Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules for 2023

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This report presents the official positions of the Council for Budget Responsibility in accordance with its mandate set out in constitutional Act No. 493/2011 Coll. on fiscal responsibility.

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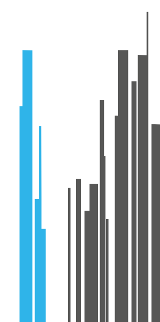


Summary

The Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules annually assesses the compliance with the rules arising from the constitutional Fiscal Responsibility Act[1] for the previous year, always by 31 August. 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 regarding data reporting and publication, local government debt, and the funding of local government's 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 regarding 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.

The CBR has concluded in its evaluation[3] that the long-term sustainability of public finances was not achieved in 2023. **The long-term sustainability indicator reached 6.2% of GDP under a no-policy-change scenario; this means that public finances are currently in the high-risk zone.**

From the beginning of 2024 to the end of August 2024, multiple measures were either implemented, or are pending approval (adjustment of the parameters for early old-age pension payments, introduction of a tax on sweetened non-alcoholic beverages, increase in the excise tax on tobacco partially offset by the introduction of the 13th pension payments and new state budget expenditures), which have contributed to a slight improvement in the long-term sustainability indicator by approximately 0.1% of GDP compared to the estimated development at the end of 2023. These measures, however, are not sufficient to reduce the high risk associated with the development in public finances.

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

[2] Under constitutional Act No. 422/2020, Article 55a was added to the Constitution of the Slovak Republic (460/1992 Coll.), effective from 1 January 2021.

[3] CBR, Report on the Long-Term Sustainability of Public Finances for 2023, April 2024, (only Summary of the Report is available in English).

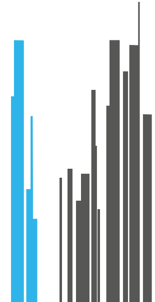
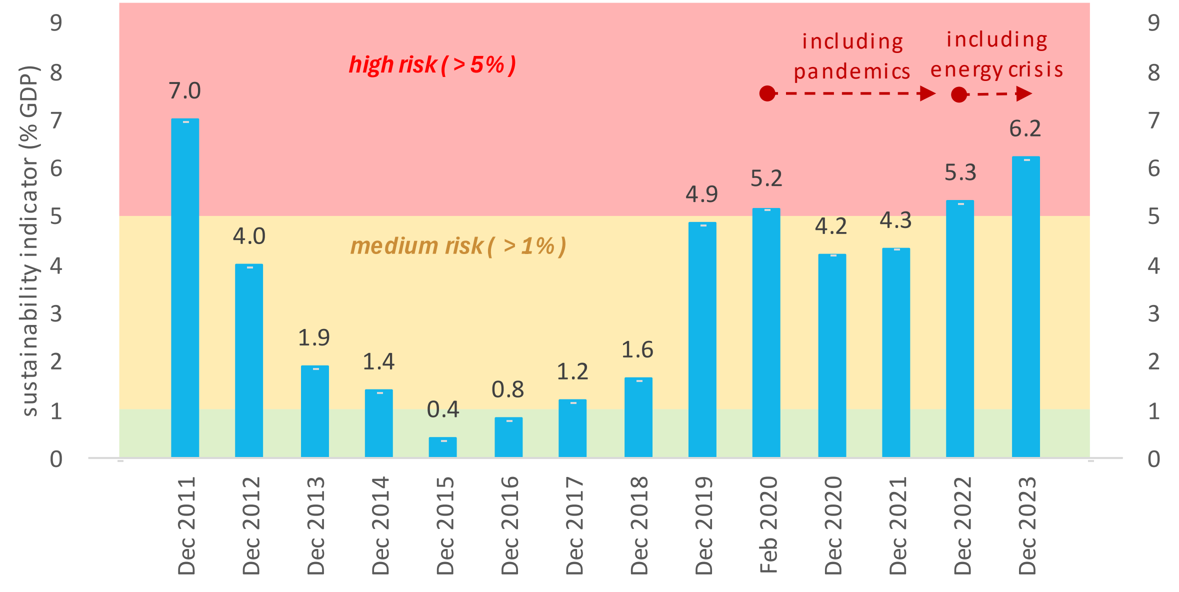


Chart 1: Development of the long-term sustainability indicator (% of GDP)



Source: CBR

Considering the poor condition of public finances, affected by external factors outside the government's control (the security and energy crisis) in addition to the implemented measures with a negative impact on the balance, the government should present sufficiently ambitious measures to improve long-term sustainability as soon as possible. In addition, the need to improve long-term sustainability is further augmented by the current high level of gross debt which has now been in the highest sanction bracket of the debt brake rules for four consecutive years.

Starting from 2023, effective implementation of the expenditure ceilings could have contributed to the improvement of long-term sustainability. However, this did not occur. The expenditure ceilings applicable to 2023 were not binding for the budgetary process due to an exemption applied in connection with the European rules of the Stability and Growth Pact [4]. The 2024-2026 budget was not prepared in accordance with the applicable expenditure ceilings[5] and a legislative amendment was subsequently approved in 2024 under which the public expenditure ceilings became linked to the European rules, thus ending the original rule directly linked with the definition of long-term sustainability of public finances included in the constitutional act.

The government failed to take advantage of the good macroeconomic developments, especially since the summer of 2023, for a gradual and permanent consolidation of public finances; the start of

[4] The CBR quantified that the public expenditure ceiling for 2023 was exceeded by almost 1 billion euros (0.8% of GDP), mainly as a result of a permanent increase in public spending on the 13th pension payments and health care, which worsened the sustainability of public finances by 0.6% of GDP. Even though the rule was not binding, the legislation in force assumed that even in such a situation, the long-term fiscal sustainability should not have been at risk.

