Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules for 2022

August 2023

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This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in 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**.

Summary

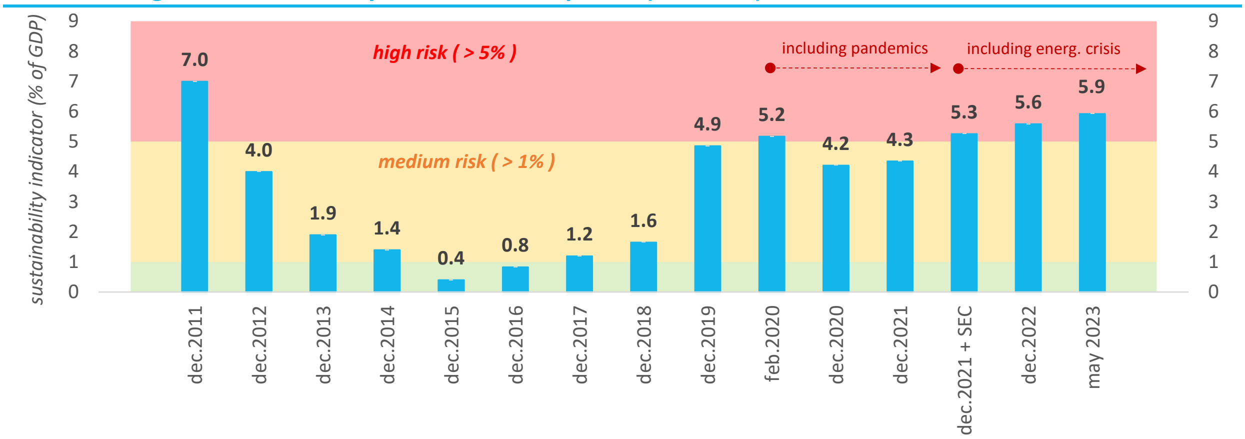
The evaluation report on the compliance with the fiscal responsibility and fiscal transparency rules annually assesses, always by 31 August, the compliance with the rules under the constitutional Fiscal Responsibility Act[1] for the previous year. In addition to evaluating the development of long-term sustainability of public finances, the most significant objective pursued by the act, it also assesses compliance with the constitutional debt limit, as well as other statutory obligations, especially in the area of information disclosure, local government debt, and the funding of local governments' competences.

Long-term sustainability of public finances

The key objective of fiscal responsibility is to **achieve sustainable public finances**. The protection of long-term sustainability of Slovakia's economic performance, taking into account the compliance with the principles of transparency and effectiveness of public spending, was enshrined in an amendment to the Constitution of the Slovak Republic[2] in 2020.

In its evaluation[3], the Council noted that **the long-term sustainability of public finances, taking into account the most recent medium-term balance estimate of May 2023, has not been achieved**. **The long-term sustainability indicator reached 5.9% of GDP,** which implies that **public finances are in the high-risk zone.** Therefore, a permanent revenue increase and/or expenditure reduction of EUR 7.6 billion would be needed to ensure long-term sustainability.

Chart 1: Long-term sustainability indicator development (% of GDP)



Note: SEC – security and energy crisis, including the impact of the war in Ukraine *Source: CBR*

Given the poor state of public finances – affected also by external factors beyond the government's control (the security and energy crisis) in addition to the adopted measures having a negative impact on the balance, the government should start working as soon as possible towards improving sustainability. In addition, the necessity of improving the long-term sustainability is

1 Act No. 493/2011 on Fiscal Responsibility.
2 Under constitutional act No. 422/2020 Coll., Article 55a was added to the Constitution of the Slovak Republic (460/1992 Coll.), effective from 1 January 2021.
3 CBR, Medium-term Fiscal Outlook for 2023-2026, May 2023.

augmented by the current high level of gross debt which is now, for the third year in a row, above the highest sanction bracket of the debt brake. In the medium term, even the estimate of an exceptionally strong inflation effect, along with the projections of real economic growth, are not expected to outweigh the very unfavourable outlook for public finances. Without taking additional consolidation measures, the current debt level will pose an increasing risk to the sustainability of public finances. **It is therefore essential to prepare and implement a credible plan for a gradual, albeit reasonably ambitious consolidation of public finances over the medium term.**

Long-term sustainability could also be improved with the contribution of an effective implementation of expenditure ceilings. In fact, the expenditure ceiling for 2023 does not constitute a binding rule due to an exemption currently applied as a result of the rules under the EU's Stability and Growth Pact; however, as from 2024, when this exemption is expected to expire, the ceilings could secure a gradual improvement in long-term sustainability.

