# Special Report on the Long-Term Sustainability of Public Finances

*Prepared and published in accordance with Article 4(1)(a) of constitutional Act No.493/2011 Coll. on fiscal responsibility within 30 days of the parliamentary debate on the government's manifesto and the vote of confidence in the government*

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This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in Article 55a of the Slovak Constitution, as amended, in conjunction with Article 7 of constitutional Act No. 493/2011 on fiscal responsibility.

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



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

# Introduction

In light of the approval of the government's manifesto and the vote of confidence in the government by the parliament on 21 November 2023, the Council for Budget Responsibility is required, under Article 4(1)(a) of constitutional Act No. 493/2011 Coll. on fiscal responsibility[1], to publish a special report on the long-term sustainability[2].

*"The CBR prepares and publishes the long-term sustainability report, including the baseline scenario and determination of the long-term sustainability indicator, annually as of 30 April and always within 30 days of the parliamentary debate on the government's manifesto and the vote of confidence in the government."*

Pursuant to §30aa of Act No. 523/2004 Coll. on the general government budgetary rules and on amendments to certain acts, as amended, the compiled baseline scenario for the development of public finances and the long-term sustainability indicator serve as the basis for calculating the new public expenditure ceiling for each year of the government's term of office[3]. Expenditure ceilings represent a key budgetary instrument to ensure long-term sustainability of public finances, and are an essential operative tool of budgetary governance, thus supplementing the existing debt limit rules specified in constitutional Act No.493/2011 on fiscal responsibility. Public expenditure ceilings are calculated by the Council for Budget Responsibility and submitted to the National Council for discussion within 60 days following the approval of the government's manifesto and vote of confidence in the government.

As opposed to regular reports on long-term sustainability published by the end of April every year, **this special report focuses exclusively on presenting a baseline scenario of development in public finances for the next 50 years, serving as the basis for the first calculation of public expenditure ceilings after the general election. New expenditure ceilings are thus recalculated for the years 2024 to 2027 to fairly reflect the state of legislature in terms of public finances for the new government**. In this special report, the main focus is on describing the developments in the general government balance over the medium-term until 2027, as this is the source of data needed to calculate the ceilings.

Under the current methodology for the calculation of expenditure ceilings[4], it is assumed that the CBR and the Ministry of Finance will cooperate in discussing the estimate of the scenario's baseline year and the budgetary data, serving as the basis for the development of the general government balance in the horizon up to 2027. The resulting baseline scenario also takes into account the results of the discussions and the exchange of data between the CBR and the Ministry of Finance.

1 Constitutional Act No. 493/2011 Coll. on fiscal responsibility

2 The Council may prepare and publish a special report also on other occasions, as long as it is deemed necessary and conducive to the basic objective, i.e., protecting the long-term sustainability of public finances pursuant to Article 55a of the Slovak Constitution.

3 Until the adoption of new public expenditure ceilings, the ceilings approved by parliamentary resolution No 1964 of 1 February 2023 remain in effect. A more detailed legal opinion was published by the CBR on its website.

4 CBR, Methodology for calculation, updates to, and evaluation of compliance with public expenditure ceilings, 21 December 2022.

# 1. Procedure for the preparation of the baseline scenario

The baseline scenario for the development of general government revenue and expenditure[5] serves to set the planned value of structural balance[6], which is then used in the calculation of expenditure ceilings for individual years. Subsequently, the value of the long-term sustainability indicator specifies the current level of risk to public finances, on the basis of which an improvement in structural balance required[7] over the next years is determined. This provides a link between public expenditure ceilings and long-term sustainability of public finances.

The baseline scenario for the calculation of the public expenditure ceiling for years 2024 to 2027 is based on the Macroeconomic Forecasting Committee's forecast of 8 November 2023 and the Tax Revenue Forecasting Committee's forecast of 14 November 2023, reflecting the legislation in force at the time of the approval of the government's manifesto and the vote of confidence in the government on 21 November 2023.

The baseline scenario is based on the estimated development of public finances in 2023. The importance of a realistic baseline estimate of the balance is underlined by the fact that its level also affects the development in the structural balance in the medium-term (2024-2027). In accordance with the valid methodology, the estimate of the balance in the baseline year was discussed with the Ministry of Finance.

In the medium-term, the estimate reflects the valid methodology for the preparation of baseline scenario for regular reports on long-term sustainability, subject to specific adjustments (the differences from this procedure are described in Box 1).

**Box 1: Differences in the baseline scenario methodology for calculating the public expenditure ceiling**

A detailed description of the procedure for the preparation of the baseline scenario is provided in CBR's Discussion Paper No. 2/2015 "Preparation of the baseline scenario for development of public finances". Other changes (concerning, for instance, the transition to the ESA2010 methodology) have been described in the individual reports on long-term sustainability of public finances.