[5] According to the Ministry of Finance's opinion, there was no expenditure ceiling in force at the time of the preparation of the 2024-2026 general government budget proposal because the ceiling approved for the years of 2023 to 2025 only applied to the previous election term and no expenditure ceiling was approved for the new election term. According to the CBR's legal opinion (available only in Slovak), this is a misinterpretation of the law. The expenditure ceiling for 2023 to 2025, as passed by a parliamentary resolution, has not become ineffective with the start of the new election term and remains to be binding for the government when preparing a budget until a new ceiling is approved. Otherwise, it would be too easy to circumvent the expenditure ceiling mechanism.

consolidation efforts is therefore not expected before 2025. Despite the consolidation package[6] approved at the end of 2023, long-term sustainability has been further deteriorating in 2023 and 2024 due to the effect of the measures taken by the government.

In accordance with the revised fiscal rules under the EU's Stability and Growth Pact, the government must submit a national medium-term fiscal-structural plan[7] by 20 September 2024 which should present a fiscal strategy for a reliable reduction in general government debt and deficit, including priority investments and structural reforms. The Ministry of Finance has yet not published a reference path (trajectory) sent by the European Commission to Member States. According to independent calculations of the Bruegel institute, as well as according to the CBR's estimates, the requirements for the consolidation of Slovakia's public finances are expected to be among the most stringent of all EU countries. This is mainly caused by the unfavourable starting position of public finances, or the lack of consolidation efforts in 2023 and 2024, and the estimated increase in the costs related to ageing population. However, in order to improve long-term sustainability, the credibility and enforceability of the new rules, as well as a concrete structure of consolidation measures[8], will be crucial.

Fiscal responsibility rules

In order to achieve long-term sustainability of public finances, the expenditure ceilings and the upper limit on general government debt (the so-called debt brake) have been established by the constitutional act. Both these mechanisms were supposed to contribute to achieving long-term sustainability of public finances.

However, the way the constitutional act is currently applied by both the government(s) and the parliament[9] has failed to provide sufficient safeguards for long-term fiscal sustainability, in particular due to the absence of effective expenditure ceilings and a purely formal approach to compliance with the debt brake sanctions. Therefore, the constitutional act should be revised to reflect the current debt development, the need for effective liquidity management and, above all, to make the debt brake an effective instrument for improving the long-term sustainability (for example, by introducing stricter measures when lower sanction brackets are exceeded and by protecting the economy from an abrupt change in the fiscal policy while maintaining sufficient consolidation); this, however, requires reaching a consensus across party lines. A change in the governments' and

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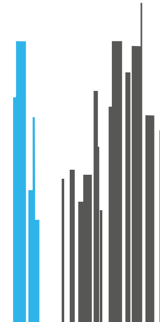
6 The positive medium-term impact of the measures included in the budget for 2024 and/or adopted during 2024 in taxes and social contributions (the introduction of a special bank levy, a temporary increase in health care contributions, a reduction in contributions to the 2nd pension system pillar, higher excise tax rates, introduction of the tax on sweetened beverages) is more prominent but largely used to finance new expenditure-side measures (introduction of the 13th pension payments, increase in health care spending). Their negative impact on long-term sustainability is mainly caused by the fact that a significant portion of the revenues is only temporary (until 2027). According to the CBR's evaluation released in January 2024, the government's permanent measures included in the budget contribute 0.5% of GDP to the deterioration of fiscal sustainability.

7 EU Member States may agree with the European Commission on a reasonable extension of the deadline for the submission of their national medium-term fiscal-structural plans.

8 The new European rules do not guarantee that a slowdown in expenditure growth will be fully reflected in a permanent recovery of public finances, as they do not sufficiently distinguish between permanent and temporary measures (e.g. a reduction in contributions to the fully-funded pension system pillar, the abolition of emergency energy support subsidies or a temporary increase in taxes).

9 Building on the presumption of a rational legislator, the constitutional Fiscal Responsibility Act was approved in the belief that its provisions would be complied with in order to ensure the achievement of long-term sustainability of the Slovak economy, and not that it would be applied in a way that would circumvent compliance and ignore its substance.



parliament's approach to the fiscal responsibility rules is also a prerequisite for effectively safeguarding the long-term sustainability of public finances. A formal approach, which tends to circumvent the purpose of these rules, must be replaced by actual compliance. A mere tightening of the debt brake sanctions or refining the provisions of the constitutional act may not be enough if there is no functioning mechanism in place to enforce compliance with those provisions. Last but not least, it must be understood that effective fiscal rules, whether at national or European level, represent only the minimum standards for responsible fiscal management. The rules set reasonable minimum limits, but do not necessarily provide optimal guidance for fiscal policy if all of Slovakia's needs are considered.

General government debt limit

The debt-to-GDP ratio reached the highest, fifth sanction bracket of the debt brake rules[10] in 2022 and 2023. According to the data published by Eurostat in October 2023, the debt stood at 57.8% of GDP at the end of 2022, while the preliminary data[11] released in April 2024 indicated that it reached 56.0% of GDP at the end of 2023.

Since the 24-month exemption from the application of more stringent sanctions under the constitutional act[12] did not apply between 5 May 2023 and 21 November 2023, **the amount of the 2022 debt was subject to the sanctions triggered by the overrunning of the thresholds of all five sanction brackets under the constitutional Fiscal Responsibility Act during this period.** The debt brake sanctions apply cumulatively, starting with the sanctions triggered by exceeding the second sanction bracket up to the highest one (Table 1).