It should be added, though, that **compliance with expenditure ceilings, in and of itself, at the minimum level required by law for improving the long-term sustainability[4] will not be sufficient for stabilising the debt in the medium term[5] and, from this perspective, the consolidation of public finances should be more ambitious.**

The current wording of the constitutional act has not provided sufficient protection of long-term sustainability in particular due to the formal approach of governments, as well as of the parliament, when it comes to the fulfilment of debt brake sanctions; therefore, it would be advisable to amend the constitutional act in a manner that reflects the current debt trends and the need for effective liquidity management while at the same time ensuring that the debt brake combined with expenditure ceilings become an effective instruments for improving long-term sustainability. For this reason, it was with great regret that the Council took note of the fact that, after two years of delays, the vote on an amendment to the constitutional Fiscal Responsibility Act, which had been prepared for quite some time, was put off to the next election term. The promises that the debt brake would be updated along with enacting the national fiscal responsibility rules (including expenditure ceilings) within a single constitutional law have thus not been met.

The Council warns that the current situation also translates into a lack of synergy between the debt brake sanctions and expenditure ceilings, and thus the intended remedial effects of the national rules on public finances could be left unused.

4 The law requires an annual improvement of the long-term sustainability indicator by 0.5% of GDP for the medium- and high-risk zones of long-term sustainability. From the CBR's point of view, such a requirement does not sufficiently reflect the severity of the situation where public finances fall within the high-risk zone. Therefore, in preparing the law, the CBR preferred a stricter requirement for improving the long-term sustainability (by 0.75% of GDP per year) when public finances enter the high-risk zone.

5 Based on CBR's simplified calculation, when meeting the expenditure ceilings between 2024 and 2026 (i.e., the ceilings submitted by the CBR to the parliament on 30 June 2023 as an update to the applicable ceilings, including an assumption that achieving a balanced budget in 2024 is not necessary), the debt would increase from 57.0% of GDP in 2023 to 59.9% of GDP in 2026.

Fiscal responsibility rules

In order to achieve long term sustainability of public finances, the law assumes the existence of expenditure ceilings and the general government debt limit (the so-called debt brake). Both of these instruments are expected to contribute to achieving the long-term sustainability of public finances.

General government debt limit

The debt-to-GDP ratio in 2021 and 2022 has exceeded the highest debt brake level, i.e., surpassing the fifth sanction bracket[6]. Based on data published by Eurostat in October 2022, the debt reached 61.0% of GDP at the end of 2021 and, based on preliminary[7] data from April 2023, 57.8% of GDP at the end of 2022.

As the 24-month exemption from the application of stricter sanctions under the constitutional act[8] has expired on 5 May 2023, the **debt level for 2021 was only subject to the sanctions applicable to overrunning the second sanction bracket of the debt brake while the exemption was still in effect**.

Table 1: Evaluation of compliance with debt brake sanctions for 2021

Wording of the constitutional act	Compliance	Notes
The government will submit to the parliament a proposal for debt-reduction measures.	**formally fulfilled**	The minimum number of specific debt-reduction measures that were submitted for 2024-2025 did not meet the objective of the constitutional Fiscal Responsibility Act to ensure the long-term sustainability of public finances.
The salaries of Cabinet members will be reduced to the previous fiscal year's level if their salaries were lower in the previous fiscal year.	**not fulfilled between 01/01 and 04/30/2022***	Between 1 January 2022 and 30 April 2022, the salaries of Cabinet members increased year-on-year, thus constituting a breach of the sanction imposed by the constitutional Fiscal Responsibility Act. As of 1 May 2022, the salaries were reduced to the level seen in 2021.

** CBR's evaluation differs from the position of the Government Office, based on which compliance with this sanction required that salaries were to be reduced to the previous year's level as of 1 May 2022, i.e. after the publication of the debt level for 2021.*
Source: CBR

The debt level achieved for 2022 is currently associated with sanctions resulting from overrunning all of the five sanction brackets of the debt brake. The debt brake sanctions are applied cumulatively, starting with the sanctions for overrunning the second bracket up to the highest sanction bracket.

6 In 2021, the highest sanction bracket was defined as gross debt-to-GDP ratio being equal to or higher than 56% of GDP.
7 The debt-to-GDP ratio for 2022 will definitively be confirmed in the autumn notification to be published in October 2023.
8 The obligation to apply the sanctions triggered by the overrun of the third, fourth and fifth sanction bracket under the debt brake does not apply to the period of 24 months from the approval of the government's manifesto. As the parliament approved the 2021-2024 government's manifesto on 4 May 2021, the obligations arising from overrunning the said sanction brackets of the constitutional Fiscal Responsibility Act were first applied as from 5 May 2023.