The differences between the preparation of the baseline scenario based on the estimate of the balance in 2023 and the procedure applied in the ex-post evaluation of the long-term sustainability indicator in CBR's regular reports published annually by 30 April are as follows:

- Instead of the actual data published by the Statistical Office of the Slovak Republic, CBR uses its own estimate of the government revenue and expenditure based on input data from several sources (the Ministry of Finance, the Tax Revenue Forecasting Committee, the Macroeconomic Forecasting Committee, CBR) as the base year of the baseline scenario. The estimate also includes additional impacts and measures included in the state budget for 2023 beyond the framework of established

[5] Pursuant to §30aa(6) of the Act on General Government Budgetary Rules.

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

[7] At high and medium risk to the long-term sustainability of public finance (indicator value above 1% of GDP), the value of the planned structural balance is set so as to improve the long-term sustainability indicator against the baseline scenario by 0.5% of GDP per year, at low risk by 0.25% of GDP. If the fiscal performance of the Slovak Republic is sustainable in the long term (the indicator has a negative value), the CBR calculates the value of the planned structural balance so as to keep the indicator at a zero value in each year. The calculation also takes into account the currently applicable debt brake sanction (Article 4 and 12 of constitutional Act No. 493/2011 Coll. on fiscal responsibility).

rules for the indexation of individual items based on macroeconomic and demographic indicators, as well as legislative changes and other measures adopted before the approval of the government's manifesto and the vote of confidence in the government (21 November 2023).

- Over the medium-term, the estimates of developments in government revenue and expenditure items are indexed by macroeconomic indicators taken from the Macroeconomic Forecasting Committee (MFC) forecast of 8 November 2023 (the CBR normally uses its own estimate of macroeconomic developments). The forecast was rated as realistic by all members of the committee.
- The estimates of government revenue and expenditure items projected by the Tax Revenue Forecasting Committee have been taken over in full from the Committee's November forecast (for these items, the CBR normally uses its own estimates). This involves the medium-term forecast for most of the revenues from taxes and social contributions (TRFC), selected non-tax revenue and selected expenditure items. The Committee's forecast was deemed realistic by all of its members when considering the endorsed MFC's macroeconomic forecast.
- The estimates of the use of EU funds and the funds from the Recovery and Resilience Facility (RRF), including co-financing and VAT under RRF, were taken entirely from the Macroeconomic Forecasting Committee's estimate (the CBR normally uses its own estimates of these items).
- The cyclical component of revenue and expenditure was estimated based on the average value of the output gap estimate by the MFC, CBR and the National Bank of Slovakia in November 2023 (the CBR normally uses its own estimate of the output gap).
- One-off effects are based on the CBR's estimate and include government measures and other effects related to the pandemic, war in Ukraine and energy crisis. In the medium-term, the CBR used the estimate of one-off expenditures related to energy crisis and war in Ukraine from the documents provided by the Ministry of Finance (only for 2024, as the Ministry does not assume one-off effects in the subsequent years). The approach to identifying these one-off effects was identical as in a standard baseline scenario.
- A different approach is also used regarding capital expenditures. The baseline scenario used for the calculation of public expenditure ceilings is based on the estimate of investments funded from national sources for 2023. In subsequent years, this amount is indexed by the projected GDP growth rate without further adjustment. In the baseline scenario using the actual data, expenditure is also indexed by GDP growth rate, but instead of actual capital expenditure, it is based on a four-year average of investments, so that any volatility in investments does not likewise lead to sharp year-on-year changes in the long-term sustainability indicator.
- The debt interest payments are estimated in more detail over the medium-term using the ARDAL debt issue plan and are based on the completed issues of debt instruments up to the end of November 2023. Beyond the 2027 horizon, a simplified approach is applied, assuming an average debt maturity of ten years (because the only assumptions available are those for an average yield on ten-year government bonds), with one tenth of the total amount of debt becoming due each year. When scenarios are prepared in a standard manner, this simplified procedure is applied over the entire 50-year horizon.

# 2. Estimated general government balance in 2023

The estimate of the balance in 2023 is based on CBR's most recent forecast prepared on the basis of ongoing fulfilment of the budget in terms of revenue and expenditure. The general government balance estimate under the ESA2010 methodology is mainly based on the data available in the reporting system of the Ministry of Finance and the State Treasury, capturing the cash-based fulfilment of the budget by general government entities, as well as on other inputs prepared on the basis of budget data, available reports for general government entities, new measures approved by the government and the parliament and expert estimates for selected areas of the budget[8].

Compared to the CBR's forecast prepared and published at the end of November 2023, which expects a deficit of 7,310 mn euros (6.0 % of GDP), the estimate of the balance in 2023 has been adjusted as follows:

- In line with the methodology and following a discussion with the Ministry of Finance, the **estimate reflects the Ministry's assumptions for selected areas of the budget**. In addition to items described in Box 1 (e.g., budget revenue and expenditure projected by the Tax Revenue Forecasting Committee, usage of funds from the EU and RRF), the CBR's estimate has been aligned with the assumptions of the Ministry of Finance for the following budget revenues and expenditures:
    - costs of policies related to the pandemic;
    - transfer to the EU budget;
    - accrual budgetary impact of the expenditure on military equipment;
    - the impact of renewable energy subsidies (green energy);
    - current expenditure in the fiscal performance of a public entity Železničná spoločnosť Slovensko (the Railway Company Slovakia, ŽSSK).
- The estimate **excludes the effect of the special allowance for pensioners**, the costs of which come in at 440 mn euros (0.4 % of GDP), because this is a measure adopted by the government after the approval of the government's manifesto. In the CBR's November forecast, which takes into account all measures relevant for the fulfilment of the budget irrespective of the date of their adoption, these expenditures were included in the estimated deficit.
- At the same time, the **estimate also reflects new information unknown at the time of publication of the CBR's November forecast**. Based on the government document[9], the expected amount of refunds for energy compensations from EU funds has been updated. At the same time, the estimated expenditure in connection with permanent kurzarbeit has been revised downwards due to low uptake in the first nine months.

8 Technical estimates of the balance, along with identified risks (the so-called "Budgetary Traffic Lights") are published by the CBR every month on the CBR's website.

9 The document titled Informácia o stave implementácie európskych štrukturálnych a investičných fondov 2014 – 2020 a Programu Slovensko 2021 – 2027 k 24.11.2023 (Information about the state of affairs in the implementation of European structural and investment funds 2014 – 2020 and Program Slovensko 2021 – 2027) as of 24 November 2023).

Given the assumptions stated above, the baseline scenario bases the **estimate of general government deficit in 2023 at 7,086 mn euros (5.8 % of GDP)**. Compared to the general government budget approved for 2023, the deficit is lower by 785 mn euros (0.6 % of GDP), with the main differences summarised in Table 1. Compared to the estimate published by the Ministry of Finance in the budget proposal for 2024-2026, the difference is amounting to 862 mn euros (0.7 % of GDP).

**Table 1: Differences between selected revenue and expenditure items and the approved budget**

| Differences compared to budget, on a consolidated basis | million euro | in % of GDP |
|---|---|---|
| **Approved general government budget deficit in 2023** | **-7,871** | **-6.4** |
| **CBR's estimate for the baseline scenario** | **-7,086** | **-5.8** |
| **Difference** | **785** | **0.6** |
| Government measures to compensate for energy prices | 1,409 | 1.2 |
| Transactions with the EU budget | 584 | 0.5 |
| Interest revenue and expenditure | 410 | 0.3 |
| Capital expenditure of the state budget | 407 | 0.3 |
| Current expenditure of the state budget | 332 | 0.3 |
| Other effects | -53 | -0.1 |
| Selected non-tax revenues | -138 | -0.1 |
| Tax revenues | -335 | -0.3 |
| Fiscal performance of local governments | -385 | -0.3 |
| Health expenditure | -472 | -0.4 |
| Fiscal performance of other general government entities | -501 | -0.4 |
| Social transfers and benefits | -612 | -0.5 |

*Source: CBR*

**The government's measures related to the compensation of energy prices in 2023, including windfall revenues, improve the deficit by 1,409 mn euros compared to the budget.** The most significant positive impact is due to the refunds of household energy expenditure from EU funds, which is estimated to total 1,033 mn euros[10]. Also, European market energy prices are lower than expected in the budget.

**As far as transactions with the EU budget are concerned, a 584 mn decline in expenditure has been identified when compared to the budget, mainly due to the lower uptake of co-financing expenditure foreseen by the Macroeconomic Forecasting Committee.** The CBR expects a saving of 64 mn euros because the subject provision designated to cover for the corrections in the absorption of EU funds was not entirely spent, while a saving of 29 mn euros is estimated in the transfer to the EU budget.

**The positive impact of interest revenue and expenditure is estimated by the CBR at 410 mn euros**, with two factors contributing to the improvement of the budgeted deficit in this area. Already at the time of evaluation of the budget proposal for the 2023-2025 period, the CBR highlighted a positive risk to the budget balance when a higher estimate of ARDAL costs associated with resources available under the State Treasury refinancing system (mainly deposits and balances on the accounts of the

[10] The CBR is of the opinion that refunds from EU sources related to expenditure in 2023 and from EU funds under the 2014-2020 programming period (with a final date for spending in 2023) must be included in the balance in 2023, even if the actual payment does not take place until 2024.

general government entities) was not reflected in the budgeted interest revenues. At the same time, higher interest revenues during the year were due to the interest revenue on the State Treasury's liquidity buffer resulting from higher interest rates on the market.

The slower pace of implementing investments compared to budget assumptions is reflected in **lower expected capital expenditure at 407 mn euros**. Such savings are also attributable to the failure to meet the budgetary expectations concerning the delivery of military equipment which, according to the ESA 2010 methodology, only becomes part of the general government deficit at the time of delivery.

**Compared to the budget, the CBR estimates lower expenditure of 332 mn euros in the current expenditure of the state budget.** The most significant savings include lower spending on goods and services at 187 mn euros and current reserves (except for EU and wages) at 155 mn euros, both of which were spent predominantly to cover additional expenditure of local governments and other general government entities. The positive impact of the scheme for subsidising renewable energy sources (green energy) compared to the budget assumptions comes in at 152 mn euros.

