	1,0	0,0	0,0	0,0
Total social transfers	D.6P,D632	17,3	16,5	15,8	17,4	16,6	16,0	0,1	0,1	0,2
thereof: Unemployment benefits		0,2	0,2	0,2	0,2	0,2	0,2	0,0	0,0	0,0
Gross fixed capital generation	P.51G	2,4	2,7	2,7	2,4	2,5	2,7	0,0	-0,2	0,0
Capital transfers	D.9P	0,1	0,2	0,2	0,2	0,2	0,1	0,1	0,0	0,0
Other**		1,9	2,4	2,4	2,1	2,4	2,5	0,1	0,1	0,0
General government balance	B.9	0,1	0,4	0,8	-0,1	0,0	0,2	-0,2	-0,4	-0,6



Note.: * P.11+P.12+P131+D.39rec+D.7rec+D.9rec (other than D.91rec)
** D.29p+D.5p+D.7p+NP

Source: MoF

BOX 8 - Changes in the the approach to identify one-off measures in the NPC scenario

Compared to the Stability Program for the years 2018-2021, the methodology for the identification of one-off measures changes. A one-off measure, the Draft Budgetary Plan considers an expenditure title that exceeds the size of 0.05% of GDP and is of short-term nature. Recurring expenditure such as election expenses and other titles of less than 0.05% of GDP remain at the base year and are indexed according to the NPC methodology.

Compared to the Stability Program, the one-off measures are revised downwards by EUR 45 mill.. The total volume of one-off measures in 2018 according to the specified methodology amounts to EUR 434 mill. (0.48% of GDP). The one-off capital transfer expenditure associated with the debt relief of healthcare facilities (understate financial assets) leads to a decrease in their liabilities (decrease in intermediate consumption) and to the increase of revenue of the Social Insurance Company. This transaction does not affect the level of NPC expenditure and revenue in 2019.

TABLE 9 - List of one-off measures in 2018 for NPC needs (ESA 2010, EUR million and in% of GDP)

	ESA 2010	mil. eur	% GDP
Construction of National Football Stadium	D.9p	63	0,07
Reserve for significant investments	P.51g/NP	73	0,08
Debt relief for healthcare facilities	D.9p	298	0,33
Total		434	0,48
p. m. volume of one-off measures in the Stability Program		479	0,54

Source: MoF

Compared to the Stability Program 2018, the level of the base year expenditures increases by more than EUR 700 million, which also contributes to reducing surpluses in the NPC scenario. Higher expenditure levels in the NPC, apart from a methodical change in one-off effects, also imply a higher initial expenditure base based on ongoing monitoring and faster indexing for 2019. The higher expenditure base with indexation is dragging on to the next years and reduces surpluses in the current NPC scenario compared to the Stability Program.

Other changes to the NPC scenario compared to the Stability Program's assumptions are related to the revenue side of the budget. The update of the tax forecast following a better macroeconomic development (especially a higher wage base) contributes to higher tax and social contribution revenues. On the contrary, non-tax revenues are expected lower in the NPC scenario, mainly due to the revision of revenues in the base year.

TABLE 10 - Differences between balance in the SP 2018 and DBP 2019 in NPC scenario (in % of GDP)

General government balance in the NPC scenario	2019	2020	2021
Stability Program (1)	0,64	0,88	1,07
Draft budgetary plan (2)	0,15	0,44	0,75
Difference (2-1)	-0,49	-0,44	-0,32
mil. EUR	-475	-439	-337

Source: MoF

TABLE 11 - Differences between SP 2018 and DBP 2019 in the NPC scenario (EUR million)

	2018 base	2019 NPC	2020 NPC	2021 NPC
General government balances in the NPC scenario	178	-475	-439	-337
Total revenue	905	320	381	399
of which: tax revenues	492	469	535	544
of which: social security contributions	283	109	117	122
of which: non-tax revenues	-234	-247	-181	-153
of which: grants and transfers	364	-12	-90	-114
Total expenditure	728	795	819	736
of which : current expenditure	-93	649	623	307
of which : capital expenditure	821	146	197	429

Source: MoF



V.1. Description of the measures

In this section, the impacts of measures included in the draft budget of the general government are quantified and described. Beyond these measures, the differences between the NPC scenario and the outcome of the budget negotiations included in the draft budget are also presented.

Measures on revenues

On the revenue side of the budget in the observed horizon the consolidation amounts to 0.7% of GDP, which is falling to 0.6% of GDP at the end of the horizon. The following section presents the impacts of revenue legislation measures (TABLE 13). The impact of discretionary revenue measures is described in the appendix.

The Amendment to the Revenue Tax Act regulates the specific aspects of the exemption of revenue and depreciation of assets. The Amendment to the Income Tax Act regulates the depreciation period of buildings in which spa care is provided. At the same time, it will enable entities to shorten the depreciation period of these buildings from 40 years to at least 20 years. From 2018, the exemption from the sale of business shares at the level of natural and legal persons also comes into force. The full fiscal impact of the measure is expected from 2020. The amendment also includes the exemption of advertising revenues up to a maximum of 20,000 EUR for selected legal forms of the non-profit sector.

From 2019, home spirit distilling for natural persons is allowed for spirits from their own fruit. The alcohol produced by a private producer is subject to a half rate of alcoholic beverage tax. The measure will have a marginal negative impact on the yield of the excise duty on alcohol.

The (non-life) insurance tax will replace the levy on insurance premium from 2019. The tax will be applied to the same types of insurance as the levy was covering, but will not distinguish the date of the insurance⁴⁴. The exception is compulsory contractual insurance (PZP), from which insurers are obliged to deduct a separate levy already now, while this levy is considered to be a tax revenue from 2018 and is forecast by the Tax Forecast Committee. The amount of the PZP levy does not affect public finances, because the change is only a reclassification from non-tax to tax revenues.

The cost of work paid by employers who pay out benefits has been reduced by introducing exemptions from payment of the 13th and 14th salary from Personal Income Tax (PIT), Health (HIC) and Social Contributions (SIC). In 2018, the exemption was applied for health insurance contributions and for the 14th salary also PIT was deducted. The exemption is up to a maximum of EUR 500 per remuneration. The start of the exemption is gradual until 2021 and must meet a number of conditions (e.g. at least 24 or 48 months worked). In 2019 the 13th salary will be exempt from HIC and PIT, the 14th salary will be fully exempt. In 2021 there will be an exemption from the 13th salary also from the SIC. The introduction of the exemption of the 13th and 14th salaries will have negative effect on SSC as well as PIT, on the other hand a slight positive impact will be given to the measure on CIT yield.

Since January 2018, the health insurance contribution allowance (OOP) has been cancelled for HIC for the employer. Full accrual impact will only occur in 2019, as most employees do not apply a deductible item on an ongoing basis during the year, but only during the annual settlement in the following year. The cancellation of the deductible item of employers will increase the revenues of the health insurance companies and will reduce CIT due to the increase in wage costs on employees.

Another legislative measure is the proposed annual social insurance settlement, which is to be implemented for the first time in 2022 (over the 2021 advance payments). Thanks to the transition from monthly to annual maximum rates, Social Insurance Company revenue will increase in 2021. The introduction of the annual settlement will prevent social contribution optimization when the wage was artificially accumulated within one month of the year in order not to pay the entire annual revenue, which was capped by monthly ceilings.

⁴⁴ The levy was applied to the insurance policies concluded as of January 2017 and the insurance tax applies to all the insurance policies.



The system of payment of fees for waste is being changed and at the same time the fees waste landfills are being increased. Under current legislation, fees are collected by landfills and sent directly to the municipality where the landfill is located. According to a draft approved by the government, fees will represent the yield of the Environmental Fund.

The budget foresees the introduction of a specific levy on the net turnover of retail chains with effect from 2019. This levy will apply to grocery stores that operate in at least two districts and at least 10% of the turnover comes from selling food to final consumers. However, the levy will also be a tax expense for entities and will therefore reduce CIT.

In the fight against tax evasion, online sales revenue registration (eKasa) and fuel labeling (nanomarkers) are introduced. Based on the online linking of all fiscal cashiers to the financial administration portal (eKasa), the financial administration will instantly receive information about transactions. Each issued document will be registered at the central repository. The measure aims at tax evasion of non-disclosing sales or adjusting sales before storing data in fiscal memory. Since July 2019, the entities using the electronic cash register must shift to eKasa. Another measure is to introduce fuel labeling with a specific identifier, so called nanomarker, in order to prevent underreporting of final consumption and to better target revenue controls. The system will enable more efficient control of sold fuels in Slovakia, resulting in a lower tax evasion and higher fuel quality. All entities producing or importing fuels will have the obligation to use nanomarkers.

Expenditure measures

The budget foresees a rise in compensations above the level of the NPC scenario. In 2019 and 2020, it covers the agreed tariff indexation of salaries of public servants equal to 10%. The draft budgetary plan of the general government also reflects changes that eliminate the long-standing problem of inconsistency in the minimum wage level and the corresponding tariff level for public service remuneration. In addition to the valorisation of salaries, the draft budget provides funding for teaching staff, professional staff and higher education teachers to implement preferential remuneration for new teachers since September 2019.

Beyond the NPC scenario, the budget considers higher expenditure on intermediate consumption mainly due to a reserve to address the impact of new legal adjustments and other measures (EUR 400 million). This reserve will cover the cost of providing free lunches at nursery and elementary schools, the increase in the Christmas pension and the impact of the forthcoming legislation leading to a revenue shortfall beyond the September forecast of the Tax Forecast Committee. These include, in particular, parliamentary proposals to exempt the recreation allowance⁴⁵, reduction of VAT in the accommodation sector⁴⁶ and doubling the tax bonus for parents of children up to 6 years of age.

Budgeted expenditure on intermediate consumption also includes increased agricultural subsidies associated with the introduction of a special levy on supermarket chains.

Social transfers in kind in the budget horizon are characterized by higher growth over the NPC scenario due to higher expenditure in the health sector. The increase in public health expenditure is caused by funding the growth of salaries of nurses and medical staff as well as by the reconstruction of buildings and the renovation of technical equipment of hospitals by the Ministry of Health.

⁴⁵ The budget considers introducing a recreational allowance in the form of a recreational voucher with tax advantage. The voucher will be up to a maximum value of EUR 500, with the employer's contribution being exempt from PIT as well as health and social contributions. The employer's contribution will be 55% of the value of the voucher, but not more than EUR 275, the remaining 45% being paid by the employee from the already taxed income. For companies over 50 employees, the provision of recreation vouchers will be mandatory. Vouchers will also be eligible for self-employed. Exemption of a recreation voucher is conditional on a minimum of 24 months worked. The voucher can only be used for accommodation in Slovakia with a minimum of two overnight stays. The introduction of exemption on recreation vouchers will reduce the yield of social and health contributions as well as the PIT. On the other hand, a slightly positive impact will be given to the VAT yield due to higher disposable revenues and a decrease in the tax gap.

⁴⁶ Value added tax on accommodation in tourism will be reduced to 10%. In particular, VAT should decrease on hotel and accommodation services, including short-term tourist and accommodation services.



Higher other current transfers reflect the amendment to Act no. 309/2009 Coll. on support for renewable energy sources and high-efficiency combined production, where the Ministry of Economy budgets expenditures to support the reduction of the final electricity price for enterprises.

Capital expenditure in the budget horizon are below the NPC. The reason is the application of the ESA 2010 methodology when the booking of advances for the purchase of military equipment will be made at the moment of its delivery beyond the current budget horizon. The budget also includes the reserve for new investment programs in 2019 as well as for the development of the economic cycle from 2020.