Table 2: Evaluation of compliance with debt brake sanctions for 2022

Wording of the constitutional act	Compliance	Notes
The government will submit to the parliament a proposal for debt-reduction measures.	**not fulfilled yet**	The Act does not set a deadline for submitting a proposal for measures.
The salaries of Cabinet members will be reduced to the previous fiscal year's level if their salaries were lower in the previous fiscal year.	**pending**	In 2023, the salaries of Cabinet members remained at the level as of 1 May 2022 or the level in 2021.
The Ministry of Finance will cut 3% of the state budget expenditure set by law.	**formally fulfilled**	The Ministry of Finance cut 3% of the state budget expenditures with no impact on the budget balance; hence the purpose of this sanction, i.e., reducing the general government debt, has not been met.
The reserve fund of the prime minister and the reserve fund of the government are blocked for spending.	**pending**	Evaluation will only be possible after the end of 2023 or after the expiry of the sanction. According to the Ministry of Finance, no funds were released from the reserve funds of the government or the prime minister between 5 May 2023 and 24 August 2023.
The government may not submit to the parliament such a general government budget proposal for 2024 which entails an annual nominal increase in consolidated expenditure compared with the budget approved for 2023.	**not fulfilled yet**	The deadline for submitting the general government budget proposal to the parliament is 15 October 2023, unless the parliament sets a different deadline.
Local governments are required to approve the budget for 2024 with expenditures not exceeding the level of expenditures in the current year.	**not fulfilled yet**	The deadline for approving the local government budget for 2024 is 31 December 2023.
The government may not submit to the parliament any general government budget for 2024 with a deficit.	**not fulfilled yet**	The deadline for submitting the general government budget proposal to the parliament is 15 October 2023, unless the parliament sets a different deadline.
At the same time, local governments are required to approve only a balanced or surplus* budget for 2024.	**not fulfilled yet**	The deadline for approving the local government budget for 2024 is 31 December 2023.
The government is required to ask the parliament for a vote of confidence.	**fulfilled**	On 15 June 2023, the parliament voted on the government's manifesto; the vote of confidence in the government was held as well. No vote of confidence was given to the government.

** A balanced or surplus budget refers only to the current and capital budgets and does not include financial operations.* *Source: CBR*

Compliance with the above sanctions will also be affected by the approval of the government's manifesto after the early parliamentary elections to be held on 30 September 2023. **The approval of the government's manifesto and the vote of confidence in the government will re-trigger the 24-month exemption from compliance with the sanctions applicable between the third and fifth sanction bracket of the debt brake.**

Despite the high levels of the general government debt, which have been continuously hovering above the highest sanction bracket of the debt brake since 2020, compliance with the sanctions has recently been only formal, with a minimum impact on the reduction of the general government debt:

- The government submits to the parliament, on a repeated basis, a document concerning the justification of the general government debt level and a proposal for debt-reduction measures. In its opinions[9] in the past, the Council has been pointing out that this document does not contain a sufficient number of specific debt-reduction measures, which means that, in reality, the purpose of sanctions, i.e., reducing the general government debt below the sanction brackets, is not met. Moreover, the latest proposal was submitted to the parliament with a 10-month delay after the publication of the debt level; such a timeframe is not reasonable given the size of the debt.
- In May 2023, the government cut 3% of total state budget expenditure, but did so only for items with no impact on the general government balance. Again, such compliance with the provision of the constitutional act was only a formal one, with no impact on the reduction of the general government debt whatsoever.

Over the medium term, the CBR estimates[10] that, without additional measures, gross debt will cumulatively increase by 7.3 p.p. from 57.8% of GDP at the end of 2022 to 65.1% of GDP in 2027. The estimated increase in general government debt is mainly due to very unfavourable developments in the structural primary balance. The highest sanction bracket based on the debt brake will start at **50% of GDP** in 2027, which means that the debt would be **15.1 p.p. above** this threshold. Taking into account the 2-year exemption from the application of the most stringent sanctions of the debt brake following the approval of the new government's manifesto after the early general elections held in the autumn, there is a serious risk of a renewed need to present a balanced general government budget proposal with no increase in expenditure for 2026.

Public expenditure ceilings

In addition to the debt limit, the constitutional act had from the very beginning envisaged introducing an operative fiscal management tool – expenditure ceilings – as an imperative component of responsible fiscal performance. Since the adoption of the constitutional act, it took more than ten years to make the public expenditure ceiling – effective from 1 April 2022 – the key budgetary instrument to achieve the long-term sustainability of public finances. The ceilings were to be applied for the first time with regard to the general government budget for 2023-2025; however, this did not happen due to the absence of an agreement on the ceiling calculation methodology. The Ministry of Finance and the CBR reached an agreement on the methodology for calculating, updating and evaluating compliance with the expenditure ceiling as late as on 22 December 2022, only a few hours after the approval of the 2023 State Budget Act in the parliament. Immediately after reaching the agreement, the CBR calculated and submitted to the parliament the public expenditure ceilings for the years 2023 to 2025. The submitted ceilings were approved by the parliament on 1 February 2023. **After the parliament passed an amendment to the Act on General Government Budgetary Rules and, subsequently, the public expenditure ceilings, the situation encompassing an infringement of the constitutional act[11] has been remedied.** On 22 December 2022, the parliament

9 For example: CBR, Opinion on the proposal of measures reducing the public debt, 15 March 2023 (available only in Slovak).

