

# GOVERNMENT OF THE SLOVAK REPUBLIC

Document for assessment  
of the National Council

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**547**

## **Proposal**

### **of the State Closing Account for the year 2016**

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#### **Content:**

1. Proposal of resolution
2. Report

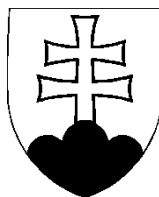
#### **Submitted by:**

Robert Fico  
Prime minister

May 2017, Bratislava

# National Council of the Slovak Republic

## VII. Parliamentary Term



Proposal

Number .....

### Resolution of the National Council

at the date of ..... 2017

to

State Closing Account for the year 2016

National Council of the Slovak Republic

#### *A. Approves*

A.1. proposal of the State Closing Account for the year 2016, according to which

a) the government deficit to GDP ratio in methodology ESA 2010 according to data published by Eurostat at the date of 24. April 2017 reached 1,68 %.

b) the government debt to GDP ratio in methodology ESA 2010 according to data published by Eurostat at the date of 24. April 2017 reached 51,94 %.

c) cash revenues of the state budget reached 14 276 mill. Euros, cash expenditures of the state budget reached 15 256 mil. Euros and cash deficit reached 980 mill. Euros.

#### *B. take note that*

B.1. cash deficit of the state budget recognized in State Closing Account for the year 2016 in amount 980 mill. Euros at the date of 31. December 2016 was settled by financial sources from state bonds in amount 650 mill. Euros and by government loans in amount 330 mil. Euros.

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## Summary

- **The deficit of general government** according to the methodology of ESA 2010 **reached the level of 1,361,537,000 Euros in 2016 (1.68% of GDP)**. The historically lowest deficit in relation to GDP was lower by 0.25 percentage points compared to the budgeted value for 2016 and **was lower by 1.06 percentage points compared to the result for the year 2015**.
- The implementation of the 2016 general government budget was affected by several factors. The revenue of the budget was positively influenced by the growth of the Slovak economy, the related increase in employment and better collection of taxes and contributions. The tax revenues were higher due to a higher collection rate than the budgeted value of 358,516,000 Euros and the contributions were higher by 386,876,000 Euros. Within the Slovak economy, more than 50 thousand jobs were created year-to-year, which not only affected by public revenues but also expenditures, as there was, for example, a lesser need to fund unemployment contributions. The expenditures were also affected by absorption of the EU funds, with a drastic decrease in 2016 following their historically highest absorption in 2015. The economy of municipalities and some government-owned enterprises, which make up a notable part of the total public finances, was also positive.
- **The debt of the general government** according to the ESA 2010 methodology **reached the level of 42,053,243,000 Euros as at 31 December 2016 (51.94 % of GDP)**. In 2016, the debt of the general government **decreased by 0.54 percentage points compared to the previous year 2015**. Within the European Union (28 countries) in 2016, 11 countries reached a higher deficit and 18 countries achieved a higher general government debt than the Slovak Republic. For the year 2016, the **average EU-28 deficit stood at 1.7% of GDP** and the **average EU-28 general government debt 28 reached 83.5% of GDP**.
- The lower deficit as well as the general government debt compared to the budget was positively influenced by **the lower state budget cash deficit of 990,140,000 Euros** and therefore a lesser need of its refinancing.
- **The cash revenues of the state budget** reached 14,275,917,000 Euros in 2016, which means a **year-to-year decrease of 12%** . The **cash expenditures** amounted to 15,256,172,000 Euros, which represents a year-to-year **decrease of 16%**. **The cash deficit of the state budget** reached 980,255,000 Euros and compared to the previous year, when the state budget deficit reached 1,932,596,000 Euros, it **dropped by almost 50%**.

# **1 The economic framework of the budget management of the Slovak Republic**

The Slovak economy achieved a growth of 3.3% for the last year. Preliminary Gross Domestic Product (GDP) of Slovakia for the year 2016 reached 80,958 mil. Euros. The main driver was household consumption and net exports. The slower growth of 0.5 percentage points reflects, in particular, a lower absorption of EU funds in the new programming period. Gross fixed capital formation declined throughout the economy. Export did not repeat the very strong growth of 2015 when even record production in the automotive sector failed to offset the slowdown in the V4 countries. From the point of view of macroeconomic fundamentals for tax revenues and contributions, the macroeconomic development in 2016 outran the expectations of the budget forecast of the Ministry of Finance of the Slovak Republic.