TABLE 12 - Measures included in the draft general government budget (ESA 2010, NPC comparison, % GDP)

GG Revenues	Subsektor	ESA2010	2019	2020	2021
Total tax revenues	S. 13		0,30	0,34	0,33
Taxes on production	S. 13	D.2	0,20	0,28	0,27
Home distilling			0,00	0,00	0,00
Higher revenues from gambling (change in contributions)			0,01	0,01	0,01
Extension and modification of initial levy to an excise duty on insurance premium			0,06	0,05	0,05
Nanomarkers and eKasa			0,09	0,17	0,17
Fee for provided services (EOSA)			0,04	0,04	0,03
Income taxes	S. 13	D.5	0,10	0,07	0,05
Introduction of 13th and 14th salary			-0,02	-0,02	-0,03
Exemption from income taxation from the sale of ownership shares			-0,01	-0,03	-0,03
Special levy for food retail sector			0,12	0,12	0,11
Social contributions	S. 13	D.61	0,07	0,05	0,04
Tax settlement from social contributions			0,00	0,00	0,05
Introduction of 13th and 14th salary			-0,02	-0,03	-0,08
Abolition of tax HIC allowance for employers			0,09	0,08	0,07
Non-tax revenues	S.13	P.11+P.12	0,09	0,10	0,11
Fee for waste management			0,01	0,02	0,03
Grants and transfers	S.13		0,20	0,13	0,12
Levy from new nuclear facilities			0,05	0,05	0,05
Connecting Europe Facility(CEF)			0,08	0,08	0,08
Revenues total			0,66	0,62	0,59
GG Expenditure	Sector	ESA2010	2019	2020	2021
Compensation of which:	S.13	D.1	-0,42	-0,68	-0,50
Valorization10 % and wage measures			-0,42	-0,68	-0,50
Intermediate consumption, of which	S.13	P.2	-0,20	-0,38	-0,46
Reserve to address the impact of new legal adjustments and other measures			-0,41	-0,39	-0,37
Agricultural expenditures related to the food retail chain levy			-0,12	-0,12	-0,11
Subsidies	S.13	D.3p	-0,03	-0,02	-0,02
Social transfers in kind	S.13	D.632	-0,08	-0,11	-0,16
Other current transfers	S.13	D.7p	-0,17	-0,11	-0,07
Capital expenditure, of which:	S.13		-0,01	0,25	0,07
Capital investments		P.5L	0,04	0,29	0,06
Capital transfers		D.9p	-0,05	-0,04	0,01

Note. (+) increase in revenues and decrease in expenditures

Source: MoF

V.2. Revenue targets of the general government budget

Slovakia has the lowest overall general government revenues as a percentage of GDP vis-à-vis the V3 countries and the Eurozone average. Total revenues grew to 39.4% of GDP in 2017 and are expected to decline slightly to 39.1% of GDP in 2018 and then to 38.4% in 2019 (FIGURE 27). Despite the partial convergence in recent years, Slovakia continues to have the lowest tax-and-social contributions to GDP ratio compared to the Eurozone

average and the remaining V4 countries. Between 2019 and 2021 there is a distinct development of non-tax and tax revenues. While general government tax-levy revenues reach high growth rates in 2018 and are gradually slow towards the end of 2021, non-tax revenues, including transfers, are affected by the expected slowdown in EU fund drawing in 2018 and projected acceleration in 2020.

In 2017, general government tax-levy revenues amounted to 33.0% of GDP, and we expect a slight increase of 0.3 p.p. for 2018. (FIGURE 28). The impact on the year-on-year dynamics of tax revenues in 2018 has had an acceleration in the macroeconomic bases that form the tax base. The overall impact on tax revenues under the legislation was slightly negative, mainly due to the abolishing of the tax license. This revenue shortfall was partly offset by the cancellation of health insurance contribution allowance.

FIGURE 27 - Comparison of GG revenues (% of GDP)

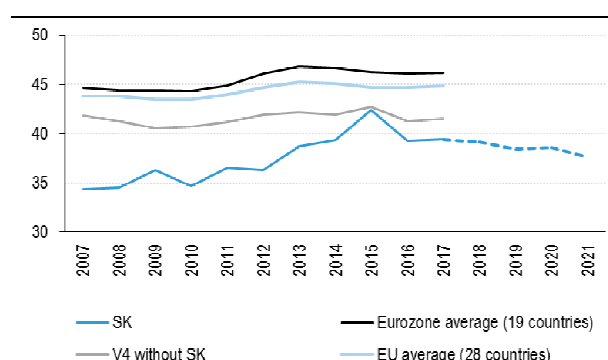
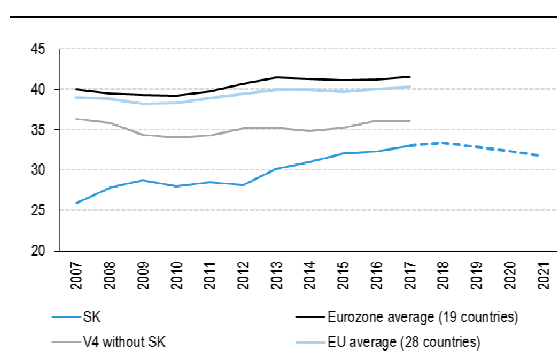


FIGURE 28 - Comparison of GG tax and levy developments (% of GDP)

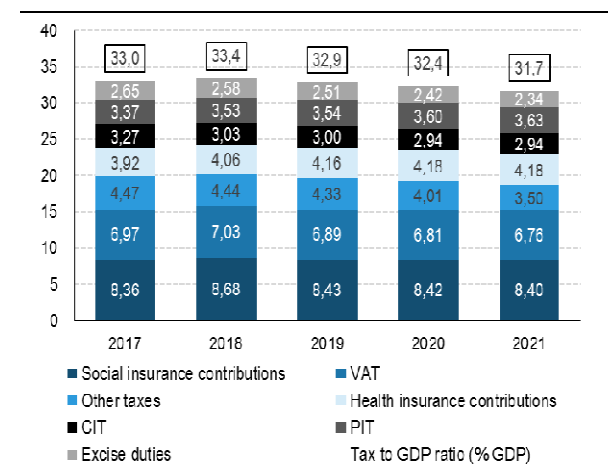


Source: Eurostat, MoF

Pozn.: Tax and contributions revenues correspond to the sum of ESA2010 lines D.2r, D.5r, D.61r a D.995r.

In the coming years, the share of taxes on economic output will decrease slightly, reaching 31.7% of GDP in 2021 (FIGURE 29). The draft budget assumes a relatively stable development towards output in the case of health and social contributions⁴⁷, as the wage base increases in line with GDP development. A moderately rising personal income tax on GDP is the result of a higher progressive tax rate. With the exception of 2018, when the abolished tax license lowers corporate tax revenues, its yield will be stable. A relative drop in value added tax is caused by slower growth in household consumption compared to growth in the economy. Real estate taxes, selected excise duties, and other revenues are not subject to automatic indexing, resulting in a gradual decline in their yield to the size of the economy.

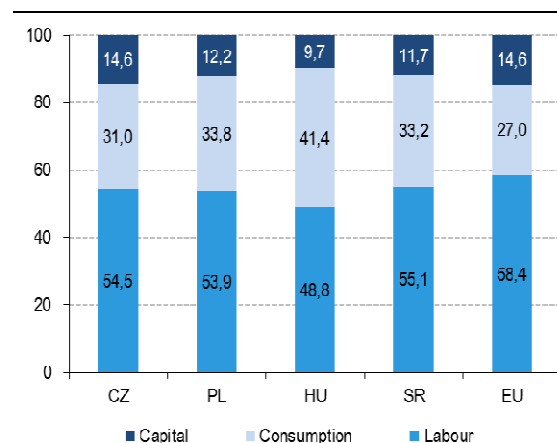
FIGURE 29 - Share of taxes on GDP (% of GDP)



SourceSource: MoF

Note.: The contributions include economic active population and arrears.

FIGURE 30 - Taxation of economic factors (2016,%)



SourceSource: MoF

⁴⁷ In 2018 a one-off revenue on social contributions of EUR 187 million is expected as a result of the debt relief of hospitals.

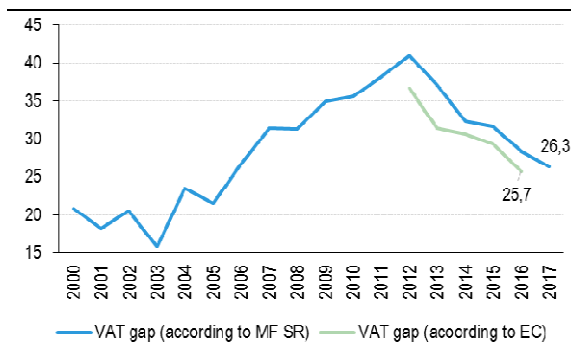


Considering the taxation of economic factors, Slovakia makes more use of labor taxes. More than half of all tax revenue is generated by labor taxation (FIGURE 30). Overall, the ratio of tax burden on economic factors in Slovakia does not differ much from that in the Czech Republic or Poland. Hungary has a slightly different structure, with a lower burden on labor and a higher burden on consumption. The EU average shows higher labor taxes than the V4 countries. In Slovakia, the taxation of individual economic factors is relatively stable over time. The partial increase in labor taxation occurred in 2009 and 2012, which was associated with consolidation measures. The share of consumption tax revenue is gradually decreasing. Capital taxation contributes to the lowest share of total government revenue.

V.2.1. Fight against tax evasion

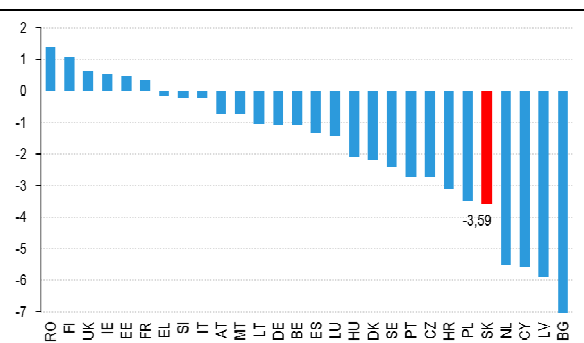
The VAT tax gap is gradually decreasing, reaching levels from before 2006. The measures taken during 2012 to 2017 helped to reverse the long-term unfavorable development in the efficiency of VAT collection (FIGURE 31). The fight against tax evasion has so far been primarily focused on VAT, which has contributed to a decrease in the gap, falling from 41.0% to 26.3% between 2012 and 2017. This trend is confirmed by the improvement of the EU's assessment of Slovakia, which is under the umbrella of the European Commission⁴⁸. According to the Commission, the VAT gap in 2016 fell to 25.7%, a decline of 11 p.p. compared to 2012. The year-on-year decline in 2016 was 3.6 p.p., which was the fifth highest year-on-year improvement of the VAT gap within the EU (FIGURE 32). Despite significant improvements, Slovakia still has room to further close the gap towards the European average.

FIGURE 31 - The tax gap for VAT (% of potential yield)



SourceSource: MoF, EC

FIGURE 32 - Change in VAT tax gap in the EU (2016)



SourceSource: EC

The growing VAT selection success has a positive impact on the collection of the corporate tax. The effective tax rate for corporate tax continues in a fast paced growth (FIGURE 33), which can be attributed to the cyclical nature of this tax as well as successful VAT measures, which are also positively reflected in the yield of the CIT⁴⁹. The Ministry of Finance plans to continue working on the methodology and quantification of the tax gap estimate and to continue with the IMF cooperation.

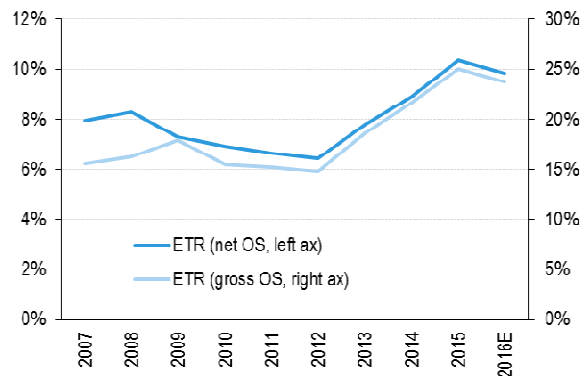
Efforts to prevent tax evasion are also focused on mineral oils where the gap has stabilized. In 2017, the spread of the gap estimate ranged from 13.7% to 16.8% of the potential yield (FIGURE 34). We assume that the tax gap is largely influenced by the current exchange rate compared to neighboring countries, and is in particular related to the volume of cross-border purchases. In order to reduce excise duty evasion on mineral oils, it is planned to introduce the obligation to mark mineral oils sold in Slovakia with so called nanomarkers.