10 CBR, Medium-term Traffic Lights, version 2023/07, July 2023 (available only in Slovak).

11 GIBA, M., BUJŇÁK, V.: Constitutional-law analysis of selected provisions of the constitutional Fiscal Responsibility Act of 31 July 2020, p. 29: "If there are currently no expenditure ceilings in place, whose existence is envisaged under Article 7(3) in conjunction with Article 1 of the constitutional Fiscal Responsibility Act, it is an unconstitutional situation the responsibility for which is borne by those authorities that have an obligation to set up such ceilings in an appropriate

also approved an exemption from the obligation to bring the budget in line with the expenditure ceiling for as long as the European general escape clause remains activated. **Therefore, in view of the currently applicable general escape clause activated by the European Commission, the government is not required to align the 2023 budget with the ceiling approved by the parliament.**

Therefore, the public expenditure ceiling is not contributing this year to improving the long-term sustainability of public finances as the primary objective of the rule. The first ceilings were, unusually, calculated in the middle of the election term and, considering the fact that a number of measures significantly deteriorating the development of public finances in the medium term[12] had been adopted in the course of 2022, the consolidation of public finances as required by the ceilings was based on a worsened baseline. At the same time, due to the general escape clause being in force during 2023, the government is not required to bring the budget in line with the applicable ceiling. As a consequence, 2023 saw the adoption of a number of other legislative changes causing a permanent increase in expenditure (e.g., subsidies for lunches in schools, support for research and innovation, the School Act) without the need to compensate for their impacts, which is likely to result in significantly overrunning the ceiling[13] valid for 2023. Any consolidation of public finances that is likely to take place in the future will be based on a starting position which incorporates all the measures adopted between 2022 and 2023.

Enacting the expenditure ceilings by a constitutional law would considerably strengthen their binding nature, as originally envisaged under the draft amendment to the constitutional Fiscal Responsibility Act. It would significantly reduce the risk of this instrument being vulnerable to changes that could undermine or completely cancel its capability to ensure the effective fulfilment of the main purpose of expenditure ceilings.

Specific provisions for local governments

The rules applicable to local governments are aimed at separating the responsibility for their solvency from the state, securing the funding of their new tasks by the state and preventing the excessive indebtedness of local governments. For this reason, the following three aspects are evaluated: 1/ whether the state has intervened financially to safeguard the solvency of local governments; 2/ whether the state has assigned new tasks and competencies without providing adequate financial coverage, and 3/ the amount of the local government debt.

- The CBR notes that the state **did not financially intervene to safeguard the solvency of local governments**. In 2022, local governments did not receive loans from the state, that would

manner. They must be intensively reminded of this fact, while stressing that it is not a trivial issue but rather a matter of complying with the state's constitutional rules."

12 At the time of calculating the ceiling, the permanent negative impacts of measures adopted during 2022 (e.g., the family package, increased wages in the healthcare, education and public administration sectors, parental pension) were estimated at 2% of GDP in 2023, 1.8% of GDP in 2024 and 1.6% of GDP in 2025.

13 In May 2023, the CBR estimated that expenditure falling under the public expenditure ceiling would exceed the ceiling by EUR 285 million in 2023. In its most recent estimate of August 2023, indicating a higher deficit, the Ministry of Finance quantified the possible overrun of the ceiling by as much as EUR 1.1 billion. The previous extraordinary indexation of pensions means that their increase occurs six months earlier, without having a significant negative impact on the long-term sustainability, i.e. not even falling under the public expenditure ceiling.

improve their financial performance[14]. However, it is still necessary to adopt legislative changes that will set the rules even in this area in order to prevent any selective preferential treatment of local governments while avoiding their insolvency in future.

- **In the course of 2022, according to available information, the local government sector was not assigned any new tasks which would have required funding from the state**[15]. However, there was a significant intervention affecting the revenue from shared taxes (an increase in the child tax bonus), the impacts of which had not been sufficiently assessed beforehand by the government and parliament. According to the constitutional act, the obligation to ensure adequate financial resources does not apply to changes in the existing competencies of the local governments that have no significant financial effects; there are mechanisms in place which a local government may use to obtain resources in another way (e.g., by increasing taxes[16] or shifting the burden of costs on recipients of services)[17]. The failure to use these mechanisms may indicate that problems with funding are less urgent.

  However, 2022 saw submissions and rulings of the Constitutional Court regarding the so-called "family package" measures, water supply connectors and environmental burdens which are important in terms of adequate funding for local governments. **The rulings of the court indicate that, in line with the principle of transparency and efficiency, any changes which affect the funding of local governments must always be subject to a standard review procedure.** It is also necessary to strictly observe and monitor the effects of measures so that the central government authorities do not create additional burden on local governments' budgets without identifying such impacts in impact clauses, while at the same time preventing that new tasks are shifted (be it in terms of exercising the original powers or the powers conferred on local governments) onto local governments without providing adequate financial coverage[18].

