CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2019-2021

(based on the changes since the approval of the General Government Budget Proposal for 2019 through 2021 by the Government of the Slovak Republic)

December 2018

www.rozpoctovarada.sk

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

This publication is available on the CBR website (http://www.rozpoctovarada.sk).

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

Contents

Summary 4
1. **Changes in the general government budget** 6
2. **Assessment of changes and their impact on meeting the objectives** 9
3. **Budget transparency** 13
Annex 1 - Risks and sources for their coverage in 2018 - 2021 15
Annex 2 - Update of the structural balance 17

List of tables and figures

Tab 1: Changes compared to the evaluation of the budget proposal 9
Tab 2: Change in the GG structural balance in 2017-2021 according to the CBR 12
Tab 3: Risks from 2018 to 2021 15
Tab 4: Change in the GG structural balance in 2017-2021 compared to GGBP 2019-2021 17
Tab 5: Change in one-offs in 2017 17

Figure 1: Changes in the GG balance reflecting updated risks 11
Figure 2: Changes in the gross debt reflecting updated risks 11

Summary

The Council for Budget Responsibility (CBR) has updated its evaluation of the general government budget for 2019-2021 in reaction to the State Budget Act approved by the parliament. The evaluation also reflects additional information provided by the Ministry of Finance of the Slovak Republic (MF SR).

Compared to the government-approved budget proposal, the general government balance objectives improved by 0.1 % of GDP each year. For 2019, the objective is to achieve a balanced budget. In the next years, according to MF SR, surpluses of 0.1 % of GDP in 2020 and 0.3 % of GDP in 2021 are expected. The improvement of budgetary objectives was achieved by reducing budget reserves. An amending proposal also brought an increase in health care spending in 2019 funded from budget reserves. Several legislative changes were approved by the parliament[1], the effects of which have already been incorporated in the budget proposal. In addition to these changes, the Ministry of Health decided not to review the reimbursement of categorised medicines in 2019, the 2019 emission allowance sale plan was updated, and the government approved the provision of loans for road reconstruction and industrial research support.

The risks identified by the CBR in the budget proposal are up to date even after the budget has been approved by the parliament, with a slight increase. The negative budgetary impacts of not reviewing the reimbursement of categorised medicines in 2019 and the shift in the annual social security settlement beyond the budget horizon will only partially be mitigated by an improved CBR´s estimate of the balance in 2018, which will be reflected mainly in higher tax revenues and lower social transfers over the coming years. Improving the budgetary objectives in 2019-2021 has no impact on the CBR's balance estimate, as the change in objectives did not eliminate, nor partially reduce the risks identified by the CBR.

Achieving a balanced budget and a medium-term budgetary objective in 2019 will require the adoption of additional consolidation measures. Taking into account the identified risks and assuming that no additional measures are adopted, the deficit could reach 0.7 % of GDP in 2019. The net contribution of measures taken by the government to a permanent improvement in the general government balance should be negative for 2019-2021 amounting to 0.5 % of GDP. In the no-policy change scenario, the structural deficit would improve by a total of 1.4 % of GDP until 2021, resulting in a structural surplus of 0.3 % of GDP in 2021.

The CBR repeatedly points out that the current legislative framework of the budget approval in the parliament is not suitable from the perspective of the subject and the content of the documents approved. Examples of missing information also include changes in the general government balance objectives compared to the budget proposal. Amendments

[1] These include, in particular, reduction of VAT rate in the accommodation sector, introduction of holiday vouchers, doubling the tax credit for parents of children up to 6 years, introducing a levy on the turnover of retail chains, online connection of cash registers to the Financial Administration and lunch subsidies in primary schools and in the last year of kindergarten.

adopted by the parliament modified the budgetary objective only for the upcoming year 2019. The objectives for 2020 and 2021 were clarified by the MF SR only after CBR´s request[2].