## **1.1 External economic environment**

The external environment of the Slovak economy continued to grow last year despite the full-scope intensification of geopolitical risks. The individual Euro zone countries grew at a varied pace, but the Euro zone at the aggregate level grew at a steady pace, demonstrating resistance to shocks. Last year, the Euro zone unemployment rate fell below 10%. The main source of the growth remained to be domestic demand also in 2016, in particular rising household consumption. The US economy was also successful and the dollar index rose to a 15-year maximum. By contrast, the Japanese economy lagged behind expectations in the past year. Developing countries have experienced negative shocks. In Russia, GDP declined at a slower pace at the end of last year than in previous quarters. The Chinese economy continued to grow robustly, although a moderate slowdown in the medium term is expected.

However, persisting political uncertainty remains the main obstacle to a more robust acceleration of economic growth as well as the primary risk of the outlook for the external environment. Negative risks to future developments include, in particular, the unclear political outlook in Europe (elections in the Netherlands, France, Germany), the instability of the banking sector in Italy, the impact of the hard Brexit, and the rise of protectionism in the world trade.

The main events on the commodity market were the bounce-off of oil prices from the bottom, ending with an expected agreement to cut production in OPEC countries in December. The agreement stabilised prices at USD 55/barrel. Stock markets were relatively peaceful throughout the year. The positive stimulus was only brought to the US elections when the markets began to grow, with the exception of China. However, the short-term benefits of the expected fiscal expansion in the US may, in the longer term, be offset by the negative effect of the new wave of protectionism. Under the influence of the November election, yields on US government bonds rose as well. During the year, the FED raised its rate only time, namely to the level of 0.75%. The normalization of the US monetary policy is also expected in 2017. This should slightly strengthen the US dollar, which is against the basket of US trading partners at 15-year highs. The British pound weakened since the Brexit referendum to an October low of 1.2 USD/GBP, currently trading at 1.28 USD/GBP.

The quantitative release (QE) is transmitted to the real economy at a slow pace. European equity markets recovered from the fall in the previous year. Yields on government bonds also increase, which is also strengthened by the intensity of the geopolitical risk. Long-term yields left the historical lows during the year, indicating positive inflation expectations. The European Central Bank (ECB) modified the QE parameters. In December, it decreased the volume of purchases by 20 billion Euros to 60 billion per month. There was also an extension of purchases by nine months for the planned end of the program in March 2017.

<b>Evolution of selected indicators for the Euro Area</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Gross domestic product (% growth)	1.2	2.0	1.7
Employment (ESA, % growth)	0.5	1.0	1.3
Unemployment Rate (LFS,%)	11.6	10.9	10.0
Compensation per employee* (% growth)	2.2	2.8	-
Inflation rate (HICP,%)	0.4	0.0	0.2
10-year German bond (% yield)	1.24	0.53	0.14
USD/EUR exchange rate	1.33	1.11	1.11
Brent oil price (USD/bl)	99.5	53.6	45.0

Source: Eurostat,  
Bloomberg

\* the sum of all wages and salaries per employee in the economy ("super gross" wage)

## **1.2 Macroeconomic development of the SR**

### **1.2.1 Gross domestic product**

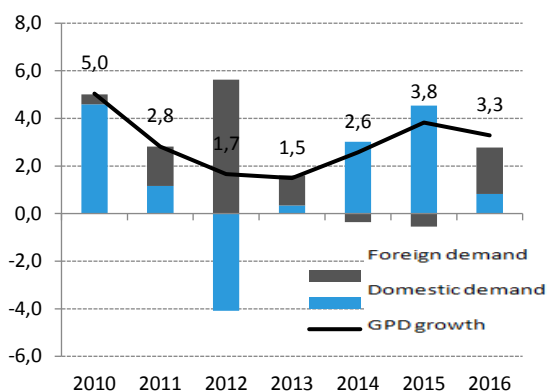
The Slovak economy achieved a growth of 3.3% for the last year. The main driver was household consumption and net exports. The growth in household consumption was the highest since 2008, thanks to excellent labour market conditions and falling prices. Export did not repeat the very strong growth of 2015 when even record production in the automotive sector failed to offset the slowdown in the V4 countries.