- Administrative proceedings on the imposition of fines for 2021 on local governments with excessive debt[19] were closed. **While all self-governing regions ended up with debts below**

14 In 2022, the Ministry of Finance adjusted the instalment schedule for Bardejov under the agreement on repayable financial assistance of 2018.

15 The provision of the constitutional Fiscal Responsibility Act on ensuring the adequate funding of local governments with respect to new tasks applies to new tasks in the performance of local governments' original powers. The funding of new tasks within the competencies devolved from the central government is guaranteed by the Constitution (Article 71(1) of the Constitution: "Performance of designated tasks of the local state administration may be devolved to a municipality or a higher territorial unit by law. The costs of performance of such powers devolved from the central government are paid by the state.").

16 From an international perspective, property tax rate in Slovakia is low and there is room for increasing this tax.

17 The current wording of the constitutional act contains no objective criteria the CBR could use to clearly assess compliance with the constitutional act. The impact of the devolved competencies on the budgets of local governments cannot be objectively assessed due to the lack of a comparative basis. In order to make the constitutional act effective in this area, an audit needs to be carried out to assess the current situation concerning the competencies of local governments and their financial coverage by the state. Among other things, the CBR considers it important to evaluate the effects of measures in the context of a longer period of time, as well as with regard to how these tasks change over time, including in relation to their financial resources.

18 This could be enhanced by extending the Unified Methodology for the Assessment of Selected Impacts, approved by the government in June 2022. Based on this change, the impact clause already recognises the impact of government's document on the budgets of municipalities and self-governing regions, including the impact of new tasks devolved to local governments within the meaning of Article 6(2) of the constitutional Fiscal Responsibility Act.

19 Overrunning the debt limit of 60% of current revenues in the previous year.

the prescribed limit, the fines were imposed on 15 of the 43 initially identified municipalities after legislative exemptions had been considered and reported values cross-checked. There are currently 28 municipalities at risk of fine for 2022; the values they reported are now under review. Further 46 municipalities were contacted because they had not submitted the required financial reports. In 2022, too, the debts of all self-governing regions stood below the statutory limit. The Ministry of Finance assessed the compliance with the local government debt rule, with the possibility to impose a fine, for the first time for 2015, but not a single evaluation has been disclosed so far. **The CBR recommends that the Ministry of Finance disclose[20] all information related to reviewing the size of local government debts, and imposing the fines, in a transparent manner.**

As from 1 August 2023, an amendment to Act No. 583/2004 Coll. on the Local Government Budgetary Rules entered into force, introducing the **possibility to relieve the local government of its debts where they cannot be fully recovered under receivership**, which means that, after 20 years, the outstanding amount of the debt will become unenforceable[21]. Despite the fact that, in its report, the CBR recommended the adoption of measures aimed at restructuring the debts of municipalities (without providing a specific proposal), the approved solution seems to be problematic in terms of legislation, as the Ministry of Finance presented in its opinion. **According to the Ministry of Finance, such a legislative change has no backing in terms of its practical application and is incompatible with the legal system of the Slovak Republic[22], while there is a risk of lawsuits against the Slovak Republic by creditors if unpaid debts become unenforceable after 20 years.**

Fiscal transparency rules

The fiscal transparency rules defined by the constitutional act were fulfilled almost in full extent. Macroeconomic and tax revenue forecasts were approved by competent independent committees and published within the deadlines specified in the constitutional act. The 2023-2025 general government budget contained all the data required by law, save for the information about a majority of companies with capital participation of the Ministry of Health of the Slovak Republic (healthcare facilities and Všeobecná zdravotná poisťovňa health insurer). The summary annual report for 2021 contained all the data required by law.

In addition to the requirements defined by law, the CBR also assesses the budget transparency in terms of comprehensibility and quality of the information contained in the assessed documents, consistent application of the ESA2010 methodology, and the measure of parliament's control over the approval and fulfilment of the budget. These areas were also covered by the CBR's recommendations contained in its August 2022 report, in which case, however, **no progress has**

[20] The CBR does not have at its disposal the revised final data on the size of debt of the municipalities, which the Ministry of Finance collected by verifying the reported values in the identified municipalities.

[21] This draft act was approved through an amendment to the bill proposed by MPs, where significant changes were made compared to the bill which passed the first reading in the parliament and which was discussed by parliamentary committees and within the inter-ministerial review procedure.

[22] According to the Ministry of Finance, the amendment is in conflict with the applicable competence law, because the legislation governing the insolvency law of local governments falls within the remit of the Ministry of Justice rather than the Ministry of Finance. The Ministry of Finance is afforded the right to decide on proposals for the consolidation of claims, including the right to approve the municipality's consolidation plan after it is approved by the municipal council, while the procedures that may lead to the extinction of creditors' claims can only be carried out, within the existing legislative framework of the Slovak Republic, by an independent court.

been made, apart from a slight improvement in the comparability of the budget with reported data.