**In comparison with the budgeted level, the estimated amount of collected non-tax revenues is lower by 138 mn euros.** The most significant shortfalls are expected in the revenue from dividends projected by the TRFC at 110 mn euros, revenue from administrative charges totalling 102 mn euros and revenue of Železnice Slovenskej republiky (Railways of the Slovak Republic, ŽSR) in the amount of 32 mn euros. On the contrary, higher revenues compared to the budget were projected by the TRFC in connection with the gambling levy (by 45 mn euros) and the receipts of the Národná diaľničná spoločnosť (National Motorway Company, NDS) (by 17 mn euros); the CBR also estimates an increase in ŽSSK's revenues (by 19 mn euros).

**In line with the November forecast of the Tax Revenue Forecasting Committee, the CBR expects, in comparison with the budgeted amount, a decline by 335 mn euros in revenue from taxes and social contributions, excluding temporary revenue.** Revenue is estimated to be lower in VAT by 488 mn euros, personal income tax (excl. tax assignation and tax credits) by 220 mn euros, and in health and social contributions by 219 mn euros. The CBR expects higher-than-budgeted revenues in corporate income tax by 363 mn euros, and in other taxes by 95 mn euros.

**With a negative impact of 272 mn euros, the fiscal performance of municipalities is the main contributor to the worsened performance of local governments by 385 mn euros compared to budgeted levels.** Capital expenditure is estimated to be higher by 250 mn euros, as are current transfers, up 166 mn euros, and personnel expenditure, up 120 mn euros in comparison with the budgeted level. For municipalities, the CBR expects a worsened fiscal performance, mainly due to higher capital expenditure arising from a faster pace of spending observed in the third quarter.

**In case of health expenditure, CBR expects an increase by 472 mn euros compared to the budget.** The higher expected amount is mainly due to increased expenditure on health care (a negative impact of 336 mn euros) and worse fiscal performance of hospitals, with an impact of 129 mn euros.

**Other general government entities are expected to perform worse compared to the budgeted levels by 501 mn euros.** The most significant negative impact is estimated under the fiscal performance of organisations partly funded from the state budget (157 mn euros), ŽSR (122 mn euros), NDS (111 mn euros), public universities (93 mn euros), radio and television broadcaster RTVS (26 mn euros) and the National Nuclear Fund (NNF) (25 mn euros).

**As part of expenditures on social benefits and transfers, the CBR estimates an increase compared to the budgeted amount by 612 mn euros**, which is mainly due to the Social Insurance Agency’s expenditures associated with the extraordinary indexation of pensions in July 2023.

# 3. Baseline scenario of 2023 and the long-term sustainability indicator

Based on the estimated balance in 2023, the baseline scenario assumes that, without taking additional measures, the deficit would gradually deteriorate from 5.8% of GDP in 2023 to 7.2% of GDP in 2027 (Table 2). Such an increase in the deficit would lead to a sharp increase in the debt-to-GDP ratio above 70% of GDP by the end of 2027. **In line with the current legislation, this scenario[11] is used in the calculation of the public expenditure ceiling for 2024-2027.**

**Table 2: Baseline scenario using 2023 as the baseline year (million euro)**

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| 1. General government revenue | 50,841 | 52,205 | 54,441 | 54,497 | 56,069 |
| 2. General government expenditure | -57,927 | -60,418 | -63,323 | -64,528 | -66,937 |
| **3. General government balance (1-2)** | **-7,086** | **-8,213** | **-8,882** | **-10,031** | **-10,868** |
| **- in % of GDP** | **-5.8** | **-6.2** | **-6.4** | **-6.9** | **-7.2** |
| 4. Cyclical component | -47 | -245 | -66 | 101 | 250 |
| - revenue | -37 | -233 | -67 | 96 | 248 |
| - expenditure | -9 | -12 | 1 | 5 | 2 |
| 5. One-off effects | -1,826 | -709 | 0 | 0 | 0 |
| - revenue | 421 | 1 | 0 | 0 | 0 |
| - expenditure | -2,247 | -710 | 0 | 0 | 0 |
| **6. Structural balance (3-4-5)** | **-5,213** | **-7,260** | **-8,816** | **-10,131** | **-11,118** |
| **- in % of GDP** | **-4.3** | **-5.5** | **-6.4** | **-7.0** | **-7.4** |
| - year-on-year change | | -1.2 | -0.8 | -0.7 | -0.4 |
| **7. General government gross debt (% of GDP)** | **57.0** | **59.2** | **62.0** | **67.2** | **71.4** |
| ***Long-term sustainability indicator (% of GDP)*** | ***7.3*** | | | | |