⁴⁸ The methodology of the European Commission is published on the following [webpage](#).

⁴⁹ Reducing VAT fraud on entry in the form of duplicate or counterfeit invoices, or unrecorded supplies to customers will result in higher VAT revenue and higher corporate profitability, which will in return increase the corporate tax.

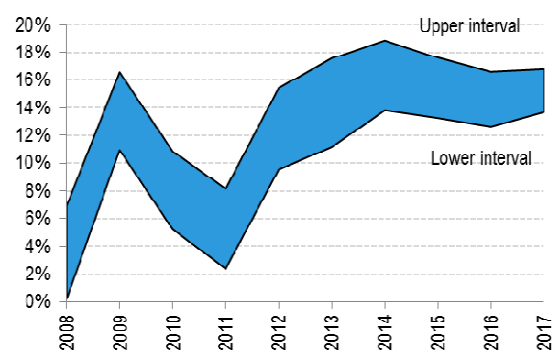


FIGURE 33 - CIT's effective tax rate (tax selection on net and gross operating surplus)



Source: MoF

FIGURE 34 - Estimate of the tax gap in 2008 to 2017, % of potential fuel yield



Source: MoF, FS SR

In the coming years, the Financial Administration of the Slovak Republic, in addition to implementing measures to reduce tax evasion, will focus on supporting voluntary tax compliance and reducing the administrative burden on clients, including more efficient electronic communication. Starting January 2019, a tax reliability index will be introduced to assess the behavior and compliance of taxpayers' responsibilities with the tax administrator. The main objective of this measure is to support the voluntary fulfillment of tax obligations. In 2018, mandatory electronic communication with the Financial Administration was introduced for all business entities, which will contribute to a lower administrative burden on taxpayers and reduce the error in the process of submitting tax returns and other documents.

V.3. Expenditure targets of the general government budget by function

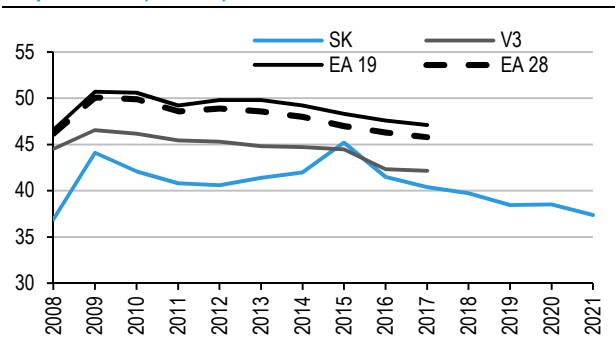
In Slovakia, the total general government expenditure to GDP ratio⁵⁰ is still below the reference values, i.e., the Euro area average and the V3 average. In recent years, the general government expenditure converged to these two reference averages. Since 2015 (this year was affected heavily by excessive EU funds drawing) the share of expenditure decreased again as a result of stronger nominal GDP growth. Slovakia still remains one of the countries with a lower public expenditure to GDP ratio.

The share of capital expenditure to GDP is above the Eurozone average, but it lags behind the V3 average. After 2015, this share returned to the long-term average. Past 2021, a recovery in investment growth is expected to occur as a result of the end of the third programming period.

Despite the growth in nominal public expenditure, the share of the total and the capital expenditure on GDP continues to decline. The growth of nominal GDP will outpace the expenditure growth, in spite of multiple measures on the expenditure side. The level of capital expenditures in the ESA 2010 methodology over the budget horizon does not include investments to defense modernization, amounting to approximately EUR 500 million. These will increase the expenditures in the year of delivery of military equipment after 2021. Budgetary expenditure from the EU sources does not account for carry-over-spending of past years' transferred resources (the total volume of EU funds transferred up to 2018 is EUR 3.6 billion).

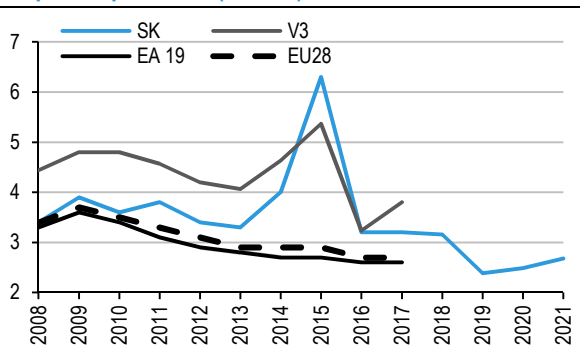
⁵⁰ Note: The methodology for recording expenditure by functional classification may differ between countries. This may cause that within the same item there are different data (e.g. taxed and non-taxed pensions). The COFOG classification also does not take into account the expenditures realized through the tax system (e.g. child tax bonuses).

FIGURE 35 - Development of the general government expenditure (% GDP)



* EA19 (Eurozone average), V3 (V4 without SR) Source: Eurostat, MoF

FIGURE 36 – Development of the general government capital expenditure (% GDP)



* EA19 (Eurozone average), V3 (V4 without SR) Source: Eurostat, MoF

An international comparison of the structure of expenditure by function⁵¹ to other V4 countries shows that Slovakia spends less on education, the economic area and the general public services. Compared to the average of the other countries, the share of expenditure on GDP is higher in health, social policy and public order and security. Compared to the Eurozone average, the largest difference is in the share of expenditure earmarked for social security. The reason is relatively lower expenditure on long-term care and other social services⁵² as well as transfers targeted to help the unemployed.

TABLE 13 - General government expenditure by COFOG classification

Function	COFOG code	SK 2016	DBP SK 2019	DBP SK 2021	V3 2016	EA19 2016
		% GDP	% GDP	% GDP	% GDP	% GDP
1. General public services	1	5,3	4,8	5,0	5,6	6,3
2. Defence	2	1,0	1,2	1,4	1,0	1,2
3. Public order and safety	3	2,3	2,0	1,8	2,1	1,7
4. Economic area	4	4,5	4,0	4,5	5,7	4,2
5. Environmental protection	5	0,7	0,6	0,6	0,5	0,8
6. Housing and amenities	6	0,5	0,4	0,4	0,7	0,6
7. Healthcare system	7	7,4	7,2	6,5	5,6	7,1
8. Recreation, culture and religion	8	1,0	0,9	0,9	1,9	1,1
9. Education	9	3,8	4,1	4,1	4,8	4,6
10. Social security	10	15,1	13,3	12,3	14,5	20,0
Total expenditures	TE	41,5	38,5	37,5	42,4	47,6

Note: DBP: Draft Budgetary Plan

Source: MoF, Eurostat

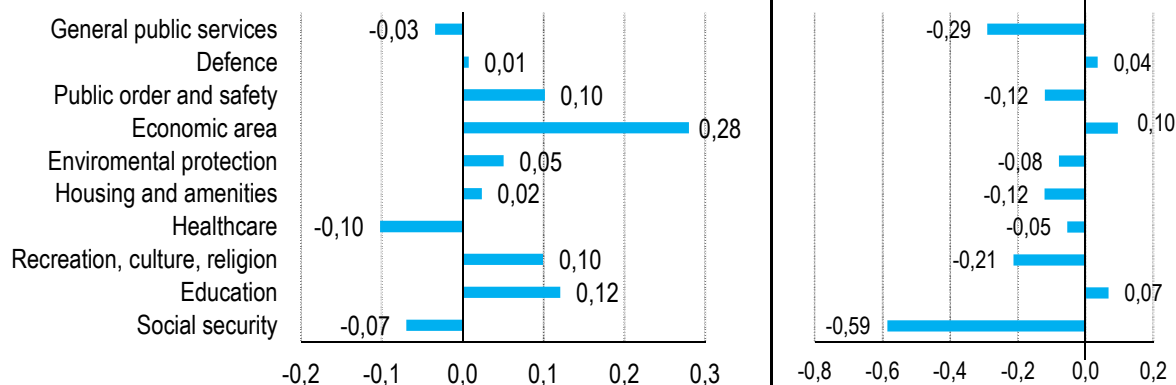
According to the ongoing deficit monitoring for 2018, public expenditure increased as compared to the approved budget. The largest increase over the approved budget is visible in the economic area, education, public order and security. In the economic area, these are the EU's resources transferred from previous years, which were reflected in higher expenditures of NDS or ŽSR. Due to higher than budgeted real revenues during the year, public higher education institutions and municipalities increased financing of education. Expenditure on public order and security increased due to an increase in wages as well as additional investments.

FIGURE 37 - Comparison of general government expenditure by COFOG (changes in GDP in p.p.)

	2018* compared to the budget of 2018	DBP 2019 compared to 2018*
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⁵¹ The latest available historical data for the COFOG classification date back to 2016.

⁵² For example, care for children, people in crisis.



* 2018 – current monitoring of 2018 budget

Source: MoF

Within the budget horizon, the share of expenditure on GDP decreases. The share of expenditure on GDP rises in the economic area, education and defence. Expenditure in the economic area grows mainly as a result of 10% valorisation of the salaries of public servants. Education expenditures rise primarily for the same reason, but they also cover additional wage increases for young and in-service teachers. Defense expenditure rises due to significant investments in military technology. The share of social security expenditure decreases due to positive labor market developments.

V.4. Impact of consolidation

The starting point for quantifying the magnitude of fiscal measures affecting the economy is the No Policy Change scenario (NPC). The impact of fiscal policy on the economy between 2019 and 2021 is based on the measures needed to achieve the fiscal targets contained in the general government budget for the years 2019 to 2021 as compared to the NPC.

TABLE 14 - The overall need for measures to achieve fiscal targets against the NPC (ESA2010,% of GDP)

	2019	2020	2021
1. General government balance - Fiscal targets	-0,10	0,00	0,20
2. General government balance – NPC scenario	0,15	0,44	0,75
3. Size of measures - scenario analysed (1-2)	-0,25	-0,44	-0,55
- year-on-year change	-0,25	-0,20	-0,11

Source: MoF

In 2019, a fiscal impulse of 0.2% of GDP appears on top of the NPC scenario and it is concentrated mainly on the expenditure side of the general government budget. Total expenditure expansion represents 0.9% of GDP. The proposed budget assumes an incentive mostly in compensations and intermediate consumption on the expenditure side of general government. Consolidation measures on the revenue side represent 0.7% of GDP and these stem mostly from higher taxation of the corporate sector. In 2019, the positive effect on GDP growth is estimated at 0.04 p.p.. The implied fiscal multiplier is only 0.2, which corresponds to the nature of the measures and the cyclical position of the economy.

In 2020, an additional fiscal impulse of 0.2% of GDP appears on top of the NPC scenario, with expansion being projected on the expenditure side of the budget. The expansion is driven primarily by compensations and intermediate consumption of the general government. The estimated positive effect on GDP growth is 0.05 p.p. in 2020. Implicit fiscal multiplier is estimated again at 0.2.



The year 2021 brings additional stimulus of 0.1% of GDP according to fiscal targets, which is again concentrated on the expenditure side. The stimulus relates to public investment in transport, which was postponed in the previous year. Estimated positive impact on GDP growth is at 0.04 p. p. and implied fiscal multiplier of 0.3. The slightly higher impact on the real economy is due to expansion through public investments that are not as inflationary as the wage increases in previous years.



VI. Linking the budgetary plan to the objectives of the Growth and Employment Strategy and Country-specific Recommendations of the European Council

The Government has prepared a set of structural measures aimed at supporting economic growth and employment, responding to the major challenges of the Slovak economy - primary education, the labour market and health care. The government's priority in education remains to increase the attractiveness of the teacher's profession linked to quality of work, with an emphasis on young teachers. Increasing capacities of kindergartens and supporting the inclusion of children from marginalized Roma communities will continue. Expansion of childcare facilities for children up to three years will be supported. Positive developments on the labour market will be further backed by the expansion of active labour market measures with an emphasis on requalification and promoting labour mobility in Slovakia, as well as by facilitating the employment of third-country workers. In the health sector, measures aim at streamlining expenditure on drug consumption and hospital operating costs. The implementation of the eHealth project continues.