The transparency of the budgetary process is also undermined by the fact that the effects of some of the measures were not disclosed at the time of the budget approval. These are, for example, the effects of lunch subsidies in primary schools and in the last year of kindergarten, the quantification of which has not been provided by MF SR even after an additional request. Legislative changes in taxes were discussed in the Tax Revenue Forecasting Committee[3] only after the budget had been approved. The Committee approved the impact of the levy from retail chains at a lower level than it was included in the budget[4] and also took into account the fact that the introduction of the annual social security settlement was shifted over the budget horizon, while the budget assumes additional revenues in 2021. The impact of the online connection of cash registers to the Financial Administration (eKasa) and marking of fuels with an identifying substance (nanomarkers) to reduce tax evasion was not included in the committee's forecast (they were only shown as a memorandum item)[5].

---

2 Pursuant to Section 6 of Act No. 523/2004 Coll. on the General Government Budgetary Rules, the MF SR publishes the state budget data and the general government budget data within 60 days from the entry into force of the Act on the State Budget for the respective financial year.

3 The meeting of the Tax Revenue Forecasting Committee was held on 10 December 2018.

4 Estimates of the effect of the levy on the turnover of retail chains in the committee's forecast are lower than the budget estimates (net revenue in the committee's forecast is EUR 73 million per year, the budget estimates EUR 119 million per year).

5 In total the budget expects revenues from these two measures in the amount of EUR 90 million in 2019, EUR 180 million in 2020 and EUR 190 million in 2021.

1. Changes in the general government budget

On 10 October 2018, the Government of the Slovak Republic approved the General Government Budget Proposal for 2019-2021, to which the Council for Budget Responsibility (CBR) published its evaluation on 14 November 2018[6]. Several changes have been made since the government approved the budget proposal and, therefore, the CBR prepared an update to its evaluation.

Changes in the General Government Budget for 2019-2021 arise from the approval of amendments to the State Budget Act for 2019 approved by the parliament on 5 December 2018. At the same time, on 10 December 2018 a meeting of the Tax Revenue Forecasting Committee on legislative changes in taxes took place, which were approved by the parliament in its 38th meeting and which were incorporated into the budget proposal (in revenues beyond the Committee's forecast and in expenditures in the form of reserves).

Compared to the government-approved budget proposal, the budgetary objective changed as well[7], improving by 0.1 % of GDP each year. For 2019, the objective is to achieve a balanced budget. In the next years, according to MF SR, surpluses of 0.1 % of GDP in 2020 and 0.3 % of GDP in 2021 are expected. The approved general government budget for 2019-2021 has not been published yet[8]; data on the impact of changes on the general government budget were provided by MF SR[9].

During the negotiations on the Act on the State Budget for 2019 and the general government budget for 2019 through 2021, **three amendments were approved by the parliament**:

- **Budget reserves[10] decreased by EUR 96.9 million in 2019**, on the basis of which a balanced budget was established in 2019. According to the information from MF SR, the reserve for 2019 was reduced by this amount. In 2020 and 2021, the economic cycle reserve decreased by EUR 103.2 million and EUR 109.3 million respectively, which allowed an improvement in the budgetary objectives.

- **The expenditures of the Ministry of Health[11] on state-paid health contributions for a group of persons defined by law increased by EUR 55 million in 2019**, which was also reflected in the revenues and expenditures of health insurance companies in the same amount. The increased expenditures of the Ministry of Health will be financed from the funds of the General Treasury Administration, with a total amount of EUR 50 million

6 CBR, Evaluation of the General Government Budget Proposal for 2019-2021.
7 The MF SR communicated the amended budget objectives also to the European Commission, which took them into consideration when evaluating the budget for 2019.
8 Pursuant to Section 6 of Act No. 523/2004 Coll. on the General Government Budgetary Rules, the MF SR publishes the state budget data and the general government budget data within 60 days after the Act on the State Budget for the respective financial year comes into force.
9 The responses of the MF SR to the CBR questions related to the approved General Government Budget for 2019-2021 are published together with this document.
10 This is a change resulting from the Joint Report of the parliamentary committees on the outcome of the discussion on the government draft Act on the State Budget for 2019 and the general government budget proposal 2019-2021 (press 1090a).
11 This is an amending proposal by MP Ladislav Kamenický to the government's draft Act on the State Budget for 2019.

used from the reserve for the state-paid contributions while the reserve for EU resources and EU contributions was reduced by EUR 5 million. At the same time, the effect of the new method of determining the payment for state insured persons (a fixed amount specified in the State Budget Act) was shifted to 2020, while the budget proposal considered the change since 2019. In 2019, the original method was preserved, which is based on the number of state-insured persons, the average wage development (lagged two years) and the established rate of contribution.