*Source: CBR*

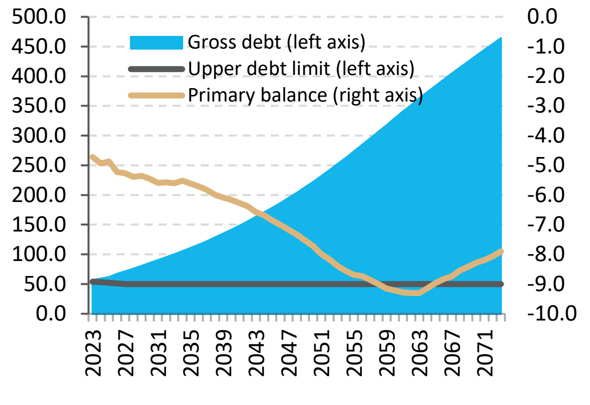
Under the baseline scenario, the CBR estimates a structural deficit of 4.3% of GDP in 2023. The high baseline level of the structural deficit is also caused by measures approved during 2023 before the approval of the government's manifesto and the vote of confidence in the government (a detailed list of legislative measures approved in 2023 is available in Annex 2). The measures introduced in 2023 increase the structural deficit by more than 800 mn euros (0.7% of GDP) in 2023 and their impact will gradually rise to 1.3 bn euros (0.8% of GDP) at the end of the horizon in 2027. In particular, these include the introduction of free meals at schools, the expenditure related to the Recovery and Resilience Plan (the Schools Act, funding for science and research), investments in industrial parks, as well as changes in social benefits.

Over the medium-term, the CBR estimates the structural deficit to deteriorate by 3.1 p.p. from 4.3% of GDP in 2023 to 7.4% of GDP in 2027, assuming no changes in policies. The main contributors to this development include the tax committee's estimate of the structural revenue from taxes and social

[11] The general government revenue and expenditure balance under the entire baseline scenario is provided in Annex 1. A detailed calculation of the baseline scenario is published along with this document.

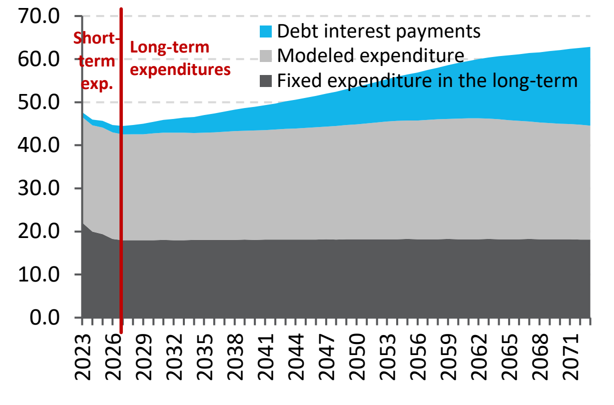
contributions[12] (down by as much as 2.1 p.p.), increase in debt interest payments (contributing with 0.8 p.p.), along with an increase in defence expenditure to 2 % of GDP per year (0.4 p.p.).

**Chart 1: Debt and primary balance projection under the baseline scenario (% of GDP)**




*Source: CBR*

**Chart 2: Expenditure projection under the baseline scenario (% of GDP)**




*Source: CBR*

In the long-run, **general government debt would rise uncontrollably over the entire horizon, according to this model forecast**. In no single year it would fall below the highest debt-brake sanction bracket and the Maastricht criterion of 60% of GDP would be exceeded already in 2025. **Assuming no changes in policies, the debt would reach 464.3% of GDP at the end of 2073** (Chart 1)**.** This is a hypothetical scenario, as markets would stop financing Slovakia's needs at significantly lower debt levels. Taking into account the response from financial markets, but also from households and businesses, the year of Slovakia's theoretical inability to finance itself is getting significantly closer. At the same time, the Fiscal Responsibility Act sets the upper debt limit at 50% of GDP and defines graduated sanctions in case the debt starts approaching it. On this basis, the government would be required to respond to an increasing debt by introducing measures in line with the prescribed sanctions, which should prevent the debt from staying above the upper band.

In the long-term perspective, the debt increase is determined by the rising expenditure sensitive to population ageing[13]. In turn, an increasing debt would cause the amount of interest paid to rise sharply, thus contributing to a further increase in the debt (Chart 2).

Assuming that the baseline scenario materialises, the long-term sustainability indicator would reach 7.3% of GDP[14], which means **high[15] risks related to the long-term sustainability of public finances**.

[12] The decline is particularly attributable to value added tax (contributing with 0.7 p.p.), excise tax (0.3 p.p.) and corporate income tax (0.3 p.p.).

[13] In comparison with 2027, the share of expenditure sensitive to population ageing will increase by 2 p.p. by 2073 (Annex 1).

[14] The presented value of the indicator is not directly comparable with the values published by the CBR every year in April in its regular reports on long-term sustainability based on the actual data published by the Statistical Office of the Slovak Republic. The differences are in particular due to reasons explained in Box 1.

[15] The Council considers the long-term sustainability indicator below 1% of GDP a moderate deviation from long-term sustainability associated with a low level of risk. The indicator value between 1 and 5% of GDP represents a medium risk. The long-term sustainability indicator above 5% of GDP is considered a high risk to the long-term sustainability of public finances.