The slower growth compared to the previous year reflects, in particular, a lower absorption of EU funds in the new programming period. Gross fixed capital formation declined throughout the economy by 9.3%. Expected investments related to the construction of the Jaguar Land Rover car plant and the Bratislava bypass are moving to the current year.

From the sectoral point of view, the real GDP growth in 2016 was driven most by the added value in the industry with a growth of 6.6% (contribution to GDP growth of 2.0 pp). The added value in construction fell by 0.2% (zero contribution to GDP growth), mainly due to a decline in EU-funded investments from the record level of the previous year. The value added in services increased by 1.4%. Within the services, the added value in information technologies and communications grew the most.

## Development of GDP and its main components

real growth in%	2014	2015	2016
<b>GDP</b>	<b>2.6</b>	<b>3.8</b>	<b>3.3</b>
of which:			
Final household consumption	1.4	2.2	<b>2.9</b>
Final general government consumption	5.3	5.4	<b>1.6</b>
Gross fixed capital formation	1.2	16.9	<b>-9.3</b>
Export of products and services	3.7	7.0	<b>4.8</b>
Import of products and services	4.4	8.1	<b>2.9</b>



Source: Statistical Office of the Slovak Republic

Source: Statistical Office of the Slovak Republic

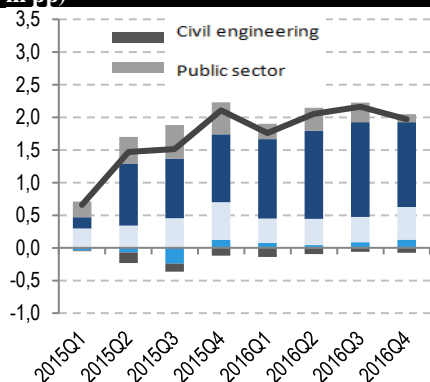
### 1.2.2 Labour market

In 2016, the labour market continued to grow strongly. Employment growth of 2.4% led to the creation of almost 54,000 new jobs (according to the ESA methodology), which is the most since the crisis. Labour market developments were balanced from the sectoral perspective. All sectors of the domestic economy contributed to the employment growth. The highest contribution to employment growth was recorded by market services.

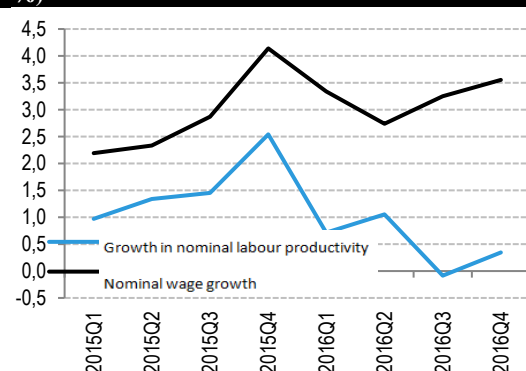
This favourable trend was reflected in a decline in the unemployment rate, which after ten years again reached a one-digit level of 9.6% (according to the Labour Force Survey), with a year-to-year decrease of 1.8 pp. The long-term unemployment rate fell to the historically lowest level.

Wage growth accelerated to 3.8% last year. The average nominal monthly wage reached 912 Euros (2015: 883 Euros). This was caused not only by nominal wage growth (3.3%) but also by a fall in the price level. Wage growth outpaced labour productivity for the third consecutive year. In part, however, it is catching up the development from previous years, when wage growth fell significantly behind productivity. Higher wages in the economy were mostly driven by services and the general government, wages in industry grew as well.