Table 1: Compliance with the debt brake sanctions for 2022

Provision contained in the constitutional act	Compliance	Notes
The government shall submit a proposal for measures designed to reduce the debt to the parliament.	**Not complied**	No proposal for measures to reduce the debt for 2022 was submitted to the parliament[13].
Salaries of cabinet members shall be reduced to the level of the previous fiscal year, if they were lower in the previous fiscal year.	**Formally complied**	In 2023, the salaries of cabinet members remained at the level of 1 May 2022, or the year of 2021. However, in February 2024, the government approved a multiple increase in lump-sum payments which are formally not part of their salaries, which, however, circumvents the purpose of this sanction.

[10] The highest sanction bracket in 2022 implies that the gross debt relative to GDP is higher than 55% of GDP, inclusive.

[11] The debt-to-GDP ratio for 2023 will definitively be confirmed in the autumn notification to be published in October 2024.

[12] The obligation to apply the sanctions triggered by the overrunning of the third, fourth and fifth sanction bracket under the debt brake does not apply for a period of 24 months following the approval of the government's manifesto and a vote of confidence in the government. The parliament approved the government's manifesto for 2021-2024 on 4 May 2021, therefore, the obligations arising from exceeding the above-mentioned sanction brackets under the constitutional Fiscal Responsibility Act started to apply from 5 May 2023. Following the general election held on 30 September 2023, the parliament approved the government's manifesto for years 2023 to 2027 and voted confidence in the new cabinet on 21 November 2023, triggering the 24-month exemption anew.

[13] The reason given by the Ministry of Finance for not submitting this document by the end of 2023 was the late formation of the government after the general elections, with the absolute priority being given to the preparation and approval of a new budget in order to avoid a provisional budget situation. According to the Ministry of Finance, the subsequent postponement of its submission was due to the search for a political agreement on consolidation measures. As a result, the document was submitted to the government for discussion as late as 10 July 2024. However, according to the CBR, the document reflects the size of debt reported for 2023 and cannot at the same time be considered as a fulfilment of the sanction triggered by the size of debt reported for 2022, as sanctions shall be applied annually.

The Ministry of Finance shall block 3% of the defined government expenditures.	**Formally complied**	The Ministry of Finance blocked 3% of state budget expenditures, which, however, did not affect the size of budget balance, thus failing to meet the essential purpose of this sanction, i.e., reduce the general government debt.
The reserve fund of the prime minister and the reserve fund of the government are blocked for spending.	**Complied**	According to the Ministry of Finance, no funds were released from the prime minister's reserve and the government's reserve between 5 May and 21 November 2023.
The government shall not submit to the parliament a 2024 general government budget proposal which contains a year-on-year nominal increase in consolidated expenditures compared to the approved 2023 budget.	**Formally complied**	The government submitted a balanced budget proposal to the parliament on 13 October 2023. The balance was achieved exclusively through significant cuts in selected general government expenditures. The government saw the submission of the proposal merely as fulfilling a legal obligation and expected it to be withdrawn.
Local governments shall approve their 2024 budgets with expenditures not exceeding the amount of expenditures budgeted for 2023.	**Not evaluated**	Local governments could approve their 2024 budgets by 31 December 2023. A temporary exemption from the application of this sanction applies from 22 November 2023.
The government shall not submit to the parliament the 2024 general government budget with a deficit.	**Formally complied**	The government submitted a balanced budget proposal to the parliament on 13 October 2023. The balance was achieved exclusively through significant cuts in selected general government expenditures. The government saw the submission of the proposal merely as fulfilling a legal obligation and expected it to be withdrawn.
Local governments shall only approve balanced or surplus* budgets for 2024.	**Not evaluated**	Local governments could approve their 2024 budgets by 31 December 2023. A temporary exemption from the application of this sanction applies from 22 November 2023.
The government shall ask the parliament for a vote of confidence.	**Complied**	On 15 June 2023, the parliament held a vote on the government's manifesto and a vote of confidence in the so-called "caretaker" government[14]. The vote of confidence did not pass in the parliament.

** A balanced or surplus budget only applies to the current and capital budget, excluding financial operations.* *Source: CBR*

Due to the application of the 24-month exemption, the size of debt achieved in 2023 has triggered sanctions resulting from exceeding the first two sanction brackets under the debt brake (Table 2)**.**

Table 2: Compliance with the debt brake sanctions for 2023

Provision contained in the constitutional act	Compliance	Notes
The government shall submit to the parliament a proposal for measures designed to reduce the debt.	**Formally complied**	The document was delivered to the parliament, but the specific measures are not sufficient to reduce the general government debt-to-GDP ratio; it means the objective of the provisions of the constitutional Fiscal Responsibility Act and of Article 55a of the Slovak Constitution, the purpose of which is to ensure the long-term

[14] The new government was appointed by the Slovak president on 15 May 2023. The government had submitted its manifesto to the parliament for discussion and asked MPs for a vote of confidence which was then held on 15 June 2023, thus also complying with the sanction required by the constitutional law. The parliament did not approve the government's manifesto and did not vote for confidence in the government. The constitutional consequence of the government failing to pass a vote of confidence is its dismissal. On 15 June 2023, the government had therefore been formally dismissed but immediately entrusted with the exercise of governmental powers until the formation of a new government that was formed after the early parliamentary elections held on 30 September 2023.

		sustainability of public finances, has not been achieved in practice.
Salaries of cabinet members shall be reduced to the level of the previous fiscal year, if they were lower in the previous fiscal year.	**Being formally complied**	In 2024, the salaries of cabinet members have remained at the level of 1 May 2022, or the year of 2021. However, in February 2024, the government approved a multiple increase in lump-sum payments which are formally not part of their salaries, which, however, circumvents the purpose of this sanction.