# Annex 1 - Baseline scenario based on the 2023 estimates

**Table 3: Baseline scenario for the development in public finances – estimated balance in 2023 (% of GDP)**

| | | Medium-term scenario | | | | Long-term projections | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2030 | 2040 | 2050 | 2060 | 2073 |
| **Revenues** | **41.8** | **39.7** | **39.3** | **37.8** | **37.3** | **37.3** | **37.3** | **37.1** | **37.0** | **36.7** |
| Tax revenues | 19.7 | 18.5 | 18.3 | 17.9 | 17.8 | 17.7 | 17.7 | 17.7 | 17.7 | 17.7 |
| - payments to NNF | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - other tax revenue | 19.6 | 18.5 | 18.2 | 17.9 | 17.7 | 17.7 | 17.7 | 17.7 | 17.7 | 17.7 |
| Social security and healthcare contributions | 15.5 | 15.3 | 15.3 | 15.4 | 15.5 | 15.5 | 15.5 | 15.4 | 15.2 | 15.0 |
| - Social security and healthcare contributions (including the fully funded pension scheme) | 16.0 | 15.9 | 16.0 | 16.1 | 16.2 | 16.3 | 16.5 | 16.5 | 16.6 | 16.5 |
| - Shortfall in the fully funded pension scheme | -0.9 | -1.0 | -1.0 | -1.1 | -1.1 | -1.1 | -1.3 | -1.5 | -1.8 | -2.0 |
| - Social insurance of armed forces | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Non-tax revenue | 6.7 | 5.8 | 5.6 | 4.4 | 4.0 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| - payments to BIDSF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - property income | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 |
| - revenue relating to long-term care | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| - other non-tax revenue | 5.7 | 5.0 | 4.8 | 3.7 | 3.3 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| **Expenditure** | **47.7** | **45.9** | **45.7** | **44.7** | **44.5** | **45.4** | **48.9** | **53.5** | **59.1** | **62.8** |
| Primary expenditure | 46.6 | 44.6 | 44.1 | 43.0 | 42.5 | 42.8 | 43.4 | 44.9 | 46.2 | 44.6 |
| Fixed in the long-term part | 22.1 | 20.0 | 19.4 | 18.3 | 17.9 | 18.0 | 18.1 | 18.2 | 18.2 | 18.1 |
| Expenditure sensitive to demography | 24.3 | 24.5 | 24.5 | 24.5 | 24.4 | 24.6 | 25.3 | 26.7 | 28.0 | 26.4 |
| - Pension benefits | 8.7 | 8.9 | 9.0 | 8.9 | 8.9 | 9.0 | 9.3 | 9.9 | 10.4 | 9.3 |
| - Armed forces | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| - Health care | 5.9 | 5.8 | 5.9 | 5.9 | 6.0 | 6.1 | 6.5 | 6.7 | 6.8 | 6.6 |
| - Long-term care | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.7 | 1.9 | 2.3 | 2.5 |
| - Education | 4.6 | 4.7 | 4.8 | 4.8 | 4.7 | 4.7 | 4.4 | 4.6 | 4.9 | 4.6 |
| - Unemployment benefits | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| - Sickness and accident benefits | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.1 | 1.0 | 1.1 |
| - Other social transfers | 2.3 | 2.3 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 | 1.8 | 1.8 | 1.7 |
| Costs of NPP decommissioning | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| PPP projects and maintenance costs | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Interest payments | 1.1 | 1.3 | 1.5 | 1.7 | 1.9 | 2.7 | 5.5 | 8.7 | 12.9 | 18.3 |
| **General government balance** | **-5.8** | **-6.2** | **-6.4** | **-6.9** | **-7.2** | **-8.1** | **-11.7** | **-16.4** | **-22.1** | **-26.2** |
| **General government primary balance** | **-4.7** | **-4.9** | **-4.9** | **-5.2** | **-5.3** | **-5.5** | **-6.2** | **-7.7** | **-9.2** | **-7.9** |
| **General government structural balance** | **-4.3** | **-5.5** | **-6.4** | **-7.0** | **-7.4** | **-8.2** | **-11.7** | **-16.4** | **-22.1** | **-26.2** |
| **Structural primary balance** | **-3.2** | **-4.2** | **-4.8** | **-5.3** | **-5.4** | **-5.5** | **-6.2** | **-7.7** | **-9.2** | **-7.9** |
| **General government gross debt** | **57.0** | **59.2** | **62.0** | **67.2** | **71.4** | **85.4** | **141.8** | **222.0** | **329.0** | **464.3** |

*Source: CBR*

# Annex 2 – List of measures approved in 2023

**Table 4: Measures adopted in 2023 before the approval of the new government's manifesto (thousand euro, differences against the NPC, excl. one-off measures)**