VI.1. Structural measures

The biggest challenges in terms of falling behind other advanced economies are the quality of primary education, the labour market and the quality of health care⁵³. This chapter describes the most important structural measures in these and other areas that the Slovak government has adopted or plans to implement in the next two years in accordance with the National Reform Programme of the SR 2018.

Institutional public finance reforms as well as spending reviews are continuing. Value for money is anchored by means of the Act on Budget Rules (**BOX 9**). Spending reviews on agriculture, healthcare, expenditure on the inclusion of groups at risk of poverty and social exclusion, employment and remuneration in general government will be completed in 2019. A new topic of spending review is expenditure on culture (**ANNEX 5**). There is the ongoing discussion on the expenditure ceilings in the general government budget in Slovakia.

BOX 9 - Institutional framework of public finances

The improvement of the institutional arrangement of the Value for Money project continues by an amendment to the Act on Budget Rules approved by the Government of the SR. Under the draft amendment, after the entry into force of the law, each subsequent government will be required to carry out and publish spending reviews in the amount of at least half of the expenditure of the general government budget over a four-year period. Deduction of the implementation of the expenditure revision recommendations (implementation report) becomes a mandatory part of the budget documentation. By law, the Ministry of Finance is obliged to evaluate and publish evaluations of investment projects over 40 million EUR with VAT, 10 mill. EUR with VAT in the case of IT investments.

The government approved the *National Program for Development of Education*⁵⁴, which identifies strategic framework for quality improvements in education for the period of the next 10 years. In PISA testing, Slovakia is significantly lags behind the average of OECD countries. Compared to previous testing rounds, the problem is not limited to socially-disadvantaged children, but to general population of students as well. The government's priority in education in the first two-year Action Plan is to increase attractiveness of the teaching profession. In addition to salary increases, including a steeper salary increase at the start of the career for young teachers aiming goal to attract quality graduates, the modification of attestation for career promotion will link quality and remuneration.. The novelization of education in training (dual education) increases the motivation of both schools and employers to join the system of dual education.⁵⁵

The act reforming the Accreditation Commission and the accreditation process⁵⁶ should result in increasing the pressure for quality improvement in higher education and research. The novelization will allow

⁵³ Priorities were identified in the National Reform Program SR 2018.

⁵⁴ *National Program for Development of Education* was approved by the Government of the Slovak Republic in June 2018.

⁵⁵ The amendment is effective from September 2018.

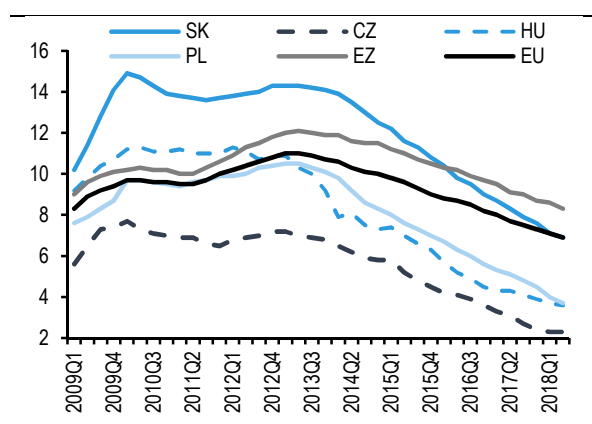
⁵⁶ It comes into force from November 2018.

applications for the positions of *docent* (associate professor) and *professor* (full professor) to be filled with applicants without the corresponding title for the period of three years. This lowers barriers to employment of foreign researchers. New professionally oriented bachelor programs are being introduced. They are serving to link education with the labour market.

Slovakia significantly lags behind the EU average in expenditure of companies on research and development. Company expenditure expressed as a share of GDP is less than one third of the EU average (Slovakia is 0.3% compared to the EU average of 1.1% in 2016). Since January 2018, so-called a superdeduction of expenditure on research and development to 100% and, at the same time, a deduction from the year-on-year increase in research and development expenditure to 100% have been introduced. The objective of the measure is to increase the incentives for the private sector to spend larger volumes of own resources on R & D.

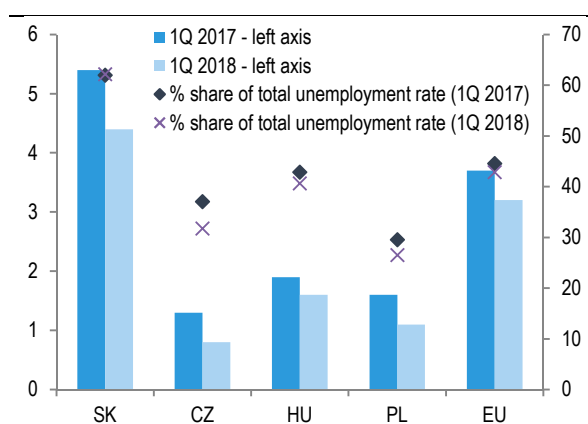
Despite the historically lowest unemployment rate, labour market outcomes of least employable groups have long been one of the main challenges of structural policies. Long-term unemployment rate declined year on year (from 5.4% to 4.4% in the first quarter of 2018), but the share of long-term unemployed in the total number of unemployed did not fall year-on-year and represents the second highest value in EU countries (62.2%). The employment of the Roma population is slightly improving with positive economic developments, but still lags far behind the majority (21% compared to 51% in the majority population living in the same municipalities⁵⁷). The employment of mothers with children over three years is significantly lagging behind, where the employment gap with the EU average is nearly 40 p.p.⁵⁸ Scope for increasing employment and creating greater inclusion of disabled pensioners in the labour market (compared to the whole population, employment is approximately half).

FIGURE 38 - Quarterly development of unemployment rate according to LFS (% of active population, seasonally adjusted data)



Source: Eurostat

FIGURE 39 - Long-term unemployment (% , 1Q 2017, 1Q 2018)



Source: Eurostat

Active labour market measures (ALMP) respond to labour market challenges by reallocation towards more efficient instruments. Implementation of measures for the integration of the long-term unemployed priority group, including the profiling of the clients at the labour offices, will continue. The requalification and training of employees and job seekers based on employers' needs in selected sectors will be supported. In order to support the development of the social economy, a new act on social economy and social enterprises was adopted⁵⁹, which defines the rules for the functioning of social enterprises and the forms of their support. The objective is also to support the employment of disadvantaged job seekers, including the long-term unemployed, people with disabilities and vulnerable groups of people in integration enterprises.

⁵⁷ IFP Flash news 18/2018: [The inclusion of the Roma is an all-society challenge.](#)

⁵⁸ [OECD Family Database.](#)

⁵⁹ Effective from May 2018.



Increasing the number of ALMP instruments and as well as budget allocations to support internal labour mobility addresses the regional shortage of qualified labour. Since May 2018, the conditions for entitlement to a commuting allowance and a labour mobility allowance have been made more attractive. The maximum monthly allowance has been increased, the allowance for commuting has been introduced irrespective of the definition of the mode of transport and extended the period of its provision to disadvantaged job seekers. A new relocation allowance was introduced to cover the costs of moving a citizen to a new place of permanent residence.

Addressing labour shortages is also supported by facilitating the employment of workers from third countries. Under the amendment to the Act on Employment Services, from May 2018, the conditions of employment of third-country nationals in selected professions were simplified, where the lack of qualified labour force and in districts with an average registered unemployment rate of less than 5% are demonstrated. *The Strategy on the Labour Mobility of Foreigners in the Slovak Republic* has been prepared, which proposes measures, in particular, to reduce administrative barriers to the employment of third-country workers.

In order to promote reconciliation of work and family life, the extension of a network of childcare facilities for children up to three years and a kindergartens (for children between the ages of 3 and 6). After the approval of the so-called Nursery Act in 2017, which defines the legislative framework for the operation of childcare facilities up to three years, the conditions for financial support for the drawing of EU financial resources for the 2014-2020 programming period were prepared. During 2018, calls for support for these facilities with a financial allocation of EUR 13.5 mill. were announced. By June 2018, calls were made to promote flexible forms of childcare and flexible jobs with a total financial allocation of EUR 13.3 million. After expansion of kindergartens from the resources of the Ministry of Education⁶⁰ another 158 projects were approved in 2017 in a total volume of EUR 43 million, which should create 4,780 new places in kindergartens.

Several projects and measures are being implemented to support the integration of marginalized Roma communities (MRCs). Improving the inclusion of children from a socially disadvantaged environment remains a priority. In the years 2017 and 2018, 81 projects for the building and reconstruction of kindergartens were supported in the municipalities where a Roma settlement is located. In the course of 2018, the national project *Promoting pre-primary education of children from marginalized Roma communities I.* was prepared. The implementation of the national project *School open to all* and the project call *Successful in the Elementary School* is continuing. Their common goal is to increase inclusiveness and equal access to quality education and to improve the outcomes and competencies of socially and healthily disadvantaged children, including children from MRCs. Between 2018 and 2019, a total of 279 health education assistants in over 300 villages in all regions of Slovakia are planned through the *Healthy Community* project. In 2018, municipalities and towns were contracted as part of a project to support the settlement of land in municipalities with MRCs.

The government has increased social contributions to the care of people with severe health disabilities. The amendment approved in June significantly increases the care allowance especially for people of working age and the personal assistance allowance.⁶¹

The main challenges identified in the first round of the health care spending review⁶² represent cost effectiveness, quality and availability of health care. The results of the Slovak health care system do not correspond to its expenses. In Slovakia, there are annually 250 avoidable deaths per 100,000 inhabitants, while the average of other V4 countries is 205 avoidable deaths per year. The spending review has so far been able to reduce expenditure by 108 mill. EUR per year without negative impact on patient health⁶³. Since 2018, some *eHealth* features have been fully operational and the DRG has been launched with a five-year convergence process of individual rates of individual hospitals to a single nationwide rate. Gradually, a fixed network of emergencies is

⁶⁰ Of the EUR 14.5 million allocated in the education sector, the capacity of kindergartens by 204 new classes (out of 227 planned) was extended by the end of 2017 and 19 classes were maintained in operation (e.g. by reconstruction, emergency response, out of 22 planned).

⁶¹ The amendment is effective from July 2018.

⁶² [Revision of healthcare expenditure](#) from 2016.

⁶³ Savings on the expenditure planned for 2018 amounted to 190 million EUR according to GG budget for the years 2018 - 2020.



being established in the health care facilities of institutional health care. The additional resources in the 2019 budget will be used in particular to increase the wages of nurses and health care staff, technical renewal and reconstruction of buildings.

In 2018, the Ministry of Health presented the concept of hospital stratification, which aims to improve the quality of provided health care by 2030. One of the measures is that hospitals would be allowed to provide specialized care only if they could accommodate at least the predefined minimum number of medical procedures of a certain type. In addition to quality, the department plans to streamline the entire hospital network without adversely affecting the accessibility for patients in the regions. This might allow for more efficient reallocation of personnel capacities or medical and operational resources for other tasks.

By the end of 2018, the interim report of the second health care expenditure review is planned to be published. It proposes changes to the funding of the health care system as well as it defines new targets and objectives in the field of preventive health care. Changes to the system of budget drafting will allow for better tracking of the overall health care expenditure. In comparison to the current practice, when an arbitrary contribution for state insurers is defined, this allows for a discussion about the real needs of the sector funding and reduces the impact of the economic cycle. Higher value for money in the sector might be achieved using program budgeting for public health insurance. In 2019, another 139 million can be saved by reducing the over-consumption of drugs due to using e-prescriptions (30 million EUR), due to a revision of payments of categorized drugs (50 million EUR) and the optimization of processes in hospitals. At the same time, a list of standard diagnostic and therapeutic procedures will be developed and implemented.

Proposed changes in determining retirement age will lead to higher pension expenditures. Since January 2019, retirement age will be determined five years in advance and will be rounded to a whole month. The predictability of pension entitlement age will thus improve for people in pre-retirement age. However, this change will bring an average annual increase in expenditure by 0.13% of GDP in the period of highest pension expenditures (2061-2070). A higher impact on public finances will arise if the cap on retirement age is introduced. The maximum retirement age is proposed to be constitutionally guaranteed at 64 years. For those who have raised at least one child, maximum retirement age is proposed to be below the general cap. The introduction of the retirement age cap would worsen the S2 public finances sustainability indicator by 1.3 p.p., which means an increase of the indicator to 3.9% of GDP.