#### Sector contributions to employment development (ESA, in pp)



#### Growth of nominal labour productivity and wages (in %)



Source: Statistical Office of the SR, Ministry of Finance of the SR

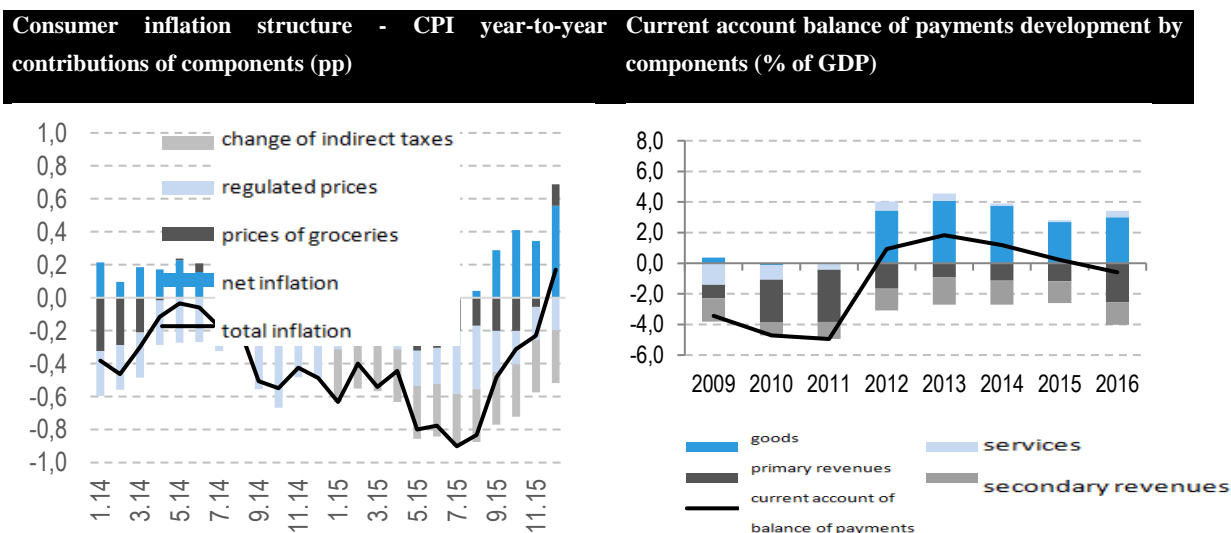
Source: Statistical Office of the SR, Ministry of Finance of the SR

### 1.2.3 Price development

Deflation reached a floor in 2016 with an average annual level of -0.5%. The reason was extremely low food prices and a slow rise in the prices of negotiable goods. The sharpest decline in prices (-0.9%) was recorded in July, but since then deflation slowed down, until the end of the year prices began to rise year-to-year again. The reason for the change in the trend was mainly an increase in food and fuel prices, which responded to the rising price of oil. The growth in services prices also accelerated, while the prices of tradable goods stagnated. Accelerating inflation continued in early 2017.

### 1.2.4 Balance of payments

The balance of payments, after four years of surplus, reached -0.6% of GDP in 2016. The fall of the balance of payments balance is mainly due to a fall in primary revenues (-2.6% of GDP) and, to a lesser extent, to secondary revenues. The trade balance of goods and services, on the other hand, contributed positively and to a greater extent than a year before, when the fall in investments led to a slowdown in the growth of imports.



Source: Statistical Office of the SR, Ministry of Finance of the SR

Source: National Bank of Slovakia, Ministry of Finance of the SR

### 1.2.5 Comparison of macroeconomic assumptions of budget and reality

The real growth of the economy exceeded the forecast of the Ministry of Finance used in the preparation of the general government budget for 2016. Positive GDP growth was mainly influenced by higher domestic and government consumption and creation of inventories. Import and export grew more slowly than expectations, but the positive contribution of foreign trade to growth was slightly higher. On the contrary, a much lower absorption of EU funds and a transfer of large planned investments meant a more significant drop in investment than expected. The growth structure was more favourable in connection to the labour market and job creation. On the other hand, however, the budget for 2016 counted on the gradual return of inflation to positive figures, while in fact the price level continued to decline.



The year 2016 also improved in terms of macroeconomic fundamentals for taxes and contributions. A positive development was in particular the development of the wage base, which is the most important basis for personal income tax and contributions.