- The draft resolution to the budget included a **requirement[12] to earmark funds up to EUR 50 million in 2019 to cover the expenditures of the chapter of the Ministry of Agriculture** if the net proceeds from the newly-introduced levy from retail chains were less than EUR 50 million.

During the 38th meeting of the parliament, which took place from 27 November to 7 December 2018, **several legislative changes** were approved[13]**, the impacts of which were already incorporated in the general government budget proposal for 2019-2021**. The impact of tax measures was assessed by the **Tax Revenue Forecasting Committee** at its meeting **on 10 December 2018**. The Committee's forecast included the impacts of the VAT reduction in the accommodation services sector, the introduction of holiday vouchers, the doubling of the tax credit for parents of children up to the age of 6, and the introduction of the levy on turnover of retail chains[14]. The Committee's forecast also took into account the shift in the deadline for the annual social insurance settlement[15], which was approved by the parliament at the end of October 2018. **The forecast of the Committee was assessed by the members as realistic.**

In addition to the changes specified above, other changes occurred affecting the general government budget evaluation:

- The budget proposal expected **savings of** EUR 50 million per year **from the review of the reimbursement of categorised medicines** since 2019. However, in 2019, this review will not take place based on a decision by the Ministry of Health.

---

[12] Amending and supplementing proposal by MPs Radovan Baláž, Ladislav Kamenický, Emil Ďurovčík and Irén Sárközy to the government's draft Act on the State Budget for 2019.

[13] These include, in particular, a reduction in VAT in the accommodation services sector, the introduction of holiday vouchers, doubling the tax credit for parents of children up to 6 years, introducing the levy on the turnoverof retail chains, the online connection of cash registers to the Financial Administration and lunch subsidies in primary schools and in the last year of kindergarten.

[14] Estimates of the effect of the levy on turnover of retail chains in the committee's forecast are lower than the budget estimates (net revenue in the committee's forecast is EUR 73 million per year, the budget expects EUR 119 million per year). The impact of the online connection of cash registers to the Financial Administration and marking of fuels with an identifying substance to reduce tax evasion was not included in the committee's forecast (they were only shown as a memorandum item). In total, the budget assumes revenues from these two measures in the amount of EUR 90 million in 2019, EUR 180 million in 2020 and EUR 190 million in 2021.

[15] According to the original proposal, the annual settlement was to be carried out for the first time in 2022 for 2021, and for this reason the commission's September 2018 forecast and the budget proposal accounted for the revenues in 2021. An amending proposal in the parliament shifted the deadline by one year, bringing revenues beyond the budget horizon.

- At its meeting on 20 November 2018, the Government of the Slovak Republic approved the **granting of loans to** the Prešov Self-Governing Region in the amount of EUR 12 million for road reconstruction and the private company GA Drilling in the amount of EUR 9.5 million for the funding of an industrial research project. At the same meeting, it decided to **extend the maturity of the loan** provided to the Emergency Oil Stocks Agency with the remaining principal of EUR 460 million from 2024 (one-time payment of the principal) until 2031 (gradual payments of the principal in the amount of at least EUR 25 million per year).

- In the beginning of December 2018, **the emission allowance auction plan was published[16] for 2019**, with a higher number of emission allowances to be sold in the case of Slovakia than expected by the Ministry of Finance in the budget proposal. The budget proposal accounted for the sale of 8.2 million allowances, but the plan expects 11.5 million allowances.

[16] The emission allowance auctions are being conducted through the EEX European exchange.

2. Assessment of changes and their impact on meeting the objectives

In its evaluation of the budget proposal, the CBR estimated that, while taking into account the risks quantified, the possible sources of their coverage and assuming no additional measures are taken by the end of the year, the general government deficit could reach 0.9 % of GDP in 2018 and then gradually fall to 0.2 % of GDP in 2021. In such a case of deficit development, the gross debt would be between 2019 and 2021 in the first sanction zone of the constitutional act and it would reach 46.3 % of GDP at the end of 2021. Changes adopted since the government approved the budget proposal have also been incorporated in the update of the general government balance and gross debt estimate.