The continued efforts to streamline public investment through zero-based budgeting and to **improve CBR's access to data from other institutions,** which is necessary for fulfilling its mandate and high-quality analytical outputs[23], can be regarded positively.

According to the CBR, the most important ongoing issues, resolving which could lead to further qualitative enhancements in fiscal transparency and the entire budgeting process, are as follows:

- **Multiannual budgeting is still absent. The budget proposal is compiled in accordance with the budgetary objective only for 2022**, but not for the years to follow. The key fiscal indicators (structural balance, gross and net debt forecasts) were repeatedly presented under the assumption of meeting the budgetary objectives with no measures specified, thus showing the public finances in a better shape than they actually are.
- **In compiling the expenditure side of the budget proposal, the focus should be more on the no-policy-change scenario for the next three years, as foreseen in the Act on the General Government Budgetary Rules[24].** At present, the budget proposal is presented in this manner only with regard to the expenditure of health insurance companies, which allows for a transparent assessment of assumptions for drawing up the health sector budget, including the impacts of implemented measures. The same procedure should also be extended to other areas.
- **The CBR has repeatedly noted that the existing legislative framework governing the budget approval procedure in the parliament does not fit the scope and content of the documents that are being approved.** The approval of a cash-based state budget (alone) by the parliament for the upcoming year[25] is based on a historical tradition, but is no longer sufficient to capture the key monitored parameters of public finances and all changes in public finances in accordance with the European standards defined by the ESA2010 methodology, including the expenditure ceilings.
- **Important legislative changes are repeatedly adopted by the parliament even after the government approves the budget proposal and submits it to the parliament. In terms of transparency of tax revenues presented in the budget, this approach cannot be considered correct.** Less transparent decision-making as regards inclusion of measures in the general government budget makes it difficult to evaluate the budget in terms of compliance with the

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[23] Even though the constitutional Fiscal Responsibility Act (Article 4(2)) grants the CBR the right to request the general government entities to cooperate in the provision of the data related to the performance of their duties, however, this provision was insufficient in practice to ensure that the requested entities provide the necessary data. To that end, relevant laws governing a specific domain have been amended to include an express obligation to provide data to the CBR.

[24] The second sentence of Article 4(2) of the Act on the General Government Budgetary Rules reads as follows: "The general government budget shall be drawn up and implemented in accordance with the public expenditure ceiling based on no-policy-change scenarios."

[25] One example could be an increase in health care expenditure through an amendment to the State Budget Act adopted in 2023 to cover the agreed increased wage demands in the sector. Although this is not a one-off increase applicable only to 2023, it is not reflected under increased budget expenditure in 2024 and 2025, according to information from the Ministry of Finance.

declared objectives for the budget balance. In addition, several tax measures have been adopted within a fast-track procedure, many of them as amendments to unrelated laws. Such approach is not in line with the Act on the Rules of Procedure of the National Council of the Slovak Republic[26].

- **Better information could be provided for state-owned enterprises.** A brief commentary on expected economic results of individual enterprises would make it possible to better assess any potential risks arising from the performance of enterprises owned by the state, either directly or through MH Manažment, a.s.
- **The information value of the net worth indicator could be enhanced by the valuation of net worth components not yet quantified.** A broader analysis of the impact of government measures on the net worth will require the adoption of appropriate technical arrangements for the collection of data and the definition of methodology (in collaboration with the CBR) for linking the net worth change to the budget balance.

[26] Pursuant to Article 94(3) of Act No. 350/1996 Coll. on the Rules of Procedure of the National Council of the Slovak Republic: "During a debate on a bill, it is not possible to submit a proposal amending or supplementing another law that is unrelated in content to the bill under discussion."

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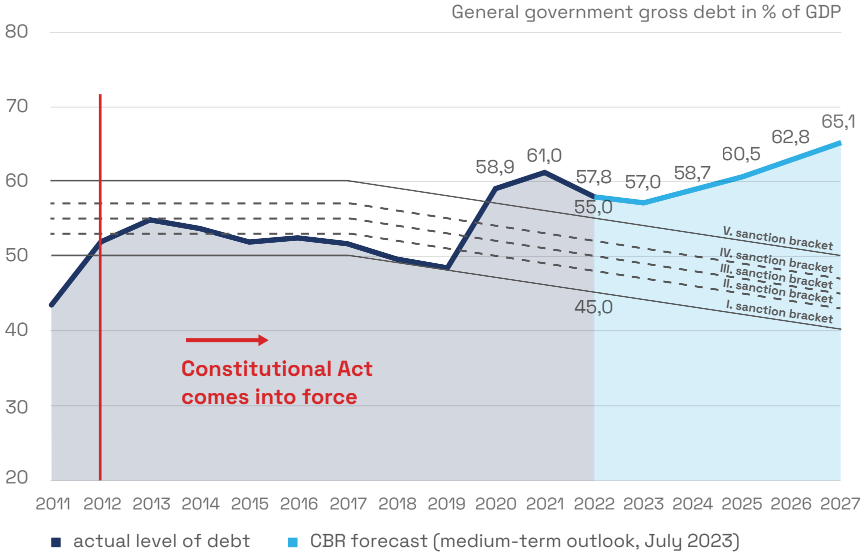
General Government Debt Limit

Development of the gross debt since 2011



At the end of year 2022 gross public debt reached **57,8% of GDP**. Despite a year-on-year decline, the level of gross debt remains in the highest sanction bracket of the debt brake.