Expectations were outpaced in particular by employment growth, and also more moderately by wage growth. For the third consecutive year, there was a fall in the price level, which negatively affects nominal household consumption and GDP, which are the basis for VAT and the corporate income tax. Overall, however, the macroeconomic development created positive risks for the budgeted general government revenues in 2016.

<b>Comparison of the reality for 2016 with assumptions for budget preparation for 2016-2019</b>			
<b>in %, unless otherwise indicated</b>	<b>Budget 2016</b>	<b>Reality</b>	<b>Difference in pp</b>
Gross domestic product, real growth	3.1	3.3	+0.2
Gross domestic product at current prices in billions Euros	80.6	81.0	+0.4
Final consumption of households and NPISHs, real growth	2.7	2.9	+0.2
Final consumption of households and NPISHs, nominal growth	3.5	2.5	-1.0
Average monthly wage, real growth	2.2	3.8	+1.6
Average monthly wage, nominal growth	3.1	3.3	+0.2
Employment (ESA)	1.0	2.4	+1.4
Unemployment Rate (LFS)	10.6	9.6	-1.0
Consumer price index, average growth	0.9	-0.5	-1.4
Current account balance of payments (% of GDP)	0.9	-0.6	-1.3

Source: Ministry of Finance of the SR , Statistical Office of the SR

## **2 General government economy in ESA 2010 methodology**

The results of the general government economy are submitted to Eurostat twice a year on the basis of the excessive deficit regulation for the first time by 1 April of the current year and the second time by 1 October of the current year. By 1 April of the current year an estimate of the deficit for the previous financial year shall be submitted, and by 1 October of the current year an updated deficit for the previous financial year shall be submitted. For the purposes of this specified rule, all data in the following text need to be understood as provisional, which may be revised in the period up to 1 October of this year. The basic database on the economy of individual general government entities is data from the financial statements for 2016, but not all were verified by the approval process. Definitive data of the general government economy for 2016 will be presented after the end of the approval process, on the basis of audits of the financial statements and after obtaining definitive data for tax and insurance contribution accruals from the Financial Administration of the Slovak Republic, the Social Insurance Company and health insurance companies. In terms of the final results of the general government for 2016, Eurostat's opinion will therefore be decisive when notifying the results submitted by 1 October 2017.

## 2.1 Balance of general government

The general government budget for 2016, which was approved by the Resolution of the Government of the Slovak Republic No. 544/2015 and the Resolution of the National Council of the Slovak Republic No. 2123/2015 counted with the **deficit** to GDP of **1.93%**. On 31 March 2017 the Slovak Republic sent to Eurostat preliminary results of interim financial performance for the year 2016, with the **deficit** being declared at **1.68% of GDP**. It already included the necessary EU fund adjustments, which were beyond the government's budgetary policy.

**In 2016, the total performance of public finances, according to the ESA 2010 methodology, reached a deficit of 1,361,537,000 Euros (1.68% of GDP).** The government deficit was lower than the budgeted figure for 2016 by 194,966,000 Euros (0.25 pp), due to the positive development of the Slovak economy as well as the better performance of general government entities.

	Implementation of revenues and expenditures of the general government on accrual basis				in thousands of Euros
	2014 Reality	2015 Reality	2016 Reality	2016 Budget	2016 (R - B)
<b>Revenue together, of which <sup>1)</sup>:</b>	<b>31,406,887</b>	<b>35,431,401</b>	<b>35,041,121</b>	<b>30,602,240</b>	<b>4,438,881</b>
Tax and contribution revenues	23,140,935	25,330,990	26,031,897	24,992,968	1,038,929
Non-tax revenues	5,805,325	4,569,604	5,066,255	4,487,207	579,048
Grants and transfers	2,460,627	5,530,807	3,942,969	1,122,065	2,820,904
<b>Revenues total, of which <sup>1)</sup>:</b>	<b>33,440,610</b>	<b>37,608,410</b>	<b>36,402,658</b>	<b>32,158,743</b>	<b>4,243,915</b>
Current expenses	30,661,444	31,540,376	33,007,308	29,684,008	3,323,300
Capital expenditures	2,779,166	6,068,034	3,395,350	2,474,735	920,615
<b>Balance according to ESA 2010</b>	<b>-2,056,116</b>	<b>-2,159,590</b>	<b>-1,361,537</b>	<b>-1,556,503</b>	<b>194,966</b>
<b>% of GDP</b>	<b>-2.72</b>	<b>-2.74</b>	<b>-1.68</b>	<b>-1.93</b>	<b>0.25</b>