Source: CBR

Despite the high levels of general government debt, which has since 2020 remained continuously in the highest sanction bracket of the debt brake, the sanctions have repeatedly been complied with in a merely formal manner, having a minimal impact on the reduction of the general government debt:

- The government repeatedly submits a document to the parliament for discussion on the reasons for the size of the general government debt and a proposal for measures leading to its reduction. The CBR repeatedly warns that the document does not contain a sufficient list of specific measures to reduce the debt and fails in practice to meet the objective pursued by the sanctions, i.e., to reduce the general government debt below the sanction brackets. In fact, a document on the 2022 debt was not submitted at all, or more precisely, the government submitted a cumulative document for 2022 and 2023 in July 2024, which is not permitted under the constitutional act.
- The government blocked 3% of total state budget expenditures in May 2023; however, it did so for items that do not affect the general government balance. Again, this was only a formal compliance with the relevant provision of the constitutional act with no real impact on the reduction of the general government debt.
- The government had submitted a balanced budget proposal for 2024-2026 to the parliament, which was withdrawn after a temporary exemption from the application of the strictest sanctions of the debt brake was triggered. In the proposal, the government itself noted that the adoption and implementation of the balanced budget would cause a recession and jeopardise the functioning of the state, and explicitly stated that it saw the submission of the balanced budget proposal merely as the fulfilment of its legal obligation[15].

According to the authors of the constitutional Fiscal Responsibility Act, the implementation of the measures triggered by the overrunning of the debt-brake sanction brackets should lead to a reduction of the public debt to a safe level. However, the measures adopted by individual governments have long fallen short of this objective. **Experience has shown that governments are unwilling to truly comply with the constitutional act and regularly circumvent the sanctions under the debt-brake**

[15] The balanced budget proposal was achieved solely through cuts in general government expenditures of around 11 billion euros. In its opinion (available only in Slovak), the CBR considered this approach to budget compilation to be overly simplistic and unsupported by analytical data. The government did not put enough effort into preparing the budget proposal and only formally complied with the requirement anchored in the constitutional act. On the other hand, the CBR was aware that a new government would most likely be formed by the end of 2023, which would trigger the exemption from the application of the balanced budget sanction, effectively reducing the importance of preparing a balanced budget.

mechanism. In doing so, they ignore the purpose of the legislation, which is to achieve a sustainable fiscal performance of the Slovak Republic.

The Slovak Republic, that is, all its government bodies and public authorities, should protect the long-term sustainability of the country's economy. If the economy is not sustainable in the long term, the state may not be able to properly ensure the protection of fundamental rights in the future, especially those that depend on public funding[16]. When preparing a general government budget proposal and measures to safeguard the long-term sustainability of public finances, the government has discretion only within the limits set by generally binding laws and regulations[17]. A merely formal approach to the interpretation and implementation of relevant constitutional standards is inadmissible. **Such formal compliance with the constitutional act, without fulfilling its purpose, may be considered as its violation[18].**

According to the CBR's medium-term estimate[19], the gross debt will increase cumulatively by 10.7 p.p., from 56% of GDP at the end of 2023 to 66.8% of GDP at the end of 2028, if no additional consolidation measures are taken. The estimated increase in the general government debt is mainly driven by an extremely unfavourable development in the structural primary balance. The highest sanction bracket of the debt break will start at the level of 50% of GDP in 2028, which means that it will be exceeded by 16.8 p.p. Taking into account the two-year exemption from the application of the strictest debt-brake sanctions following the approval of the government's manifesto of the new cabinet formed after the early parliamentary elections in the autumn of 2023, **there is a serious risk that a balanced budget proposal for 2026, with no increase in expenditure, will have to be submitted again.**

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. However, the legislation on the public expenditure ceilings did not come into force until 11 years after the adoption of the constitutional act. With effect from 1 April 2022, the public expenditure ceilings became a key budgetary tool to achieve long-term sustainability of public finances, but they were only valid until 31 July 2024 in this form.

In the two years of their effectiveness, the rule has not been effectively applied and expenditure ceilings have not been bindingly used as the main instrument to ensure long-term sustainability. Even though approved by the parliament, the public expenditure ceilings for 2023 were not reflected in the approved state budget due to an exemption applied in connection with the European rules of

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16 Finding of the Constitutional Court of the Slovak Republic, case no. PL. ÚS 13/2022, paragraphs 158 and 159.

17 The government must use this discretionary power in a way that it agrees with itself in order to be ready to fulfil in good faith the measures it will propose. At the same time, state authorities are bound not only by the wording but also by the intent and purpose of respective legislation.

18 Practical compliance with the law before formalism was highlighted by the Constitutional Court of the Slovak Republic for example with respect to the CBR's tasks in the reasoning for its finding in case no. PL. ÚS 13/2022. The Constitutional Court also noted that the constitution was not a document containing normatively irrelevant proclamations, the meaning of which is determined only by subsequent law-making activities, but it is an authentic set of directly applicable standards, principles and values with their specific implications and consequences.

19 CBR, Medium-Term Traffic Lights, July 2024 (available only in Slovak).

the Stability and Growth Pact[20]. Subsequently, the approved general government budget for the years 2024 to 2026 was not prepared in compliance with the applicable expenditure ceilings[21], in violation of the law.

Instead of bringing the budget into compliance with the expenditure ceilings in force, the government approved an amendment to the Act on the General Government Budgetary Rules which fully linked the public expenditure ceilings to the revised EU rules under the Stability and Growth Pact with effect from 1 August 2024[22]. Public expenditure ceilings are now calculated by the Ministry of Finance on the basis of assumptions made by the European Commission.