The level of public debt reached in 2022 is associated with sanctions that stem from breaching all five sanction brackets of the debt brake. Since 2020 the level of public debt has continuously remained above the threshold of the fifth sanction bracket. The fulfillment of sanctions remains only formal with only minimal effects on the decrease of the level of gross public debt.

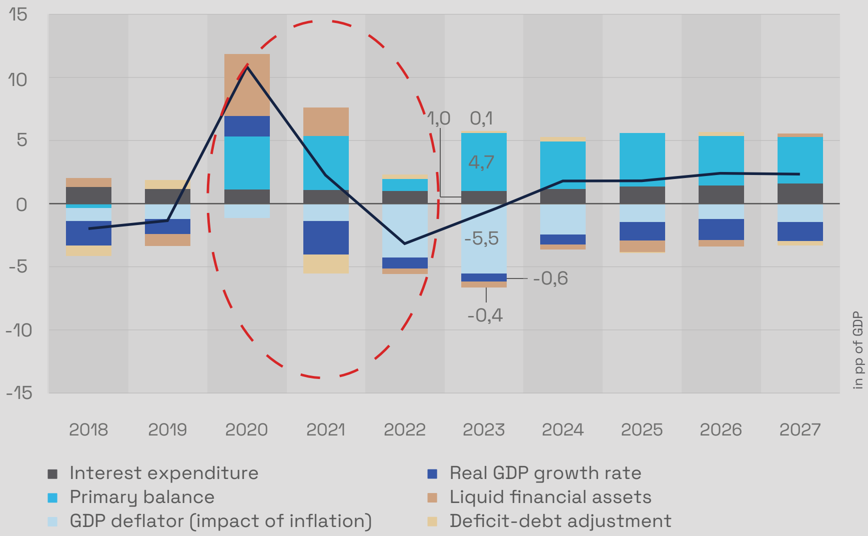
Without the adoption of any additional consolidation measures CBR forecasts that the level of gross debt will reach **65,1% of GDP** by 2027. The biggest contribution to the continuous year-on-year increase will be government's fiscal policy and the impact of interest expenditure required to service debt.

Compared to the pre-crisis level, the level of gross debt increased by **9,8 percentage points of GDP** from **48% of GDP at the end 2019 to 57,8% of GDP** at the end 2022.

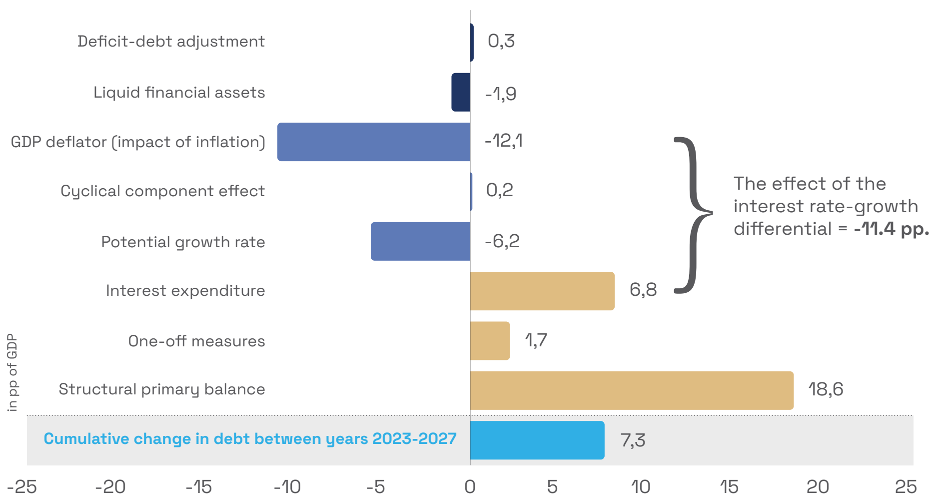
A major contributor to the increase in the levels of public debt was government´s fiscal policy (9,5 percentage points), including one-off measures aimed at mitigating the fallout of the pandemic and increase of cash reserves held due to uncertainty in the financial markets (**6,9 percentage points**).