Despite the improvements in the European Commission's report *EU Justice Scoreboard 2018*⁶⁴, the length and clearance ratio of court procedures, low trust in the judiciary and a large number of pending distraintment cases remain the main challenges. Attention in the judiciary will be focused on solving the problem of old distraint proceedings, which slow down processes in the courts. To implement the conclusions and recommendations of the Report on the State of Justice (European Commission CEPEJ 2017⁶⁵) an action plan with proposed measures will be prepared by the Ministry of Justice.

Several measures will contribute to reducing the administrative burden on the business environment. Support for electronic and automated communication with financial administration will be enhanced, better regulation measures will be implemented and optimization of other business register services will be carried out. The Ministry of Economy is already preparing the third package of measures⁶⁶, which will reduce the administrative burden on entrepreneurs and simplify business in Slovakia. In June 2018, the government approved the *Draft Economic Policy Strategy by 2030*, identifying measures in key areas to promote competitive, sustainable and green economic growth. A first action plan with measures will be drawn up in 2019.

⁶⁴ EU Justice Scoreboard 2018.

⁶⁵ Report on the state of justice (CEPEJ).

⁶⁶ First package was approved by the government in June 2017, the second in May 2018.



The most important environmental challenges in Slovakia include air quality, waste management and forestry issues. These areas also focus on measures identified in the spending review of environment⁶⁷. *Strategic Environmental Policy of the SR until 2030*, which will be submitted to the Government of Slovakia for approval by the end of 2018, sets measurable targets and proposes system solutions for the biggest environmental challenges of Slovakia, mainly air quality, waste and forests. The amendment to the Waste Disposal Act effective from January 2019 will contribute to lower landfilling and higher recycling. The amount paid by municipalities for the landfill of mixed waste will depend on the level of the waste separation.

⁶⁷ [Expenditure Review on Environment](#) (Final Report, July 2017).

ANNEXES

Annex 1 - Structural balance

The structural balance represents the difference between general government revenue and expenditure excluding one-off and temporary effects, and assuming that the economy is at its potential level. Despite the use of several unobserved variables for its calculation, the structural balance more faithfully shows the country's medium-term fiscal position as compared to the nominal balance.

The Stability and Growth Pact is based on the premise that Member States should achieve a symmetrical approach to fiscal policy in line with the cyclical development of the economy. The main objective is to increase the focus on budgetary discipline in times of economic recovery, in order to avoid the pro-cyclical nature of fiscal policy and gradually achieve its medium-term budgetary objective. As a result of this behavior, so called pillow should be created for periods with an economic decrease, at the same time reducing the public debt at a reasonable pace and positively influencing the long-term sustainability of public finances.

The following matrix clarifies and specifies the requirements of the Stability and Growth Pact for fiscal consolidation within its preventive part. This matrix is symmetrical and distinguishes between the greater consolidation efforts to be made at better times and lesser efforts being made in difficult economic conditions.

	Condition	Required y/y consolidation	
		Debt under 60% and no sustainability risk	Debt above 60% or sustainability risk
Exceptionally severe period	Real GDP growth < 0 or output gap < -4	Without requirement for consolidation	
Very severe period	$-4 \leq \text{output gap (OG)} < -3$	0	0.25
Severe period	$-3 \leq \text{output gap (OG)} < -1.5$	0 in the event of opening OG, 0.25 in the event of closing OG,	0.25 in the event of opening OG, 0.5 in the event of closing OG,
Normal period	$-1.5 \leq \text{output gap (OG)} < 1.5$	0.5	> 0.5
Good period	output gap (OG) ≥ 1.5	> 0.5 in the event of opening OG, ≥ 0.75 in the event of closing OG	≥ 0.75 in the event of opening OG, ≥ 1 in the event of closing OG

The assessment of compliance with the structural balance and the expenditure rule is assessed on the basis of the one-year and two-year deviation indicated in% of GDP. One-off deviation with a limit of -0.5% of GDP and a two-year deviation, with a limit of -0.25% of GDP.

Calculation of the structural balance

In the first step, the nominal general government balance is settled by the cyclical component of the impact of economic fluctuations (estimated by the production gap, i.e. the difference between actual and potential GDP level). Estimation of the production gap is based on the current macroeconomic forecast of the Ministry of Finance SR from September 2018 (more BOX 1). Estimating the sensitivity of the general government balance to changes in the production gap based on the OECD methodology⁶⁸ will be taken over by the Ministry of Finance of the Slovak Republic in full from the EC. In the next step, the adjusted balance is settled for the so called effect of the one-off and temporary measures whose fiscal impact is not repeated in the following years. For the needs of the draft

⁶⁸ The original methodology was presented in Girouard, N., André, Ch. (2005): Measuring cyclically-adjusted budget balances for OECD countries. In 2014, the process of updating the methodology and the inclusion of new data for calculating elasticity took place. The methodology was approved by the Member States in September 2014.



budgetary plan, the Ministry of Finance of the Slovak Republic proceeds to their identification in accordance with the EC methodology.

Methodology of the European Commission (EC)⁶⁹ characterizes a one-off measure as a temporary measure which is of a non-permanent nature and has arisen independently of government decisions. The EC has established a one-off action classification directive:

1. **Principle:** Only a temporary, unrepeatable impact on revenue or GG costs can be classified as a one-off impact.
2. **Principle:** Are one-off measurement may not be imposed by law or autonomous government decision.
3. **Principle:** Components of high volatility revenues or expenditures should not be considered as one-off effects. In order to smooth the time series, the cyclic component is used in the SB calculation.
4. **Principle:** Governmental aware decisions that lead to an increase in the deficit can not be classified as one-off effects.
5. **Principle:** Only measures with a stronger impact on the budget of the GG (higher than 0.05% of GDP) should be considered as one-off.

All typical one-off measures are described in Chapter 3.3 (Report of Public Finances in EMU⁷⁰). In addition, the EC has identified specific exceptions and procedures for them, where a one-off measure can also be considered as an impact that violates the above principles, but these cases are also covered by this chapter.

TABLE 15 - One-off and temporary measures (ESA 2010, EUR million)

	2016	2017	2018	2019	2020	2021
Correction of the contribution to EU budget	-35	-	-	-	-	-
TOTAL	-35	0	0	0	0	0

(+) positive impact on headline balance, (-)negative impact on headline balance

Source: MoF

In spite of breach of the 5 th principle (influence rule above 0,05% of GDP), the EC considers the contribution correction to the EU budget as a one-off measure considering the horizontal character (applicable to all countries).

- Correction of the contribution to the EU budget

⁶⁹ Vade Mecum on the Stability and Growth Pact – 2016 Edition – Guiding principles str.28.

⁷⁰ Report on Public Finances in EMU, December 2015.

Annex 2 – Expenditure rule

The revised Stability and Growth Pact introduced an expenditure rule as an additional tool for analyzing the fiscal position of the country. It expresses the year-on-year growth of expenditure aggregate netted by revenue measures, which in comparison with reference value of allowed expenditure growth will enable progress to be assessed in fiscal consolidation as in the case of the structural balance development.

According to the expenditure rule, real general government expenditure should not grow faster than the average potential growth of the economy. These expenditures can grow at a higher rate only when additional revenue measures are implemented, which are confirmed by the quantification of an independent Committee (we are talking about discretionary measures)⁷¹. For those countries that have reached their MTO, expenditure growth can accurately duplicate the potential of the economy. For those countries that have not yet reached the MTO, the pace of expenditure growth must also reflect the fiscal consolidation needed to achieve it. In this case, the potential growth rate of the economy is corrected by the necessary consolidation effort.

Expenditure development is settled by factors outside the government's control. These are interest expenditure, changes in expenditure on unemployment benefits resulting from the current economic cycle and expenditure financed by EU funds. Given the high volatility of government investment, their level is flattening to the average level for the current and the three previous years⁷². The nominal growth of such adjusted expenditures is converted to real growth via the GDP deflator to make it comparable to the expenditure rule.

Comparison of the year-on-year development of the expenditure aggregate with the expenditure rule shows that expenditure growth was exceeded in 2018. When assessing the compliance of expenditures with the expenditure rule, account is taken of the deviations in two horizons, expressed as a percentage of GDP. **The one-year deviation (the difference between the expenditure aggregate and the expenditure rule calculated as % of GDP) is observed, with a limit of -0.5% of GDP and the two-year deviation (the average of the current and previous deviations), which is heightened due to lower volatility and dependence on current year, with a limit of -0.25% of GDP.** If the deviation is at a worse level than the specified limit, this is a significant discrepancy with the expenditure rule and it is approaching the overall assessment of the fiscal position.

TABLE 16 – Expenditure rule

		2017	2018	2019	2020	2021
1. Total expenditures	mil. eur	34 103	35 931	37 258	39 745	40 858
2. Interest cost	mil. eur	1 186	1 129	1 125	1 095	1 112
3. Expenditures covered by EU (capital)	mil. eur	440	476	23	300	298
3a. Expenditures covered by EU sources (total)	mil. eur	632	671	298	1 270	1 249
4. Capital expenditures covered by national sources	mil. eur	2 259	2 379	2 289	2 266	2 629
5. Smoothed capital expenditures (national sources 4-year moving average)	mil. eur	2 252	2 334	2 255	2 298	2 391
6. Cyclical expenditures on unemployment benefits	mil. eur	-1	-6	-14	-15	-15
7. Expenditures fully covered by the automatic increase in revenues	mil. eur	0	0	0	0	0
8. Primary expenditure aggregate (1-2-3a-4+5-6-7)	mil. eur	32 280	34 092	35 814	37 428	38 275
9. Y/y change of primary expenditure aggregate (8t-8t-1)	mil. eur	761	1 812	1 723	1 613	848
10. Change in revenues due to discretionary revenue measures	mil. eur	326	-52	289	27	-190
11. One-off measures on the revenue side	mil. eur	0	0	0	0	0
12. One-off measures on the expenditure side	mil. eur	0	0	0	0	0
13. Methodological adjustments	mil. eur	0	-187	0	0	0

⁷¹ Positive cyclical revenues at the time of the conjuncture (unrealized through discretionary measures) allow expenditure to rise above the potential of the economy. The expenditure rule monitors this undesired fiscal impact as the temporary increase in revenue from unrealized measures should be used to achieve the MTO.

⁷² Vade Mecum on Stability and Growth Pact, page 30.



14. Nominal growth of expenditure aggregate adjusted for revenue measures $((9t-10t)/8t-1)$	%	1,4	5,2	4,2	4,4	2,8
15. Real growth of expenditure aggregate adjusted for revenue measures	%	0,2	3,6	2,3	1,9	0,3
16. Expenditure benchmark (reduced reference rate of the GDP potential growth)	p.p.	1,3	1,3	2,3	3,0	3,2
17. Deviation from the expenditure benchmark (16-15)	p.p.	1,1	-2,3	0,0	1,1	2,9
One-year deviation from the expenditure benchmark	% GDP	0,0	-0,8	0,0	0,4	1,0
Two-year deviation from the expenditure benchmark	% GDP	0,1	-0,4	-0,4	0,2	0,7
<i>p. m. GDP deflator</i>	%	1,2	1,5	1,9	2,5	2,5
Deviation limit on 1y horizon		-0,5	-0,5	-0,5	-0,5	-0,5
Deviation limit on 2y horizon		-0,25	-0,25	-0,25	-0,25	-0,25

Source: MoF



Annex 3 - Discretionary revenue measures (DRM)

The EC methodology defines discretionary revenue measures as measures of a legislative nature with an impact on general government revenues. Their evaluation is carried out by means of the so called additional (marginal) changes to these measures. It is distinguished whether it is a permanent or one-off measure. The permanent measure shall be recorded with impact in the first year (at the time of entry into force) and in the remaining years without impact. In other words, the change in the impact of the measure in the coming years due to macroeconomic developments is not taken into account. If there is a difference in impact due to the shifted force of measure, only a marginal change is recorded.⁷³ For one-off revenue measures, the impact is recorded in one year and in the next drop in the same amount, i.e. the overall impact of the measure in two consecutive years is zero.