According to the CBR, the adopted changes to the functioning of the expenditure ceilings are likely to be inconsistent with the concept of securing the long-term fiscal sustainability of the Slovak Republic as enshrined in Article 55a of the Slovak Constitution and in the constitutional Fiscal Responsibility Act. **This represents a significant weakening of the existing regulatory framework because the public expenditure ceilings linked to the European rules do not sufficiently[23] reflect on the need to achieve long-term stability over the 50-year horizon.**

This change in the functioning of the ceilings may slow down or even postpone the permanent recovery of public finances. The new rule on public expenditure ceilings does not require any consolidation effort to be made in 2024, and may even be met if the long-term sustainability of public finances deteriorates. The consolidation of public finances should start from 2025, and its strictness will also depend on whether the European Commission allows that the consolidation effort be spread over more than four years. According to the CBR, the new ceilings may not be functional and flexible enough. They will also involve a lengthy corrective process in the event of non-compliance, will be less circumvention-proof and more rigid in times of crisis.

Specific provisions for local governments

The rules applicable to the local government sector aim to separate the responsibility for the solvency of local governments from the state, to ensure that their new tasks are financed by the state and to

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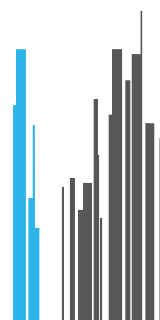
20 According to the CBR's evaluation (available only in Slovak), the expenditure ceiling applicable for 2023 was exceeded by 1.0 billion euros (0.8% of GDP), mainly due to the permanent increase in expenditures on the 13th pension payments and health care. The planned target of the expenditure ceiling for 2023 was to improve long-term sustainability by 0.2% of GDP, but the actual development in expenditures covered by the expenditure ceiling contributed 0.6% of GDP to the deterioration of long-term sustainability in 2023.

21 As the public expenditure ceiling submitted by the CBR to the parliament on 15 December 2023 had not been approved by the time the government and the parliament passed the budget, the expenditure ceiling approved by parliamentary resolution no. 1964 passed on 1 February 2023 was still valid. The CBR noted in its opinion (available only in Slovak) regarding the legally binding nature of the public expenditure ceilings that the expenditure ceiling approved on 1 February 2023 had not become invalid with the end of the election term.

22 The parliament approved this amendment in a fast-track legislative procedure on 9 May 2024. The public expenditure ceilings should be calculated in accordance with the European fiscal rules during the preparation of a general government budget for the years of 2025 to 2027. For 2024, the amendment sets expenditure ceilings based on Council Recommendation of June 2023 which recommends that the growth in net nationally financed primary expenditure should not exceed 5.7%.

23 The new European rules require compensations for estimated costs related to population ageing over a ten-year horizon only, while they do not guarantee that a slowdown in expenditure growth will be fully reflected in a permanent recovery of public finances, as they do not sufficiently distinguish between permanent and temporary measures (e.g. a reduction in contributions to the fully-funded pension system pillar, the abolition of emergency energy support subsidies or a temporary increase in taxes).



prevent excessive indebtedness on the part of local governments. For these reasons, the following three areas are evaluated: 1/ whether the state has not provided funds to ensure local government solvency; 2/ whether the state has devolved new tasks and competencies to local government without providing adequate financial coverage, and 3/ the size of the local government debt.

- The CBR notes that the **state has not provided funding to ensure the solvency of local government.** In 2023, the government did not provide any new loans to local governments but **released them from loans granted in 2020[24], temporarily improving their fiscal performance**[25]. The existing rules on the provision of non-repayable financial assistance from the state's financial assets need to be amended in order to preclude the selective favouring of local governments and to prevent their future insolvency.
- **According to the available information, no new tasks were assigned to the local government sector in 2023 which would have required funding from the state**[26]. However, the local government sector continues to face the negative effects of a major intervention in shared tax revenues (an increase in the tax bonus for children), the impact of which was not sufficiently assessed in advance by the government and parliament. The obligation to ensure adequate financial coverage under the constitutional act does not apply to changes in the existing local government competences that have no significant financial impacts. There are mechanisms in place through which local governments can raise funds in other ways (e.g., through tax hikes[27] or by shifting costs on users of services)[28]. Not using these mechanisms may indicate that funding problems are less urgent.

  Any changes concerning the financing of local government must always be subject to a standard consultation procedure in accordance with the principles of transparency and effectiveness. It is also necessary to ensure that the impact of measures is consistently respected and monitored so that the central government authorities do not impose additional burdens on local government budgets without identifying them in the impact clauses, and at the same time to prevent any transfer of new tasks (whether in the exercise of original or

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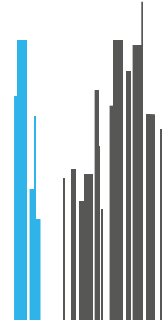
[24] In 2023, the government forgave the loans taken by local governments in the form of repayable financial assistance. These funds had originally been provided by the government to municipalities and self-governing regions to compensate for the loss of personal income tax revenues caused by the COVID-19 pandemic.

[25] The forgiven loans were quite evenly distributed among the self-governing regions and larger municipalities. However, some towns/cities and municipalities did not apply for loans at all, and/or were not granted any, while others received significantly less. An ex-post evaluation has shown that the funds provided to cover the loss of local government revenues caused by the COVID-19 pandemic were not distributed fairly and according to criteria clearly defined in advance, to the detriment of those municipalities and towns/cities that had not applied for loans.

[26] 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)): "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.".

[27] Slovakia has low real estate tax rates compared to other countries, which leaves room for an increase.

[28] 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 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.



delegated local government powers) to local government without adequate financial coverage.