An increase in inflation in 2022 caused by the security and energy crisis, decreased the level of gross debt. Between 2020 and 2022 the inflation cumulatively lowered the debt to GDP ratio by **6,7 percentage points.**

Selected contributions to changes in debt (2018 - 2027)



Contributors to year-on-year change in debt (2023 - 2027)



According to CBR medium-term forecast the level of gross debt between years 2023 - 2027 will increase by **7,3** percentage points from **57,8% of GDP** to **65,1% of GDP.**

Without adopting additional consolidation measures with a potential to noticeably improve the structural deficit, the government´s fiscal policy in the form of primary structural balance will constitute a high risk factor with respect to long-term sustainability of public finances.

The negative impact of expected government's fiscal policy in the form of primary structural balance will contribute to increase in the level of of debt by 18,6 percentage points and will be partially offset by the interest rate-growth differential (decreasing the debt by **11,4 percentage points**).

Source: MoF SR, SO SR, CBR

Evaluation of compliance with sanctions

Evaluation of compliance with the sanctions of the debt brake for 2021

Wording of the constitutional act	Compliance	Notes
The governments submits a proposal of the debt-reduction measures to the parliament.	formally fulfilled	A small number of specific debt-reduction measures submitted for years 2024 and 2025 did not meet the objective of the constitutional Fiscal Responsibility Act to ensure the long-term sustainability of public finances.
The salaries of the Cabinet members are reduced to previous fiscal year´s level, if their salaries were lower in the previous fiscal year.	not fulfilled between 1.1. and 30.4.2022	Between 1 January 2022 and 30 April 2022, the salaries of Cabinet members increased year-on-year, thus breaching the sanction imposed by the constitutional Fiscal Responsibility Act. As of 1 May 2022, the salaries were reduced to the levels of year 2021.

Evaluation of compliance with the sanctions of the debt brake for 2022

Wording of the constitutional act	Compliance	Notes
The governments submits a proposal of the debt-reduction measures to the parliament.	not yet fulfilled	The act does not set a deadline for the submission of the proposal of such measures.
The salaries of the Cabinet members are reduced to previous fiscal year´s level, if their salaries were lower in the previous fiscal year.	pending	In 2023, the salaries of the Cabinet members remained at the levels of year 2021.
The Ministry of Finance cuts 3 % of total state-budget expenditures.	formally fulfilled	The Ministry of Finance cuts 3% of the state-budget expenditures with no impact on the budget balance; hence the purpose of this sanction, i.e., reducing the general government debt, has not been met.
No funds shall be released from reserve of the Prime Minister and the reserve of the Government.	pending	Evaluation will only be possible after the end of 2023 or after the expiration of the sanction. According to the Ministry of Finance, no funds from the reserve funds of the government or the prime minister were used between 5 May 2023 and 24 August 2023.
The government may not submit to the parliament any general government budget proposal for 2024 which entails an annual nominal increase in consolidated expenditure compared with the budget approved for 2023.	not fulfilled yet	The deadline for submitting the general government budget proposal to the parliament is 15 October 2023, unless the parliament sets a different deadline.
Local governments are required to approve the budget for 2024 with expenditures not exceeding the level of expenditures in the current year.	not fulfilled yet	The deadline for approval of the local government budget for 2024 is 31 December 2023.
The government may not submit to the parliament any general government budget for 2024 with a deficit.	not fulfilled yet	The deadline for submitting the general government budget proposal to the parliament is 15 October 2023, unless the parliament sets a different deadline.
At the same time, local governments are required to approve only a balanced or surplus* budget for 2024.	not fulfilled yet	The deadline for approval of the local government budget for 2024 is 31 December 2023.
The government is required to ask the parliament for a vote of confidence.	fulfilled	On 15 June 2023, the parliament voted on the government's manifesto; the vote of confidence in the government was held as well. The government lost the confidence vote in the parliament.

Evaluation of the fulfillment of special provisions for local government

Wording of the constitutional act	Compliance	Notes
The state does not ensure and is not responsible for solvency of any municipality or a self-governing region.	fulfilled	CBR notes that the state did not intervene to safeguard the solvency of local governments. In 2022, the local governments did not receive loans from the state, that would improve their financial performance.
If a law imposes new tasks upon municipality or a self-governing region, the state shall make appropriate funds available for the municipality or self-governing region.	fulfilled	In the course of 2022, according to available information, the local government sector was not assigned any new tasks which would have required funding from the state.
If the total amount of debt of a municipality or a self governing region reaches or exceeds 60% of its actual current revenues in the previous fiscal year, the municipality or a self-governing region concerned shall pay a penalty imposed by the ministry of Finance in the amount of 5% of the difference between the total amount and 60% of the actual current revenues in the previous fiscal year. The total amount of debt of a municipality or a self governing region is established by law.	currently under review	There are currently 28 municipalities at risk of fine for 2022; the values they reported are now under review. Further 46 municipalities were contacted because they had not submitted the required financial reports.

* Balanced or surplus budget relates to current and capital budgets and does not include financial transactions.

Source: CBR

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