Impacts on the general government balance

Compared to the evaluation of the budget proposal, the estimated balance in 2018 improved, while the risks increased in 2019 through 2021. Assuming no additional measures are taken, the reduction in the deficit in the coming years will be slower, hence the deficit can reach 0.3 % of GDP in 2021 (Table 1, comparison against budget targets in Figure 1).

Tab 1: Changes compared to the evaluation of the budget proposal (ESA2010, € million)

	2018	2019	2020	2021
A. GG balance reflecting risks by the CBR (budget proposal)	**-830**	**-674**	**-581**	**-194**
- in % of GDP	**-0.92**	**-0.70**	**-0.56**	**-0.18**
B. Overall impact of the changes on the GG balance (1 + 2 + 3 + 4)	**45**	**-28**	**-14**	**-92**
1. Impact of the changes in the estimate for 2018	45	28	29	33
2. Updating the impact of tax measures	0	-9	-9	-75
- estimation of the introduction of holiday vouchers	-	-9	-9	-9
- shift of annual social insurance settlement	-	-	-	-66
3. Revenues from auctions of emission allowances	0	3	16	0
4. Non-exercised savings from the categorisation of medicines	0	-50	-50	-50
C. GG balance reflecting risks by the CBR (A + B)	**-785**	**-702**	**-595**	**-286**
- in % of GDP	**-0.87**	**-0.73**	**-0.58**	**-0.26**

Source: CBR

Compared to the CBR assumptions when evaluating the budget proposal, the **estimated balance in 2018 improved by EUR 45 million (0.05 % of GDP)** with the following changes taking place[17]:

- The estimated **amount of revenues from taxes and contributions** in 2018 increased by EUR 26 million. This increase was especially brought about by higher VAT and corporate income tax, on the contrary, the estimated revenues from social contributions decreased slightly.

17 The update of the estimate for 2018 takes into account more recent data (for three quarters of 2018, the preliminary data for 11 months are taken into account for the state budget). More detailed information is published under the so-called budgetary traffic light on the CBR website (December 2018).

- The update of the estimate of the **state budget expenditures** contributed positively to the change in the balance by EUR 46 million. Based on the slowdown in the implementation of capital expenditures, the estimate was reduced by EUR 61 million, on the contrary, the acceleration of the growth rate of expenditures on goods and services brought an increase of the estimate by EUR 15 million.

- The estimated amount of **the Social Insurance Agency's expenditures on social transfers**, especially old-age pensions, decreased by EUR 15 million.

- During the three quarters of 2018 there was a high increase **in municipal spending on goods and services as well as on investments**, which worsened the estimated impact of the financial performance of municipalities on the general government balance by a total of EUR 40 million.

Improvements to the 2018 balance estimate will be reflected (in particular in the case of tax revenues, social transfers and expenditures on goods and services) over the next years as well. In addition, other factors will influence the development of the balance between 2019 and 2021:

- Concerning **tax revenues,** the CBR identified a risk of EUR 9 million a year in the estimate of impact of the **introduction of holiday vouchers**, where the CBR does not expect a positive effect on the VAT revenue[18]. The shift of the deadline for the **annual social insurance settlement** beyond the budget horizon will decrease tax and social contribution revenues by EUR 66 million in 2021. The lower estimated impact of the levy from retail chains compared to the budget projections will not be reflected in the balance estimate, as the CBR assumes that the expenditures on the support for agriculture will be reduced by the same amount[19].

- Updating the volume of **emission allowances** to be sold in 2019 and higher prices in the end of 2018 compared to the assumptions of the budget proposal evaluation will result in a slight increase in revenues in 2019 and 2020.

- The CBR, similarly as the budget proposal, assumed in its estimate **savings from the review of the reimbursement of categorised medicines**. Based on the decision of the Ministry of Health, the review will not take place, which **increases the budget risks by EUR 50 million per year**[20].

- **The other risks and sources of their coverage previously identified by the CBR in the budget proposal persist** (the complete updated list is provided in Annex 1).

Other changes described in Part 1 do not affect the estimate of the GG balance:

---

[18] The reason is that the higher disposable income of households has a counter-side in lower general government expenditures, which is also the ultimate payer of VAT (Forecast evaluation of the Tax Revenue Forecasting Committee by its members).