- Administrative proceedings on the imposition of fines for 2022 on local governments with excessive debt[29] were closed. **While all self-governing regions ended up with debts below the prescribed limit, the fines were imposed on three of the 34 initially identified municipalities after legislative exemptions had been considered and reported values cross-checked.** There are currently 27 municipalities at risk of fine for 2023; the values they reported are now under review. Further 38 municipalities were contacted because they had not submitted the required financial reports. In 2023 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 discloses[30] all information related to reviewing the size of local government debts, and imposing the fines, in a transparent manner.**

Fiscal transparency rules

The fiscal transparency rules defined by the constitutional act were almost fully complied with. Macroeconomic and tax revenue forecasts were approved by competent independent committees and published within the deadlines specified in the constitutional act. The 2024-2026 general government budget contained all the data required by law, except 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 2022 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 the focus of the CBR's recommendations in its August 2023 report, but **apart from a slight improvement in the comparability of the budget with reported data and the planned refinement of the quantification of net worth, no progress has been made in these areas. On the contrary, transparency has actually decreased as a result of the applicated use of the ESA2010 methodology and a move away from compiling budget expenditures on the basis of no-policy-change scenarios.**

According to the CBR, the main persisting issues, the amendment of which could lead to further qualitative improvements in fiscal transparency and the overall budgetary process, include:

- **The general government budget was not prepared in compliance with the budgetary objectives for the years of 2024 to 2026. In 2024, the budgetary objective set by the government was fulfilled by accounting for part of the emergency energy support measures financed from EU funds, which was inconsistent with the ESA2010 principles given the timing**

[29] Overrunning the debt limit of 60% of current revenues in the previous year.

[30] 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.

of such emergency support in 2023. In addition, the budget lacked specific consolidation measures for the next two years (in the amount of 1.1% and 1.6% of GDP, respectively).

- **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.** Approving a cash-based (only) state budget by the parliament for the next year is based on a historical tradition, but this is no longer sufficient to capture the key monitored parameters of public finances and all changes in public finances in accordance with ESA2010 and the best international practice.

- **The expenditure side of the budget should be based more on a no-policy-change (NPC) scenario for the next three years, as required in the past under the Act on General Government Budgetary Rules[31].** In the previous years, this approach was used only for the budgeting of expenditures of health insurance companies, which allowed a transparent assessment of the basic assumptions used in the preparation of the health sector budget, including the impacts of the measures included. The general government budget for 2024-2026 did not include such information even for expenditures in the healthcare sector[32].

- **Better information should be provided for state-owned enterprises.** A brief commentary on expected economic results of individual enterprises could enable better assessing any potential risks arising from the performance of enterprises owned by the state 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, which the Ministry of Finance is currently working on[33].** 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.

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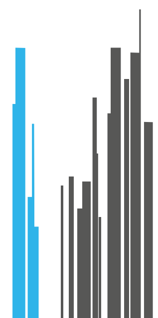
[31] According to the second sentence of Section 4(2) of Act No. 523/2004 on the general government budgetary rules: "A general government budget shall be prepared and implemented in accordance with public expenditure ceilings based on no-policy-change scenarios." However, this provision has been deleted from the act with effect from 1 August 2023 (but was still in force at the time of the adoption of the budget). The reason given by the Slovak Ministry of Finance for this change is that it is necessary to ensure the fulfilment of obligations approved in a medium-term fiscal-structural plan in accordance with the new European rules. However, in the CBR's opinion, preparing the budget on the basis of NPC scenarios does not contradict the requirement to prepare the budget in compliance with the new European rules (it is the measures beyond the NPC scenario that ensure that the required rate of expenditure growth is achieved).

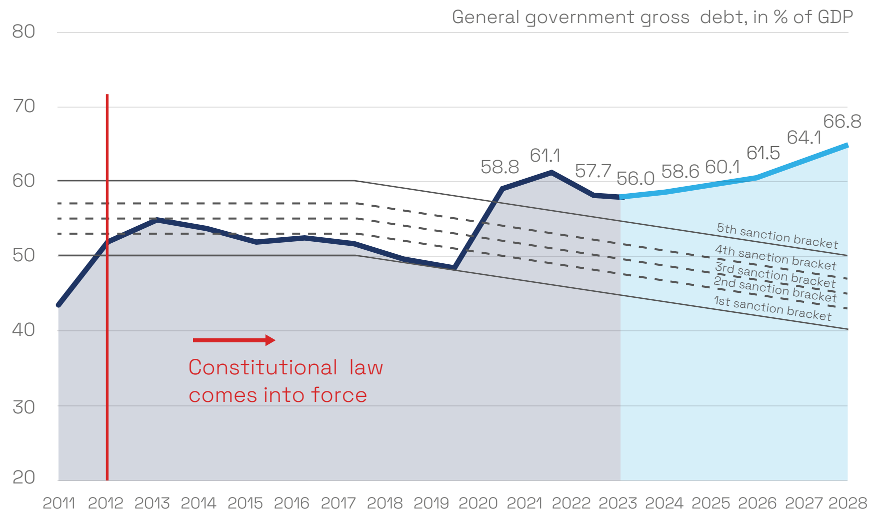
[32] Upon request, the Ministry of Finance provided the CBR with an underlying document structured according to the development in health expenditures under the NPC scenario and additional measures.

[33] The Ministry of Finance has confirmed in a letter that it is actively working on the methodology for the Net Worth Concept of the Slovak Republic, currently focusing on three unmapped areas that have not yet been reported and quantified – the valuation of Slovakia's cultural heritage worth, ecosystems and ecosystem-related services in Slovakia, and nature protected areas (forests, waters, fauna and flora).



General Government Debt Limit

Development of gross debt since 2011



At the end of 2023, the general government debt reached 56% of GDP. Despite a year-on-year decrease, the gross debt remains in the highest sanction bracket of the constitutional debt brake rule.

The debt level reached in 2023 is currently subject to sanctions due to exceeding the threshold of the second sanction bracket. 24-month exemption from the application of the strictest debt brake sanctions is currently in effect.