TABLE 17 - Discretionary measures - year-on-year impacts of measures (EUR million, ESA2010)

Item	2017	2018	2019	2020	2021
Decrease in the bank levy rate from 2015, planned to be revoked from 2017	-50				
HIC allowance was introduced	21	17	14	12	10
Changes in HIC allowance applications		32	-3	-3	-2
Increase in the number of cigarettes in a pack	1				
Taxation of cigars and cigarillos depending on the weight	6				
Corporate income tax - rate reduction to 21%	-121				
Increase in the compensation for services (EOSA)			37		
Doubling of levy rate in regulated sectors in 2017, amending conditions and calculation and a decrease in 2019 and a further decrease of the rate in 2021	62		-39		-23
Increase in the excise duty on tobacco products from Feb 2017 and Feb 2019	30	3	36		
Bank levy rate kept at 0.2%	50				
Abolition of special levy in 2021					-128
Abolition of healthcare contributions due from dividends		-6			
Taxation of dividends - 7% withholding tax rate		44			
Interest on retained VAT excess credit, more efficient tax administration	3				
Exemption from the corporate income tax for the income of the Resolution Council	-5				
Lump-sum expenditures - 60% max. EUR 20 thousand	-34				
Abolition of the MAB for health insurance contribution	97				
Increase in the MAB for social insurance contributions	70				
Abolition of minimum CIT (tax license)		-115			
Increase in the real estate tax rate	6				
Non-life insurance - an 8% levy on a new non-life insurance contracts. - abolition of 8% levy on a new non-life insurance contracts and introduction of insurance premium tax	16	14	-31		
Fee for development	3				
Higher revenues from gambling (change in contributions)	10				
Increase in the social insurance contribution to the second pillar (automatic from 2017 by 0.25 p.p./year)	-28	-32	-40	-40	-46
Increased deduction of the cost of research and development		-9			
Introduction of separate depreciation of technical upgrade		0	-1		
Introduction of tax allowance on spa care		-2			
Introduction of gambling licenses and other changes in gambling taxation			12	3	
Extension and modification of initial levy to an excise duty on insurance premiums			74		
SIC allowance for employee retirement agreements		-9	-10		
Introduction of 13th and 14th salary		-2	-36	-15	-58
Abolition of tax HIC allowance for employers		20	66	-8	-7
Exemption from income taxation from the sale of ownership shares			-5	-23	
Reduction of the buildings depreciation period from 40 to 20 years		-3			
Exemption of ad receipts taxation for non profit organizations		-1			
Tax settlement from social contributions					59
Fee for waste management			10	12	6
Home distilling			-4		
Special levy for retail sector			119		
Nanomarkers and eKasa			90	90	
Reduction of the buildings depreciation period from 40 to 20 years from 2018 for the spa sector		-3			
Change of VAT collection efficiency	189				
Total	326	-52	289	27	-190

⁷³ An illustrative example of the DRM explanation can be a legislative measure with an estimated impact of 200. The measure was introduced in the middle of the year, i.e. its total impact in a given year is 100. In the next year, the impact on the total 200 will increase, but marginally only the difference of the two influences is recorded, i.e. 100. Cumulatively is the total impact of 200, but it is spread over two years.

Annex 4 - Committees on macroeconomic and tax forecasts

The draft budgetary plan for 2019-2021 is based on the macroeconomic and tax forecasts on the horizon of the 2019-2021 period from September 2018. The macroeconomic scenario as well as the projected tax revenues are subject to ongoing discussion, approval and control by the professional public through committees whose members are national public and private sector experts. Terms for disclosure of forecasts and the principles of committees' work are anchored in the Budgetary Responsibility Act.

After the Macroeconomic Forecast Committee meeting in September 2018, the six members rated the MoF's medium-term macroeconomic forecast as realistic and two as optimistic.

TABLE 18 - Evaluation of the February MoF forecast in the Macroeconomic Forecast Committee

Committee member	Forecast characteristics
NBS, Infostat, UNICREDIT Bank, SLSP, ČSOB, SAV	realistic
VÚB, Tatrabanka	optimistic

Source: Výbor pre makroekonomické prognózy

TABLE 19 - Average forecast of Committee members * (excluding MoF) and MoF forecast

in %, if not shown otherwise	2017	2018		2019		2020		2021	
		Com mittee	MoF	Výbor	MoF	Commit tee	MoFS R	Com mittee	MoF
Gross domestic product, real growth	3,4	4,0	4,1	4,0	4,5	3,8	3,9	3,2	3,3
Gross domestic product in current prices; EUR bn	85,0	90,5	90,5	96,3	96,9	101,9	103,2	107,8	109,3
Final consumption of households; real growth	3,7	3,1	3,0	3,2	3,2	2,7	2,8	2,5	2,4
Final consumption of households; nominal growth	5,1	5,7	5,6	5,6	5,8	5,2	5,4	4,9	5,0
Average monthly wage; real growth	3,3	3,6	3,6	3,5	3,7	3,1	3,6	2,8	2,9
Average monthly wage; nominal growth	4,6	6,2	6,2	5,9	6,3	5,4	6,2	5,2	5,4
Employment rate growth (statistical reporting)	1,8	1,8	1,9	1,1	1,1	0,9	0,9	0,6	0,7
Consumer price index; average growth; CPI	1,3	2,6	2,5	2,4	2,5	2,3	2,5	2,2	2,5
Current account balance; percentage of GDP	-2,1	-1,7	-2,2	-0,5	-1,5	0,0	-0,8	0,1	-0,4

* Macroeconomic committee

Source: Macroeconomic committee

Tax Forecast Committee

At the meeting of the Tax Forecast Committee in September 2018, the Ministry of Finance presented its updated mid-term forecast of tax revenues for the years 2018 to 2021. The medium-term forecast of tax revenues and social contributions of the Ministry of Finance was designated by all members of the Committee as **realistic**.

TABLE 20 - Evaluation of the MoF forecast in the Tax Forecast Committee

Committee member	Forecast characteristics
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank	realistic



Annex 5 - Mandate for revision of expenditure on culture

The expenditure revision on culture in the amount of 0.54% of GDP (EUR 434.9 million⁷⁴) will examine public expenditure on cultural policy, including the expenditure of associated sectoral organizations. The aim of the revision is to evaluate the effectiveness of these expenditures with an emphasis on achieving better results.

Objective Result

The mission of culture is to humanize, cultivate and aesthetize life, develop creativity and originality in people, and co-create national, national minority or local identity. The main objective of cultural policies is to increase the accessibility, inclusion and diversity of culture, to protect tangible and intangible cultural heritage, to develop the cultural sector and the creative economy. The government aims to promote increasing participation of the population in cultural activities and increasing the level of services in culture. The government considers the cultural and creative industry to be a cross-cutting cultural and economic sector with significant economic and growth potential. Culture is not perceived as a "superstructure" that consumes social resources but as a catalyst for sustainable and long-term economic development.

TABLE 21 - Result indicators for culture⁷⁵

			2012	2013	2014	2015	2016	2017
Employment in culture and creative industry (% of total employment)	SK		2,60 %	2,20 %	2,60 %	2,50 %	2,50 %	
	EÚ		3,80 %	3,80 %	3,70 %	3,70 %	3,70 %	
Podiel kreatívneho priemyslu na HDP		SK						
		EÚ						
Participation in cultural events (% od population above 16 years)	cinema	SK				35,10 %		
		EÚ				45,90 %		
	live performance (teatre, concert, ballet)	SK				40,30 %		
		EÚ				42,80 %		
	museum, gallery, sights	SK				33,70 %		
		EÚ				43,40 %		
	total (any event)	SK				59,40 %		
EÚ					63,70 %			
Total visits (thousands)	museums	SK	3 517	3 531	3 557	3 244	3 697	4 064
	galleries	SK	387	964	490	375	428	439
	theatre	SK	1 466	1 306	1 991	1 521	1 538	1 538

Source: Eurostat and Ministry of Culture

Fiscal targets

The role of the revision will be the assessment of the expenditure of the MC SR with the emphasis on better efficiency of current expenditures and an analysis of the economic benefits and costs of the planned investments while maintaining the budgeted level of expenditure. It will be proposed to reallocate the expenditure for the programs with the highest efficiency within each area and program. Expenditure on projects implemented from EU funds in the programming period 2014-2020 should be equally down by 2020.

Areas of revision

⁷⁴ The amount refers to state budget expenditures on culture according to the functional classification of COFOG (08.2, 08.3, 08.4). Expenditure covers all chapters, not only the MC SR. This is an estimate of the average expenditure on culture for the years 2018-2020 according to the budget of the general government for the years 2018 to 2020, which was approved by the National Council of the Slovak Republic.

⁷⁵ According to the Council of Europe report* (available at: http://www.governancereport.org/ifcd/downloads/IFCD_Guidebook_v1_Oct2016.pdf) the rate of participation in culture strongly correlates with the indicators of tolerance and the level of social trust that are a prerequisite for a humane and inclusive society. Therefore, we consider the Participation and Attendance Indicators in Table 1 to be a substitute variable for the set goals. The values of some indicators will be identified during the revision of the expenditure.



The most important area of the revision will be the effectiveness of cultural policy tools including the cultural infrastructure network (the Slovak National Theater, the Slovak National Gallery, the Slovak National Museum, Slovak Radio and Television, the Slovak National Library, the University Library in Bratislava and the Monument Boards Office) and the largest subsidy funds (MC SR subsidies, the Audiovisual Fund, the Arts Support Fund, and the National Minority Culture Fund). The revision will also focus on the effectiveness of the MC SR and its subordinate organizations. There are 30 organizations under the Ministry of Culture with a total number of approximately 4,5 thousand employees.

Responsibilities and deadlines

The Ministry of Finance is responsible for the interim and final report, which is elaborated in co-operation with the Ministry of Culture. For the purposes of analyzing the above-mentioned areas, the Ministry of Culture and the Ministry of Finance commit themselves to cooperating in providing complete and detailed data and information. The interim report will be drafted and published by the end of October 2019, the final report will be drafted and published by the end of March 2020.



Annex 6 - The required tables

Table 0i - Basic assumptions

	2017	2018	2019
Short-term interest rate (annual average)	-0,3	-0,3	-0,2
Long-term interest rate (annual average)	1,0	1,0	1,3
Exchange rate USD/EUR (average)	1,1	1,2	1,2
World GDP growth	0,9	0,7	0,5
Nominal effective exchange rate (change in %)	n/a	n/a	n/a
EU GDP growth	2,6	2,1	2,0
GDP growth of relevant foreign markets	3,4	2,8	2,5
World imports growth in constant prices excl. EU	n/a	n/a	n/a
Oil price (Brent, USD/barrel)	48,6	60,8	59,1

Source: MoF

Table 0ii - Key assumptions

	2017	2018	2019
1. External environment			
Oil price (EUR)	48,6	60,8	59,1
2. Fiscal policy			
Net lending/net borrowing of the general government	-0,8	-0,6	-0,1
Gross debt of the general government	50,9	48,7	47,3
3. Monetary policy, financial sector			
Interest rates:			
Euribor 3M (average)	-0,3	-0,3	-0,2
Deposits	0,3	0,2	0,2
Yield from 10-year Slovak government bonds (average)	1,0	1,0	1,3
Balance of deposits (growth)	5,3	5,6	6,7
4. Demographic trends			
Economic-active population (growth)	-0,8	-0,7	-0,7
Total dependency ratio	45,2	46,6	47,9

Source: MoF

Table 1.a – Macroeconomic overview

	ESA code	2017 Actual	2017 growth rate	2018 growth rate	2019 growth rate
1. Real GDP	B1*g	81,7	3,4	4,1	4,5
thereof					
1.1 estimated impact of aggregate budgetary measures on economic growth		-	-	-	0,6
2. Potential GDP		81,6	3,0	3,6	3,8
contributions:					
- labour		-	0,5	0,4	0,3
- capital		-	0,6	0,9	0,9
- total productivity of factors		-	1,9	2,3	2,7
3. Nominal GDP	B1*g	85,0	4,7	6,4	7,1
	Components of real GDP				
3. Final consumption of households and NISD	P.3	42,3	3,6	2,9	3,2