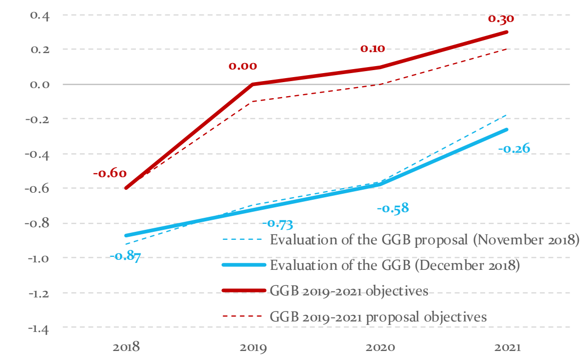
[19] The estimated net revenue for the year 2019 (estimate of the CBR of EUR 58 million) exceeds the amount EUR 50 million, which was defined as the minimum amount of support expenditure for agriculture in the resolution on the Act on the State Budget for 2019.

[20] The budget proposal accounted for savings of EUR 50 million per year from the review of the reimbursement of categorised medicines.

- **A reduction of the state budget reserves to improve budgetary objectives and increase health care expenditures did not change the balance estimate**. The budgetary objectives have improved without eliminating or partially reducing the risks identified by the CBR. A lower level of reserves therefore only reduces the space for risk coverage[21]. In the case of health care, it involved the allocation of existing reserves for a specific expenditure title (additional expenditures of health insurance companies) without an impact on the balance.

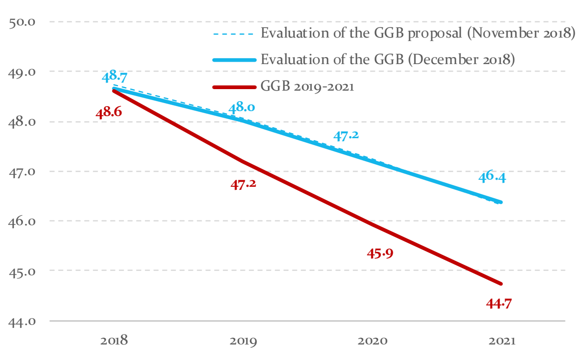
- **Granting loans** from government financial assets will not have an impact on the budget balance in case of its due repayment. However, funds provided to non-general government entities reduce cash in government accounts, which will be reflected in the gross debt forecast.

Figure 1: Changes in the GG balance reflecting updated risks (ESA2010, % of GDP)



Source: CBR, MF SR

Figure 2: Changes in the gross debt reflecting updated risks (% of GDP)



Source: CBR, MF SR

Impacts on the general government gross debt

The estimate of the general government gross debt development was updated by the CBR through the actual development of the government debt by the end of November 2018 and identified additional risks in 2019 through 2021. Compared to the evaluation of the budget proposal, the estimate of gross debt has almost not changed over the entire forecast period, at the end of 2021 the debt reaches 46.4 % of GDP (Figure 2). **It is still true that after 2018 additional measures will have to be taken to maintain the debt outside the sanction zones of the constitutional Fiscal Responsibility Act.**

An unquantified risk for debt development is an additional contribution to the **European Stability Mechanism** (ESM). Early in 2021, a transition period will end for Slovakia[22] with

[21] This change increased the total amount of uncovered risks to the budgetary objectives by the same amount the objectives had changed. However, the GG balance did not change compared to the estimate of the budget proposal evaluation, taking into account the risks identified by the CBR.

[22] Pursuant to Article 42 of the European Stability Mechanism (ESM) Treaty, Slovakia applies a temporary correction of the key to determining contributions to the ESM. On 1 January 2021, the 12-year deadline for its application expires, which will increase the subscription key, the amount of subscribed capital and the cash deposit of Slovakia.

temporarily lower contributions[23], which will require a cash deposit probably in 2021. The amount of the additional deposit is not disclosed, and this information has not been provided even by the Ministry of Finance. This transaction will not affect the general government balance in the ESA 2010 methodology but will lead to an increase in the level of gross debt while maintaining the cash reserve assumed in the budget.