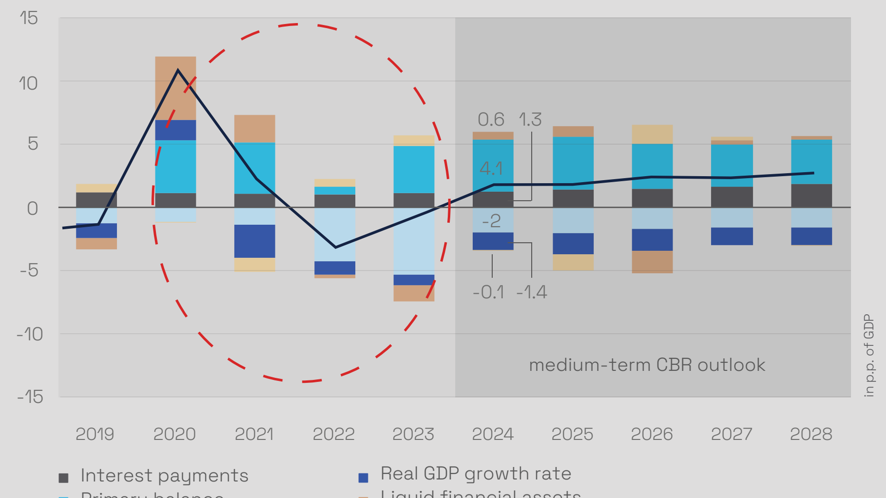
Without the adoption of additional consolidation measures, the CBR forecast projects that gross debt will rise to 66.8% of GDP by the end of 2028. The continuous year-on-year increase will be primarily driven by the government's unfavorable fiscal position and the impact of interest costs on servicing public debt.

Selected contributions to debt change (2019-2028)

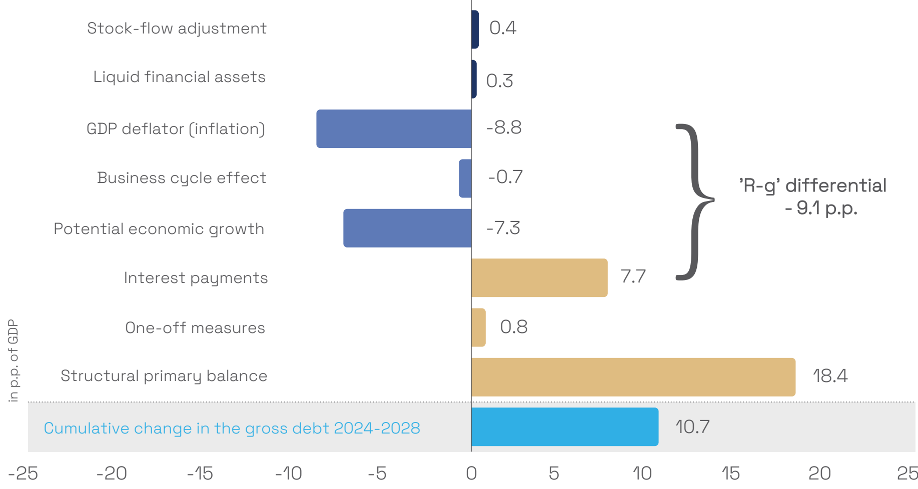
Compared to the pre-crisis period at the end of 2019, the level of gross debt by the end of 2023 increased cumulatively by 8.1 percentage points of GDP, rising from 48% of GDP to 56% of GDP.

The increase in debt during 2020 and 2021 was primarily driven by government fiscal policies, including one-off measures to mitigate the effects of the pandemic (8.3 p.p. of GDP), and the increase in the state's cash reserve during a period of uncertainty in financial markets (7.2 p.p. of GDP).

The security and energy crisis in 2022 led to a significant surge in inflation, which temporarily reduced the debt-to-GDP ratio. Inflation in 2022 and 2023 cumulatively contributed to a 9.6 percentage point decrease in debt as a share of GDP.



Contributions to the cumulative debt change (2024-2028)



According to CBR estimates, gross debt is projected to increase by 10.7 percentage points in the medium-term horizon from 2024 to 2028, rising from 56% to 66.8% of GDP.

If additional fiscal measures to improve the structural primary balance are not implemented, fiscal policy, combined with the increasing impact of interest costs, will pose a significant risk to the sustainability of public finances.

The projected fiscal policy by the government will increase public debt by 18.4 percentage points of GDP during the 2024-2028 period. This rise will be only slightly offset by the growth-interest rate differential, which will contribute to a debt reduction of 9.1 percentage points of GDP.