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Free meals in schools | -114,722 | -192,582 | -192,673 | -192,049 | -191,319 |
| Schools Act | 0 | -115,891 | -231,717 | -282,093 | -294,227 |
| Provision of funds from the state financial assets to finance investments in Valaliky | -15,421 | -114,514 | -178,105 | -114,157 | -1,007 |
| Draft national strategy for research, development and innovation | 0 | -57,200 | -190,500 | -325,300 | -336,140 |
| Abolition of television/radio licence fee | -34,836 | -76,146 | -77,061 | -77,990 | -78,930 |
| Long-term plan for educational activities in the higher education sector for 2023-2028 | 0 | -47,311 | -67,576 | -87,676 | -67,494 |
| Extraordinary indexation of parental allowance | -51,559 | -40,082 | -41,166 | -41,307 | -40,649 |
| Determination of the number of administrative capacities for EU funds technical assistance (2021-2027) | 0 | -37,400 | -31,701 | -31,612 | -33,104 |
| Reducing taxation on the sale of virtual currencies, securities and units | 0 | -24,713 | -30,874 | -31,688 | -32,523 |
| Changing the registration fees for passenger cars | -13,500 | -27,000 | -27,000 | -27,000 | -27,000 |
| Changes in minimal pensions | -10,915 | -25,993 | -26,059 | -26,396 | -27,274 |
| Act on RTVS: 0.17% of GDP for RTVS | 0 | -23,133 | -35,379 | -49,571 | -51,198 |
| Assistance in material need | -14,115 | -22,975 | -21,987 | -22,996 | -23,112 |
| Increased housing allowance for the staff of the Prison and Court Guard Service | -10,388 | -15,784 | -16,432 | -17,055 | -17,679 |
| Personal assistants in schools | -3,567 | -13,363 | -15,116 | -17,110 | -17,517 |
| The Criminal Record Act | 0 | -4,928 | -925 | -234 | -245 |
| Action plan for the development of electromobility | 0 | -4,554 | -2,533 | -2,532 | -2,531 |
| Adjustment of reimbursement for emergency outpatient facilities | -3,892 | -4,424 | -4,730 | -4,951 | -5,248 |
| Act on the European Capital of Culture (Trenčín) | -2,000 | -3,500 | -5,735 | -11,185 | -800 |
| Act on air pollution charges | -3,653 | -2,917 | -1,814 | -702 | -702 |
| Decree of the Ministry of Justice of the Slovak Republic on the administration and office rules of courts | 0 | -2,660 | -2,575 | -2,695 | -2,816 |
| Increasing the resilience of the Slovak Republic against hybrid threats towards public administration capacities | -157 | -2,177 | -2,280 | -2,378 | -2,478 |
| Solving application problems in the Act on information technologies in public sector | -388 | -1,466 | -1,545 | -1,620 | -1,697 |
| Measure of the Ministry of Labour, Social Affairs and Family on cash allowances for persons with severe disability | -279 | -1,431 | -1,607 | -1,720 | -1,761 |
| Childbirth allowance | -930 | -1,391 | -1,387 | -1,373 | -1,359 |
| Financial allowance for social service provision | 0 | -1,361 | 0 | 0 | 0 |
| Integrated Health System Act | -952 | -1,238 | -1,211 | -1,270 | -1,329 |
| Air Protection Act | -1,108 | -1,232 | -1,319 | -1,402 | -1,487 |
| Government proposal concerning the minimum network of healthcare providers –Trnava hospital | -920 | -1,227 | -1,312 | -1,373 | -1,455 |
| Amendment to the Regional Housing Support Act | -1,110 | -1,164 | -1,195 | -1,224 | -1,253 |
| Declaration and zoning of the national park Slovenský kras | 0 | -1,151 | -1,157 | -1,186 | -1,214 |
| Waste disposal at the Chemko Strážske site | 0 | -1,000 | -5,000 | 0 | 0 |
| Extraordinary indexation of pensions | -523,566 | 0 | 0 | 0 | 0 |
| Streamlining the functioning of the Slovak Rescue Service | 0 | 0 | 1,550 | 15,889 | 19,380 |
| Organisational and technical support for general election in 2023 | -15,136 | 15,971 | 0 | 0 | 0 |
| Other measures | -7,457 | -7,491 | -5,196 | -5,310 | -5,117 |
| **Total impacts of measures against the NPC scenario** | **-830,572** | **-863,430** | **-1,223,316** | **-1,369,268** | **-1,251,286** |
| **Total impacts of measures against the NPC (% of GDP)** | **-0.68** | **-0.66** | **-0.88** | **-0.95** | **-0.83** |

*Note.: The impacts of legislative changes are taken from official documents (Tax Revenue Forecasting Committee documents, impact clauses), from the documents provided by the Ministry of Finance and the CBR's own estimates, and are expressed in reference to the developments in public finances under the no-policy change scenario (NPC).*

*Source: CBR, MF SR, parliament, government of the Slovak Republic*

# Annex 3 – Justification of differences between the 2023 general government balance estimates by the CBR and the Ministry of Finance

As part of preparing the estimate of the balance in the baseline year, the CBR participated in technical discussions with the Ministry of Finance on 29 November 2023 in order to consider objective facts that have an impact on the assessment of the current budgetary situation. On the basis of this discussion, the CBR has revised its initial estimate, with the individual changes being described in Part 2.