4. Final general government consumption	P.3	14,7	0,2	1,8	1,5
5. Gross fixed capital generation	P.51g	17,7	3,2	9,6	3,1
6. Change in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		1,2	0,7	0,8
7. Exports of products and services	P.6	82,5	4,3	6,8	7,9
8. Imports of products and services	P.7	76,4	3,9	6,6	6,8
Contributions to real growth of GDP					
9. Total local demand		-	2,5	3,4	2,8
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	-0,1	-0,5	0,2
11. External balance of products and services	B.11	-	0,6	0,6	1,7

Source: MoF

Table 1.b – Price development

ESA code	2017	2017	2018	2019
	Actual	growth rate	growth rate	growth rate
1. GDP deflator	1,0	1,3	2,3	2,5
2. Private consumption deflator	1,1	1,4	2,6	2,5
3. HICP	100,9	1,4	2,6	2,5
4. Public consumption deflator	1,1	3,2	3,6	3,8
5. Investment deflator	1,0	1,5	2,8	2,6
6. Export price deflator (goods and services)	1,0	2,2	2,1	2,5
7. Import price deflator (goods and services)	1,0	2,7	2,4	2,8

Source: MoF

Table 1c - Labour market indicators

ESA code	2017	2017	2018	2019	
	Actual	growth rate	growth rate	growth rate	
1. Employment, persons (thousands) [1]	2 372	2,2	2,0	1,1	
2. Hours worked (mil.) [2]	4 066	0,7	2,0	1,1	
3. Unemployment rate (%) [3]		8,1	6,9	6,4	
4. Labour productivity, per person (EUR) [4]	34,450	1,2	2,1	3,3	
5. Labour productivity, per hour (EUR) [5]	20	2,7	2,1	3,3	
6. Compensation for employees (EUR mil.)	D.1	34 070	6,8	8,7	7,5
7. Compensation per employee (EUR)		16 613	4,0	6,3	6,2

[1] Occupied population, domestic concept national accounts definition

Source: MoF

[2] National accounts definition

[3] Harmonised definition, Eurostat; levels

[4] Real GDP per person employed

[5] Real GDP per hour worked

Table 1.d - Sectoral balances (ESA 2010, % GDP)

ESA code	2017	2018	2019	
1. Net lending to/net borrowing from rest of the world	B.9	-1,2	-0,6	0,1
thereof:				
- Goods and services		1,7	1,7	2,5
- Primary income and transfers		-3,8	-3,9	-4,0
- Capital account		0,9	1,6	1,6
2. Net lending to/net borrowing from other sectors	B.9	-0,4	-0,5	0,1
3. Net lending/net borrowing of the general government	B.9	-0,8	-0,1	0,0
4. Statistical discrepancy		0,0	0,0	0,0

Source: MoF



Table 2.a: Development of the general government budget (% GDP)

Net lending /borrowing (EDP B.9) general government subsectors	ESA code	2018 % HDP	2019 % HDP
1. General government	S.13	-0,6	-0,1
2. Central government	S.1311	-1,2	-0,7
3. Regional state government	S.1312	n/a	n/a
4. Local state government	S.1313	0,2	0,4
5. Social security funds	S.1314	0,3	0,2
6. Interest cost	D.41	1,3	1,2
7. General government primary balance (1+6)		0,6	1,1
8. One-off and temporary effects		0,0	0,0
9. Real GDP growth (%)		4,1	4,5
10. Potential GDP growth (%)		3,6	3,8
contributions:		3,6	3,8
- labour		0,4	0,3
- capital		0,9	0,9
- total productivity of factors		2,3	2,7
11. Output gap (% of potential GDP)		0,6	1,2
12. Cyclical component (% of potential GDP)		0,2	0,5
13. Cyclically-adjusted balance (1-12) (% of potential GDP)		-0,8	-0,6
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)		0,4	0,6
15. Structural (13-8) (% of potential GDP)		-0,8	-0,6

[1] Adjusted for swap-related net flows so that TR-TE=EDP B.9.

Source: MoF

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures of the general government.

[4] Including those collected by the EU

Table 2.b: Development of the general government debt (% GDP)

	ESA code	2018	2019
1. Gross debt ¹		48,7	47,3
2. Change in gross debt		-2,3	-1,4
Contributions to change in gross debt			
3. Primary balance		-0,6	-1,1
4. Interest cost	D.41	1,3	1,2
5. Stock-flow adjustment		0,2	1,7
Differences between cash and accruals		-0,1	1,2
- Net accumulation of financial assets		0,2	0,6
thereof: privatisation proceeds		0,0	0,0
- Valuation effects and other		0,0	-0,1
p.m. Implicit interest rate		2,6	2,6
Other relevant factors			
6. Liquid financial assets		5,3	5,6
7. Net financial debt (1-6)		43,4	41,7
8. Debt amortization (existing bonds) since the end of the previous year		3,0	2,8
9. Percentage of debt denominated in foreign currency		3,7	2,2
10. Average maturity*		9,1	9,8

Note: *maturity of the government debt at the end of the year

Source: MoF



Table 2.c: Contingent liabilities (% GDP)

	2016	2017	2018
Public guarantees	15,9	16,3	n/a
thereof: connected with EFSF and ESM	9,0	8,9	n/a

Source: MoF

Table 3: General government expenditure and revenue projections according to the no-policy-change scenario (breakdown by components)

General government (S13)	ESA code	2018 % GDP	2019 NPC % GDP	2018 EUR mil.	2019 NPC EUR mil.
1. Total revenue	TR	39,2	37,8	35 388	36 524
thereof		-	-	-	-
1.1. Taxes on production and imports	D.2	11,1	10,8	10 020	10 477
1.2. Current taxes on income, wealth, etc.	D.5	7,3	7,3	6 595	7 020
1.3. Capital taxes	D.91	-	-	-	-
1.4. Social security contributions	D.61	15,0	14,4	13 508	13 933
1.5. Property income	D.4	0,5	0,6	426	585
1.6. Other ¹		5,4	4,7	4 838	4 509
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		33,4	32,5	30 124	31 430
2. Total expenditures	TE	39,8	37,6	35 931	36 382
thereof		-	-	-	-
2.1. Compensation for employees	D.1	9,1	8,8	8 226	8 497
2.2. Intermediate consumption	P.2	5,5	5,4	4 941	5 238
2.3. Total social transfers	D.62, D.632	18,2	17,3	16 404	16 771
thereof: unemployment benefits		0,2	0,2	170	165
2.4. Interest cost	D.41	1,3	1,2	1 129	1 125
2.5. Subsidies	D.3	0,4	0,4	352	431
2.6. Gross fixed capital generation	P.51	3,2	2,4	2 855	2 313
2.7. Capital transfers	D.9	0,6	0,1	506	142
2.8. Other ²		1,7	1,9	1 518	1 865

Note: Data for 2016 express expected actual results

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (excl. D.91r)

[2] D.29p + D.4p (okrem D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.

Source: MoF

Table 4.a: General government expenditure and revenue targets (breakdown by components)

General government (S13)	ESA code	2018 % GDP	2019 % GDP	2018 EUR mil.	2019 EUR mil.
1. Total revenues	TR	39,2	38,4	35 388	37 161
thereof		-	-	-	-
1.1. Taxes on production and imports	D.2	11,1	11,0	10 020	10 666
1.2. Current taxes on income, wealth, etc.	D.5	7,3	7,4	6 595	7 116
1.3. Capital taxes	D.91	0,0	0,0	0	0
1.4. Social security contributions	D.61	15,0	14,5	13 508	13 998
1.5. Property income	D.4	0,5	0,6	426	585
1.6. Other [1]		5,4	5,0	4 838	4 796
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		33,4	32,9	30 124	31 781
2. Total expenditures	TE	39,8	38,5	35 931	37 258
thereof		-	-	-	-
2.1. Compensation for employees	D.1	9,1	9,2	8 226	8 900



2.2. Intermediate consumption	P.2	5,5	5,6	4 941	5 435
2.3. Total social transfers	D.62, D.632	18,2	17,4	16 404	16 849
thereof: unemployment benefits		0,2	0,2	170	165
2.4. Interest cost	D.41	1,3	1,2	1 129	1 125
2.5. Subsidies	D.3	0,4	0,5	352	455
2.6. Gross fixed capital generation	P.51	3,2	2,4	2 855	2 312
2.7. Capital transfers	D.9	0,6	0,2	506	194
2.8. Other [2]		1,7	2,1	1 518	1 989

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (okrem D.91r)

Source: MoF

[2] D.29p + D.4p (excl. D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.

Note: Data for 2016 express expected actual results.

Table 4.b: Amounts to be excluded from the expenditure benchmark

	2017	2017	2018	2019
	EUR mil.	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	632	0,7	0,7	0,3
1.a. thereof investments fully matched by EU funds revenue	440	0,5	0,5	0,0
2. Cyclical unemployment benefit expenditure	-1	0,0	0,0	0,0
3. Effect of discretionary revenue measures	326	0,4	-0,1	0,3
4. Revenue increases mandated by law	0	0	0	0

Source: MoF

Table 4.c.i): General government expenditure on education, healthcare and employment

	2018		2019	
	% GDP	% TGE	% GDP	% TGE
Education	4,0	10,1	4,1	10,7
Healthcare system	7,2	18,1	7,2	18,6
Employment	0,1	0,2	0,1	0,1

Note: TGGE - Total general government expenditures

Source: MoF

Table 4.c.ii): General government expenditures according to the COFOG classification

Functions	COFOG code	2018		2019	
		% GDP	% TGE	% GDP	% TGE
1. General public services	1	5,1	12,8	4,8	12,5
2. Defence	2	1,2	2,9	1,2	3,1
3. Public order and safety	3	2,2	5,4	2,0	5,3
4. Economic area	4	3,9	9,7	4,0	10,3
5. Environmental protection	5	0,7	1,7	0,6	1,6
6. Housing and amenities	6	0,5	1,3	0,4	1,0
7. Healthcare system	7	7,2	18,1	7,2	18,6
8. Recreation, culture and religion	8	1,1	2,9	0,9	2,4
9. Education	9	4,0	10,1	4,1	10,7
10. Social security	10	13,9	35,0	13,3	34,6
Total expenditures	TE	39,8	100,0	38,5	100,0

Note: TGGE – Total general government expenditure The methodology of recording expenditures based on functional classification can vary between individual countries As a result, different data can enter into the same category in different countries (e.g. taxed and non-taxed pensions).

Source: MoF

COFOG classification also doesn't take into account expenditure realized through the tax system (e.g. tax benefits).