Source: MoF SR, SOSR, CBR

Evaluation of compliance with sanctions

Compliance with the debt brake sanctions for 2022

Provision in the constitutional act	Compliance	Notes
The government shall submit a proposal for measures designed to reduce the debt to the parliament.	not complied	No proposal for measures to reduce the debt for 2022 was submitted to the parliament.
Salaries of cabinet members shall be reduced to the level of the previous fiscal year, if they were lower in the previous fiscal year.	formally complied	In 2023, the salaries of cabinet members have been frozen. However, in February 2024, the government approved a multiple increase in lump-sum payments (formally not part of their salaries) and circumvent the purpose of this sanction.
The Ministry of Finance shall block 3% of the defined government expenditures.	formally complied	The Ministry of Finance blocked 3% of state budget expenditures, which, however, did not affect the size of budget balance, thus failing to meet the essential purpose of this sanction, i.e., reduce the general government debt.
The reserve fund of the prime minister and the reserve fund of the government are blocked for spending.	complied	According to the Ministry of Finance, no funds were released from the prime minister's reserve and the government's reserve between 5 May and 21 November 2023.
The government shall not submit to the parliament a 2024 general government budget proposal which contains a year-on-year nominal increase in consolidated expenditures compared to the approved 2023 budget.	formally complied	The government submitted a balanced budget proposal to the parliament on 13 October 2023. The balance was achieved exclusively through significant cuts in selected expenditures. The government saw the submission of the proposal merely as fulfilling a legal obligation.
Local governments shall approve their 2024 budgets with expenditures not exceeding the amount of expenditures budgeted for 2023.	not evaluated	Local governments could approve their 2024 budgets by 31 December 2023. A temporary exemption from the application of this sanction applies from 22 November 2023.
The government shall not submit to the parliament the 2024 general government budget with a deficit.	formally complied	The government submitted a balanced budget proposal to the parliament on 13 October 2023. The balance was achieved exclusively through significant cuts in selected expenditures. The government saw the submission of the proposal merely as fulfilling a legal obligation.
Local governments shall only approve balanced or surplus* budgets for 2024.	not evaluated	Local governments could approve their 2024 budgets by 31 December 2023. A temporary exemption from the application of this sanction applies from 22 November 2023.
The government shall ask the parliament for a vote of confidence.	complied	On 15 June 2023, the parliament held a vote on the government's manifesto and a vote of confidence. The vote of confidence did not pass in the parliament.

Compliance with the debt brake sanctions for 2023

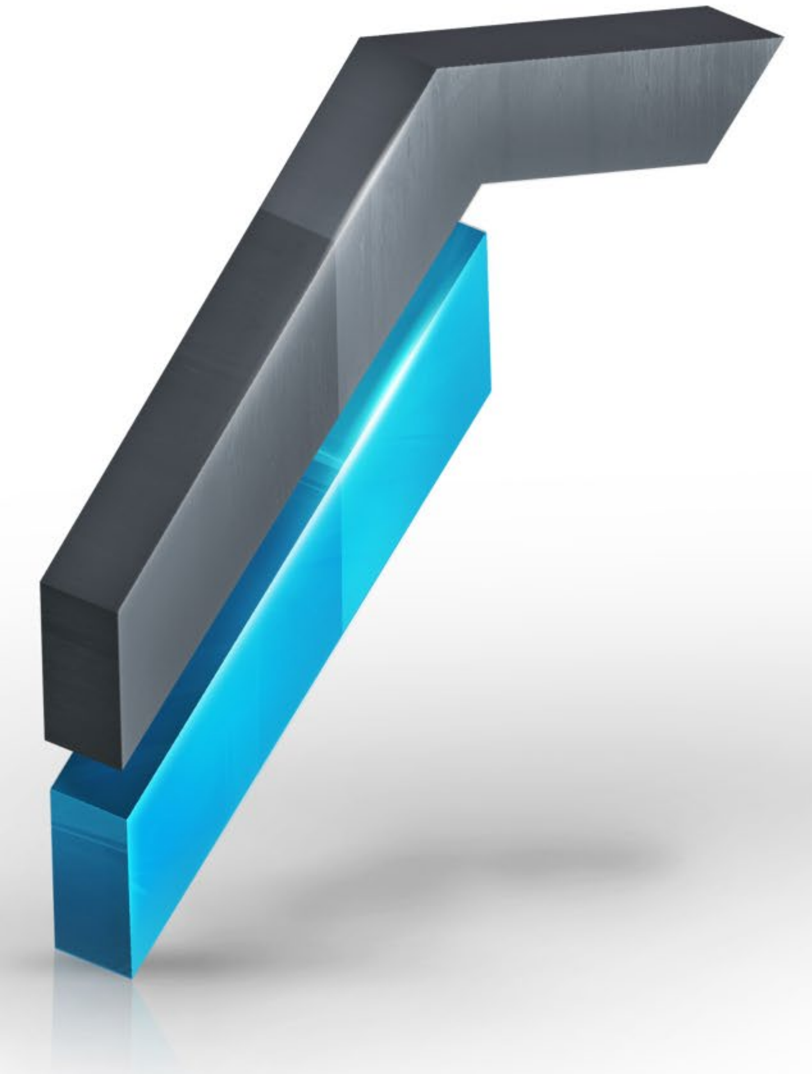
Provision in the constitutional act	Compliance	Notes
The government shall submit to the parliament a proposal for measures designed to reduce the debt.	formally complied	The document was delivered to the parliament, but the specific measures are not sufficient to reduce the debt-to-GDP ratio; it means the objective of the constitutional Fiscal Responsibility Act and of Article 55a of the Slovak Constitution has not been achieved in practice.
Salaries of cabinet members shall be reduced to the level of the previous fiscal year, if they were lower in the previous fiscal year.	being formally complied	In 2024, the salaries of cabinet members have been frozen. However, in February 2024, the government approved a multiple increase in lump-sum payments (formally not part of their salaries) and circumvent the purpose of this sanction.

Evaluation of compliance with special provisions for local governments

Provision in the constitutional act	Compliance	Notes
The state does not ensure and is not responsible for solvency of any municipality or a self-governing region.	complied	CBR notes that the state did not intervene to safeguard the solvency of local governments. In 2023, 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 a self-governing region.	complied	In the course of 2023, 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 the 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 the 60% of the actual current revenues in the previous fiscal year. The definition of debt is established by law.	under review	There are currently 27 municipalities at risk of fine for 2023; the values they reported are now under review. Further 38 municipalities were contacted, because they had not submitted the required financial reports. After reviewing the level of debt, the Ministry of Finance will initiate administrative proceedings on the imposition of fines.

* A balanced or surplus budget only applies to the current and capital budget, excluding financial operations.

Source: CBR



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