Even though the estimates have been partially aligned, the CBR's forecast for the developments in 2023 differs from the Ministry's estimate in certain revenue and expenditure items of the budget. The table below shows the differences between the CBR's estimate used during the preparation of the 2023 baseline scenario and the expected actual results in 2023, as published by the Ministry of Finance in the General Government Budget Proposal for 2024-2026. The positive deviation of the CBR's estimate amounts to 0.7 % of GDP.

**Table 5: Differences between the CBR's estimate of the 2023 balance and the expected actual figures provided by the Ministry of Finance**

| Impacts on the balance, on a non-consolidated basis | million euro | in % of GDP |
|---|---|---|
| **Approved general government budget deficit in 2023** | **-7,871** | **-6.4** |
| **CBR's estimate for the baseline scenario** | **-7,086** | **-5.8** |
| **Difference** | **862** | **0.7** |
| **1. Revenue from taxes and social contributions** | **51** | **0.0** |
| a) Items assessed by the TRFC* | 40 | 0.0 |
| b) Other items | 11 | 0.0 |
| **2. State budget** | **997** | **0.8** |
| a) Non-tax revenue | 20 | 0.0 |
| b) Debt interest payments | 118 | 0.1 |
| c) Transactions with the EU budget | 64 | 0.1 |
| d) Government measures to compensate for energy prices | 343 | 0.3 |
| e) Extraordinary allowance for pensioners** | 440 | 0.4 |
| f) Other items of the state budget | 13 | 0.0 |
| **3. Other general government entities** | **-187** | **-0.2** |
| a) Social Insurance Agency | 54 | 0.0 |
| b) Health insurers | -118 | -0.1 |
| c) Local government (excl. taxes) | -243 | -0.2 |
| d) Healthcare facilities | 40 | 0.0 |
| e) Railway operator ŽSR | 24 | 0.0 |
| f) Other entities | 56 | 0.0 |

*Source: CBR*

** An update to the revenue from taxes and social contributions based on another TRFC meeting held on 7 December 2023 to assess the impacts of new government's measures (not included in the baseline scenario).*
*** New government measure, not included in the baseline scenario.*

In terms of **revenues from taxes and contributions**, the CBR's estimate uses the November 2023 forecast of the Tax Revenue Forecasting Committee (TRFC) which was prepared for the purposes of the baseline scenario. On the other hand, the expected actual result of the Ministry of Finance incorporates the TRFC's forecast of December 2023. Having considered the current developments, the expected revenue from taxes and social contributions has been slightly revised downwards by 40 mn euros.

The general government deficit estimated by the CBR compared to the Ministry of Finance is positively influenced by the **transactions with the EU budget**, in particular the lower assumed spending of the co-financing and VAT expenditure under the Recovery and Resilience Plan. In its estimate, the CBR fully adopts the assumptions of the Macroeconomic Forecasting Committee to ensure the highest possible degree of consistency with the economic outlook applied.

The **negative impact of expenditure for compensating the energy prices** is lower in the CBR's estimate, compared to the estimate of the Ministry of Finance due to the higher assumed rate of refunds from the EU. Based on the documents approved by the government, the CBR expects the refunds to exceed 1 bn euros, while the Ministry's estimate assumes about half that level. The magnitude of this deviation between the estimates is partly mitigated by the higher absorption of expenditure expected by the CBR in comparison with the Ministry of Finance under the compensation schemes implemented by the Ministry of Economy. The CBR is of the opinion that refunds from EU sources related to expenditure in 2023 and from EU funds under the 2014-2020 programming period (with a final date for spending in 2023) must be included in the balance in 2023, even if the actual payment does not take place until 2024.

The estimate does not include the **impact of extraordinary allowance for pensioners**, because this is a measure adopted by the government following the approval of the manifesto. However, the expenditures concerning this measure are included in the actual figures expected by the Ministry, thus giving rise to a positive impact on the general government balance in the CBR's estimate.

Regarding the **performance of health insurance companies, excluding revenue from contributions**, the CBR estimates, in comparison with the Ministry of Finance, a faster growth of health care expenditure, as well as a higher expenditure for the transfers to the shareholders of private health insurers. In its estimate of expenditure, the CBR considered the situation in the spending of accrued expenditure at the end of September; the assumed level of the transfer is based on the levels recorded in previous years.

The general government deficit estimated by the CBR compared to the actual figures expected by the Ministry of Finance has a negative impact on the **fiscal performance of local governments**, in particular due to increased spending of their capital expenditure. In estimating the year-end result, the CBR bases its estimate on the state of affairs at the end of the third quarter, when, due to the closing of the programming period for the spending of EU funds, a year-on-year increase in absorption was observed in comparison with the high level seen in the previous year due to the municipal elections.

As regards other **revenue and expenditure items of the budget**, the CBR's estimate deviates from that of the Ministry of Finance with an overall slightly positive impact on the deficit. Beyond the items taken from the TRFC's projections or the assumptions of the Ministry of Finance, the CBR's forecast is based on data on the current progress in revenue and expenditure spending at the end of October in the case of the state budget and, for other general government entities, at the end of September.

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