Table 5.a: Effect of legislative measure on tax and social contributions revenue of the GG (% GDP, ESA 2010)

Revenues	Sector	ESA2010	2018	2019	2020
Total tax revenues	S. 13		0,30	0,34	0,33
Taxes on production and imports	S. 13	D.2	0,20	0,28	0,27
Home distillery			0,00	0,00	0,00
Licenses in gambling and gambling taxation			0,01	0,01	0,01
Insurance premium tax			0,06	0,05	0,05
Nanomarkers + eKasa			0,09	0,17	0,17
Increased fee for provided services (EOSA)			0,04	0,04	0,03
Current taxes on income and wealth	S. 13	D.5	0,10	0,07	0,05
13th and 14th wage introduction			-0,02	-0,02	-0,03
Exemption of income from the sale of shares and business shares			-0,01	-0,03	-0,03
Levy from retail (grocery)			0,12	0,12	0,11
Net social contributions	S. 13	D.61	0,07	0,05	0,04
Tax settlement from contributions			0,00	0,00	0,05
13th and 14th wage introduction			-0,02	-0,03	-0,08
Abolition of tax HIC allowance for employers			0,09	0,08	0,07
Nontax revenues	S.13	P.11+P.12	0,09	0,10	0,11
Waste management fee			0,01	0,02	0,03
Grants	S.13		0,20	0,13	0,12
Levy increase - new nuclear powerplant			0,05	0,05	0,05
Connecting Europe Facility			0,08	0,08	0,08
Total revenues			0,66	0,62	0,59
Expenditure	Subsektor	ESA2010	2018	2019	2020
Compensations	S.13	D.1	-0,42	-0,68	-0,50
Wage measures (10 % increase)			-0,42	-0,68	-0,50
Intermediate consumption	S.13	P.2	-0,20	-0,38	-0,46
Reserve for the new legislation measures			-0,41	-0,39	-0,37
Increased agricultural expenditure			-0,12	-0,12	-0,11
Subsidy	S.13	D.3p	-0,03	-0,02	-0,02
Natural social transfers	S.13	D.632	-0,08	-0,11	-0,16
Other current transfers	S.13	D.7p	-0,17	-0,11	-0,07
Capital expenditure	S.13		-0,01	0,25	0,07
Capital investments		P.5L	0,04	0,29	0,06
Capital transfers		D.9p	-0,05	-0,04	0,01
Total expenditures			0,91	1,06	1,14
Total consolidation/stimulus	-	-	-0,25	-0,44	-0,55

Note (+) decrease of expenditure or increase of revenues

Source: MoF

Table 6.a: NRP response to Country-specific Recommendations for Slovakia

CSR	Measure	Objectives



1	Ensure that the nominal growth rate of net primary government expenditure does not exceed 4.1 % in 2019, corresponding to an annual structural adjustment of 0.5 % of GDP. Implement measures to increase the cost effectiveness of the healthcare system and develop a more effective healthcare workforce strategy.	
1	DRG - complete convergence of basic rates	A diagnostic-related group payment system was launched in 2017. In the first year, individual rates are valid for hospitals to avoid significant financial fluctuations and instability in the system. The five-year convergence process of individual rates of individual hospitals was launched in 2018.
1	eHealth implementation	Gradual connection of all doctors to the eHealth environment took place throughout 2017. Several eHealth functionalities are fully operational starting from 2018. Providers thus may take the possibility to edit or read individual medical information within the Patient Summary feature or to use electronic prescriptions. Ambulance service providers, nurses, delivery nurses and healthcare assistants are planned to be gradually integrated into the system.
1	Spending review of health care	The main challenges identified in the first round of the health care spending review represent cost effectiveness, quality and availability of health care. The spending review has so far been able to reduce expenditure by 108 mill. EUR per year without negative impact on patient health. By the end of 2018, the interim report of the second health care expenditure review is planned to be published. It proposes changes to the funding of the health care system as well as it defines new targets and objectives in the field of preventive health care. In 2019, another 139 million can be saved by reducing the over-consumption of drugs due to using e-prescriptions (30 million EUR), due to a revision of payments of categorized drugs (50 million EUR) and the optimization of processes in hospitals.
2	Reinforce activation and upskilling measures, including quality targeted training and individualised services for disadvantaged groups, in particular by delivering on the action plan for the long-term unemployed. Foster women's employment, especially by extending affordable, quality childcare. Improve the quality and inclusiveness of education, including by increasing the participation of Roma children in mainstream education from early childhood onwards.	
2	New and modified active labour market policies (ALMP) tools	<p>Implementation of measures for the integration of the long-term unemployed priority group, including the profiling of the clients at the labour offices, will continue. The requalification and training of employees and job seekers based on employers' needs in selected sectors will be supported.</p> <p>Since May 2018, the conditions for entitlement to a commuting allowance and a labour mobility allowance have been made more attractive. The maximum monthly allowance has been increased, the allowance for commuting has been introduced irrespective of the definition of the mode of transport and extended the period of its provision to disadvantaged job seekers. A new relocation allowance was introduced to cover the costs of moving a citizen to a new place of permanent residence. In order to support the development of the social economy, a new act on social economy and social enterprises was adopted, which defines the rules for the functioning of social enterprises and the forms of their support. The objective is also to support the employment of disadvantaged job seekers, including the long-term unemployed, people with disabilities and vulnerable groups of people in integration enterprises.</p>
2	Expansion of kindergarten capacities and development of childcare for children up to three years of age	<p>After the approval of the so-called Nursery Act in 2017, which defines the legislative framework for the operation of childcare facilities up to three years, the conditions for financial support for the drawing of EU financial resources for the 2014-2020 programming period were prepared. During 2018, calls for support for these facilities with a financial allocation of EUR 13.5 mill. were announced. By June 2018, calls were made to promote flexible forms of childcare and flexible jobs (financial allocation of EUR 3.3 million for more developed regions and EUR 10 million for less developed regions).</p> <p>158 projects totalling EUR 43 million were approved in 2017 for the expansion of childcare capacities (out of EUR 77.2 million). This should lead to the creation of 4,780 new placements at kindergartens. The amount of EUR 14.5 million singled out in the Department of Education was used by the end of 2017 for the expansion of kindergartens by 204 new classes (out of the 227 planned) and 19 classes were kept operated (e.g. through renovation, solution of emergency conditions; out of 22 planned).</p>



2	Integration of marginalized Roma communities (education, labour market, and social inclusion)	<p>In 2018, municipalities and towns were contracted as part of a project to support the settlement of land in municipalities with marginalized Roma communities (MRCs). In the course of 2018, the national project Promoting pre-primary education of children from marginalized Roma communities I. was prepared. In the years 2017 and 2018, 81 projects under the Operational Program Human Resources have been supported for the expansion of the capacity of kindergartens in the municipalities where the Roma settlements are located</p> <p>The implementation of the national project School open to all and the project call Successful in the Elementary School is continuing. Their common goal is to increase inclusiveness and equal access to quality education and to improve the outcomes and competencies of socially and healthily disadvantaged children, including children from MRCs.</p> <p>Between 2018 and 2019, a total of 279 health education assistants in over 300 villages in all regions of Slovakia are planned through the Healthy Community project.</p>
3	Increase the use of quality-related and lifecycle cost criteria in public procurement operations. Tackle corruption, including by ensuring enforcement of existing legislation and by increasing accountability at the level of police and prosecution. Improve the effectiveness of the justice system, in particular by safeguarding independence in judicial appointment procedures. Reduce the fragmentation of the public research system and stimulate business innovation, including for small and medium-sized enterprises.	
3	Measures to improve the business environment	<p>To reduce administrative burden on the business environment, support for electronic and automated communication with financial administration will be enhanced, better regulation measures will be implemented and optimization of other business register services will be carried out.</p> <p>The Ministry of Economy is already preparing the third package of measures, which will reduce the administrative burden on entrepreneurs and simplify business in Slovakia (First package was approved by the government in June 2017, the second in May 2018).</p> <p>In June 2018, the government approved the Draft Economic Policy Strategy by 2030, identifying measures in key areas to promote competitive, sustainable and green economic growth. A first action plan with measures will be drawn up in 2019.</p>
3	Action plan for the implementation of the conclusions and recommendations from the Report on the State of Justice (CEPEJ 2017)	In November 2017 the Report on the State of Justice prepared by the European Commission CEPEJ 2017 was published. An action plan for the implementation of the conclusions and recommendations to increase efficiency of the judiciary system will be prepared.
3	Resolving the high number of distraints	Measures focused on solving the problem of old dstraint proceedings will be implemented.
3	Innovation support in small and medium enterprises	The so-called super deduction for research and development was increased in January 2018 to 100% as well as the deduction of the y/y accrual of expenses on research and development grew to 100%. The aim of the measure is to motivate the private sector to use more of their own sources on research and development.

Table 6.b: EU growth and employment objectives

Key EU2020 indicator	Measure	Objective
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Employment	New and modified active labour market policies (ALMP) tools	<p>Implementation of measures for the integration of the long-term unemployed priority group, including the profiling of the clients at the labour offices, will continue. The requalification and training of employees and job seekers based on employers' needs in selected sectors will be supported.</p> <p>Since May 2018, the conditions for entitlement to a commuting allowance and a labour mobility allowance have been made more attractive. The maximum monthly allowance has been increased, the allowance for commuting has been introduced irrespective of the definition of the mode of transport and extended the period of its provision to disadvantaged job seekers. A new relocation allowance was introduced to cover the costs of moving a citizen to a new place of permanent residence.</p> <p>In order to support the development of the social economy, a new act on social economy and social enterprises was adopted, which defines the rules for the functioning of social enterprises and the forms of their support. The objective is also to support the employment of disadvantaged job seekers, including the long-term unemployed, people with disabilities and vulnerable groups of people in integration enterprises.</p>
	Measures to promote labour mobility	<p>Under the amendment to the Act on Employment Services, from May 2018, the conditions of employment of third-country nationals in selected professions where simplified, where the lack of qualified labour force and in districts with an average registered unemployment rate of less than 5% are demonstrated. The Strategy on the Labour Mobility of Foreigners in the Slovak Republic has been prepared, which proposes measures, in particular, to reduce administrative barriers to the employment of third-country workers.</p>
Research and Development	Research and innovation support	<p>The so-called super deduction for research and development was increased in January 2018 to 100% as well as the deduction of the y/y accrual of expenses on research and development grew to 100%. The aim of the measure is to motivate the private sector to use more of their own sources on research and development.</p>
Climate change and energy	Systemic solutions for the main environmental challenges	<p>Strategic Environmental Policy of the SR until 2030, which will be submitted to the Government of Slovakia for approval by the end of 2018, sets measurable targets and proposes system solutions for the biggest environmental challenges of Slovakia, mainly air quality, waste and forests.</p>
Education	Expansion of kindergarten capacities and development of childcare for children up to three years of age	<p>After the approval of the so-called Nursery Act in 2017, which defines the legislative framework for the operation of childcare facilities up to three years, the conditions for financial support for the drawing of EU financial resources for the 2014-2020 programming period were prepared. During 2018, calls for support for these facilities with a financial allocation of EUR 13.5 mill. were announced. By June 2018, calls were made to promote flexible forms of childcare and flexible jobs (financial allocation of EUR 3.3 million for more developed regions and EUR 10 million for less developed regions).</p> <p>158 projects totalling EUR 43 million were approved in 2017 for the expansion of childcare capacities (out of EUR 77.2 million). This should lead to the creation of 4,780 new placements at kindergartens. The amount of EUR 14.5 million singled out in the Department of Education was used by the end of 2017 for the expansion of kindergartens by 204 new classes (out of the 227 planned) and 19 classes were kept operated (e.g. through renovation, solution of emergency conditions; out of 22 planned).</p>



	Increasing attractiveness of the teaching profession	The government approved the National Program for Development of Education, which identifies strategic framework for quality improvements in education for the period of the next 10 years. The government's priority in education in the first two-year Action Plan is to increase attractiveness of the teaching profession. In addition to salary increases, including a steeper salary increase at the start of the career for young teachers aiming to attract quality graduates, the modification of attestation for career promotion will link quality and remuneration.
	Improving quality of higher education	The act reforming the Accreditation Commission and the accreditation process should result in increasing the pressure for quality improvement in higher education and research. The novelization will allow applications for the positions of docent (full professor) and professor (associate professor) to be filled with applicants without the corresponding title for the period of three years. This lowers barriers to employment of foreign researchers. New professionally oriented bachelor programs are being introduced. They are serving to link education with the labour market.
Poverty and social exclusion	Support for people with severe disabilities	The amendment approved in June significantly increases the care allowance especially for people of working age and the personal assistance allowance.
	Integration of marginalized Roma communities (education, labour market, and social inclusion)	<p>In 2018, municipalities and towns were contracted as part of a project to support the settlement of land in municipalities with marginalized Roma communities (MRCs).</p> <p>In the course of 2018, the national project Promoting pre-primary education of children from marginalized Roma communities I. was prepared. In the years 2017 and 2018, 81 projects under the Operational Program Human Resources have been supported for the expansion of the capacity of kindergartens in the municipalities where the Roma settlements are located</p> <p>The implementation of the national project School open to all and the project call Successful in the Elementary School is continuing. Their common goal is to increase inclusiveness and equal access to quality education and to improve the outcomes and competencies of socially and healthily disadvantaged children, including children from MRCs.</p> <p>Between 2018 and 2019, a total of 279 health education assistants in over 300 villages in all regions of Slovakia are planned through the Healthy Community project.</p>