Impacts on the general government structural balance

In the estimate of the structural balance, no significant changes occurred (Table 2)[24]. Over the next three years, the **structural deficit will cumulatively improve by 0.9 % of GDP** and reach 0.2 % of GDP in 2021. Achieving a medium-term budgetary objective in 2019 will require the adoption of additional consolidation measures.

Without government intervention, the structural deficit would improve by 1.4 % of GDP by 2021 overall and a structural surplus of 0.3 % of GDP would be achieved in 2021. This means that most of the projected structural balance improvement is attributable to the existing setup of policies and macroeconomic development. **The net contribution of the measures adopted by the government on the permanent improvement of the general government balance should be negative for all three years, amounting to 0.5% of GDP.**

Tab 2: Change in the GG structural balance in 2017-2021 according to the CBR (ESA2010, % of GDP)

	2017	2018	2019	2020	2021
1. General government balance	**-0.8**	**-0.9**	**-0.7**	**-0.6**	**-0.3**
2. Cyclical component	0.2	0.2	0.2	0.1	-0.1
3. One-off effects	0.0	0.0	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-1.0**	**-1.1**	**-0.9**	**-0.7**	**-0.2**
5. Change in the structural balance (Δ4) / Fiscal compact	**0.9**	**-0.1**	**0.2**	**0.2**	**0.5**
6. General government balance - NPC scenario	**-0.8**	**-0.9**	**-0.2**	**0.2**	**0.4**
7. Structural balance - NPC scenario	-1.0	-1.1	-0.4	0.0	0.3
8. Change in the structural balance - NPC scenario		**-0.1**	**0.7**	**0.4**	**0.3**
9. Size of measures (1-6)		**0.0**	**-0.5**	**-0.8**	**-0.7**
10. Government consolidation effort (5-8)			**-0.5**	**-0.2**	**0.2**
11. Other factors:		0.0	0.1	0.0	-0.1
- measures with no impact on long-term sustainability		-0.1	0.0	0.0	-0.2
- PPP projects		0.0	0.0	0.0	0.0
- interest payments		0.0	0.1	0.1	0.0
12. Government measures with an impact on other factors		0.0	0.0	0.0	0.0
13. Change in the structural balance taking into account the impact of other factors (5-11)		**-0.1**	**0.1**	**0.2**	**0.7**
14. Government consolidation efforts taking into account measures with an impact on other factors (10-12)			**-0.5**	**-0.2**	**0.2**

Note: For the sake of the presentation of data rounded to one decimal point, deviations may occur with additions and subtractions.

Source: CBR methodology

[23] Slovakia paid EUR 659 million in five instalments between 2012 and 2014.

[24] In addition to the change in the risks affecting the GG balance, the cyclical component was updated throughout the forecast horizon and the one-off effects in 2017 due to the update of the time-consistent VAT recording estimate (more in Annex 2).

3. Budget transparency

The CBR has repeatedly pointed out that the current legislative framework of the budget approval in the parliament is not suitable from the perspective of the subject and the content of the documents approved. The approval of a cash-based state budget by the parliament for the next year is based on a historical tradition, but it is no longer sufficient to capture all changes in public finances in accordance with the European standards defined by the ESA2010 methodology. Examples of missing information also include changes in the general government objectives compared to the budget proposal. Amendments adopted by the parliament modified the objective only for the upcoming year 2019. The objectives for 2020 and 2021 were clarified by the MF SR only after CBR´s request.

The impact of some of the measures was not disclosed at the time of the budget approval. Parliamentary proposals introduced a reduction in the VAT rate for accommodation services, recreational vouchers, levy on the turnover of retail chains, and lunch subsidies in primary schools and in the last year of kindergarten. These proposals did not include a calculation of the impact on the general government budget[25]. While the quantification of the impact of tax measures was published in the Tax Revenue Forecasting Committee, in the case of lunch subsidies it was missing and MF SR did not provide it to the CBR even on request. In the budget proposal, these measures were included in the reserve for new legislative adjustments without subdividing them into individual measures.

Another group of measures is the online connection of cash registers to the Financial Administration (eKasa) and the introduction of the obligation to mark fuels with an identifying substance (nanomarkers). The estimated impact of these measures on the general government balance was indicated in the clause on impacts[26], however the budget presented a joint impact of both measures (moreover the amount differs from that in the clause), and the MF SR did not provide the[27] subdivision of the budgeted amount into individual measures.

The total amount of general government tax revenues was not approved by the Tax Revenue Forecasting Committee (TRFC). The meeting of the TRFC with the aim to present the impact of legislative changes on the budget, took place only after the approval of the budget in the parliament. At the same time, the impacts of some of the measures discussed and included in the TRFC forecast[28] (levy from retail chains, online cash register connection and fuel marking) differ from those incorporated in the budget. The Committee approved the effect of the levy

25 The impacts of a reduction in the VAT rate on accommodation services and recreational vouchers were reported within the meeting of the Tax Revenue Forecasting Committee in September 2018 in memorandum items. In the case of the levy from retail chains, the assumed effects of the measure were indicated in the clause on impact (accompanying documentation to the proposal). However, during the approval of the tax, the parliament modified its parameters, which also changed the estimated impact of the measure. The clause on impacts has not been updated as a result of this change.

26 The impacts differ from those presented at the session of the Tax Revenue Forecasting Committee in September 2018 in memorandum items.

27 MF SR's response to question no. 18 on the evaluation of the budget proposal by the CBR.

28 TRFC forecast of 10 December 2018.

from retail chains at a lower amount than the impact included in the budget[29] and also took into account the fact that the introduction of the annual social security settlement was in the end shifted over the budget horizon, with the budget assuming additional revenues in 2021. The impact of the online connection of cash registers to the Financial Administration and marking of fuels with an identifying substance to reduce tax evasion was not included in the committee's forecast (they were only shown as a memorandum item)[30]. **For these reasons, it would be necessary to enact the obligation to use the TRFC forecast throughout the whole budgetary process, and the forecast should also include the impacts of all legislative measures approved by the parliament in the given year.**

[29] Estimates of the effect of the levy on the turnover of retail chains in the committee's forecast are lower than the budget estimates (net revenue in the committee's forecast is EUR 73 million per year, the budget estimates EUR 119 million per year).

[30] In total the budget accounts for revenues from these two measures in the amount of EUR 90 million in 2019, EUR 180 million in 2020 and EUR 190 million in 2021.

Annex 1 - Risks and sources for their coverage in 2018 - 2021

Tab 3: Risks from 2018 to 2021 (ESA2010, € million)

	2018	2019	2020	2021
GG budget balance 2019-2021*	**-543**	**0**	**103**	**328**
- in % of GDP	**-0.6**	**0.0**	**0.1**	**0.3**
Total risks not covered by the reserves:	**-271**	**-590**	**-657**	**-603**
- in % of GDP	**-0.3**	**-0.6**	**-0.6**	**-0.6**
1. Overestimated non-tax revenues:	-42	-294	-142	-126
- revenues from dividends (SPP, VSE)	71	-68	-68	-68
- revenues from an unspecified new measure	0	-106	-28	-20
- revenues from sale of state property	-30	-33	-33	-33
- state budget revenues from gambling	18	-17	0	19
- revenues from the sale of emission allowances	-103	-15	19	no quantif.
- increase in revenues of the Emergency Oil Stocks Agency	1	-32	-27	-23
- revenues from the completion of the 3rd and 4th units of the Mochovce nuclear power plant	0	-23	-5	0
2. Underestimated healthcare expenditures:	-25	-80	-302	-341
- healthcare expenditures	30	11	-181	-222
- financial performance of hospitals	12	-41	-71	-69
- repayments of liabilities to shareholders of private health insurers	-67	-50	-50	-50
- healthcare reserves	0	0	0	0
3. Underestimated expenditures of other GG entities:	-203	-215	-213	-136
- local governments	-150	-145	-123	-38
- expenditures of the Social Insurance Agency on social transfers	-36	15	15	15
- administrative fund of the Social Insurance Agency	-11	-55	-69	-72
- ZSSK railway company (goods and services)	-6	-31	-36	-42
Total risks partially covered by the reserves:	**29**	**-105**	**-28**	**2**
- in % of GDP	**0.0**	**-0.1**	**0.0**	**0.0**
4. Transactions with the EU	-17	32	276	34
- higher expenditures on co-financing	-92	-206	-14	-151
- reserve on EU funds drawdown and corrections	48	213	260	184
- impact of the uptake of EU funds on tax revenues	0	25	30	1
- transfers to the EU budget	26	-	-	-
- financial corrections to EU funds	0	without quantification		
5. State budget expenditures:	14	-159	-326	-394
- wage expenditures (between 2019 and 2021, incl. education)	-47	-642	-1 195	-1 336
- reserve on wages and social contributions	16	592	1 138	1 265
- government´s new legislative measures covered by reserve	0	-400	-400	-400
- reserve for the coverage of new legislative initiatives	4	400	400	400
- goods and services (excl. reserves)	26	-41	-114	-148
- capital expenditures (incl. reserves)	-89	-68	-155	-176
- social benefits and transfers	19	0	0	0

- other impacts, including other current reserves	85	0	0	0
6. Tax revenues:	32	21	22	362
- revenues from the introduction of eKasa and nanomarkers	0	-90	-180	-190
- revenues from the levy from retail chains	0	-58	-73	-73
- other tax revenues	24	58	125	161
- reserve for 2019	0	53	0	0
- blockage of revenues from the levy from retail chains	0	58	73	73
- reserve for worsened tax and non-tax revenues	8	-	-	-
- reserve for economic cycle development	0	0	77	391
Other non-quantified risks:				
- defence expenditures under secrecy	-	no quantification (negative impact of € 1.5 billion after 2021)		
- recapitalisation of the traditionally loss-making state corporations	-	no quantification		
Overall impact of the risks on the GG balance:	**-242**	**-695**	**-685**	**-601**
Changes in interest payments due to the risks	**0**	**-7**	**-14**	**-14**
Budget balance after the taking into account of the risks by the CBR	**-785**	**-702**	**-595**	**-286**
- in % of GDP	**-0.9**	**-0.7**	**-0.6**	**-0.3**

** After taking into account the impact of the GDP revision on the forecast.* *Source: CBR*

Note: (+) positive and (-) negative impact on the GG balance. The breakdown of risks into individual groups (covered by reserves or not covered reserves) is aimed at evaluating the budgetary targets between 2019 and 2021.

Annex 2 - Update of the structural balance

Compared to the evaluation of the budget proposal (November 2018), there was a slight change in the estimate of the general government (GG) structural balance in 2017-2021. Based on available information, the CBR updated an estimate of the risks and sources of their coverage in the budget, which affected the level of the GG balance in 2018 through 2021. Concerning the cyclical component, the CBR's output gap estimate was[31] updated by GDP revisions (quarterly time series), implemented in the individual output gap estimates, while at the same time reflecting the most recent output gap estimate by the National Bank of Slovakia. In the case of one-off effects, the estimate of VAT accruals was revised based on additional controls. The differences in estimates are summarised in the following tables.

Tab 4: Change in the GG structural balance in 2017-2021 according to the CBR compared to GGBP 2019-2021 (ESA2010, % of GDP)

	2017	2018	2019	2020	2021
1. General government balance	**0.0**	**0.1**	**0.0**	**0.0**	**-0.1**
2. Cyclical component	0.2	0.1	0.0	-0.1	-0.2
3. One-off effects	0.0	0.0	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-0.2**	**0.0**	**0.0**	**0.1**	**0.1**
5. Change in the structural balance (Δ4) / Fiscal compact	**-0.1**	**0.2**	**0.0**	**0.1**	**0.0**

Source: CBR methodology

The impact of the revision of one-off effects in 2017 is shown in the following table. One-off effects have not changed in the subsequent years.

Tab 5: Change in one-offs in 2017 (ESA2010)

	GGB evaluation	GGBP evaluation	change
accrualisation of VAT revenues (EUR million)	8.2	-6.9	15.1
- in % of GDP	0.02	-0.01	0.03

Source: CBR, MF SR

[31] The CBR applies several approaches to estimating the output gap, which are ultimately averaged into a final estimate. In more detail in the CBR study (2014): Finding Yeti.

CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Council for Budget Responsibility

Imricha Karvaša 1
Bratislava 1
813 25
Slovakia

www.rozpoctovarada.sk