Source: Ministry of Finance of the SR

<sup>1)</sup> Data do not include revenues and expenditures of Železničná spoločnosť Slovensko, a.s. and JAVYS, a.s. in 2014. The data do not include revenues and expenditures of JAVYS, a.s. in 2015.

**General government revenues** compared to the budgeted value in 2016 were higher by 4,438,881,000 Euros, of which the highest increase over the budgeted income was brought by grants and transfers of 2,820,904,000 Euros. In 2016, **the general government expenditures were** higher than budgeted by 4,243,915,000 Euros, the largest increase compared to the budgeted expenditures of 3,323,300,000 Euros was caused by current expenditures.

**Tax and contribution revenues for 2016** account for more than 74% of all revenues, with a positive impact on the budget in 2016 amounting to 745,392,000 Euros<sup>1</sup>. The higher tax and contribution revenues were mainly due to the higher success rate of their collection. The economic growth, which was 3.3% (an increase of 0.2 pp), also contributed positively. One-time factors (notably VAT) and legislative measures that were not included in the 2016 budget had a negative impact on the revenues.

<sup>1</sup> The general government budget for 2016-2018 beyond the forecast approved by the Tax Forecasts Committee considered increasing the success rate of tax collection in 2016 by 250 million Euros. Specifically 200 mil. Euros for VAT and 50 mil. Euros on consumer taxes. At the same time, it did not account for the negative impact of introducing a reduced VAT rate on selected groceries (66 million Euros).

Higher figures compared to the budget estimates were achieved by the revenues from social and health contributions (386,876,000 Euros), corporate income tax (265,734,000 Euros) and personal income tax (139,270,000 Euros). The budget was not achieved for VAT (208,544,000 Euros).

<b>Tax and contributions revenues of the general government in 2016 according to ESA 2010<sup>1)</sup> in thousands of Euros</b>					
	<b>ESA 2010 code</b>	<b>2016 Reality</b>	<b>2016 Budget</b>	<b>2016 (R-B)</b>	<b>Difference (% of GDP)</b>
<b>Tax revenues</b>	<b>D.2+D.5+D.91</b>	<b>14,822,177</b>	<b>14,463,661</b>	<b>358,516</b>	<b>0.44</b>
Taxes on production and imports	D.2	8,615,948	8,735,971	-120,023	-0.15
- Value added tax	D.211	5,415,207	5,623,751	-208,544	-0.26
- Consumer taxes	D.214A + D.2122C	2,173,885	2,162,548	11,337	0.01
- of which: mineral oil	-	1,194,246	1,189,370	4,876	0.01
- of which: tobacco and tobacco	-	672,081	664,637	7,444	0.01
- Property taxes and others	D.29A	235,778	233,477	2,301	0.00
- Other taxes and fees	D.214 (B-L) + D29 (B,E,F,H)	791,078	716,195	74,883	0.09
- of which: Special contributions	D29H	119,772	113,806	5,966	0.01
Current taxes on pensions, property	D.5	6,206,225	5,727,690	478,535	0.59
- Personal income tax	D.51A	2,694,163	2,554,893	139,270	0.17
- from employment	-	2,541,925	2,406,350	135,575	0.17
- from business and other self-employment activity	-	152,238	148,543	3,695	0.00
- Corporate income tax	D.51B	3,048,638	2,753,333	295,305	0.36
- of which: Special contributions from regulated industries	-	106,018	76,447	29,571	0.04
- Income tax collected by deduction	D.51E	179,211	166,803	12,408	0.02
- Property taxes and others	D.59A	112,127	107,562	4,565	0.01
- Other taxes and fees	D.59D	172,086	145,099	26,987	0.03
Taxes on capital	D.91	4	0	4	0.00
<b>Social security contributions</b>	<b>D.61</b>	<b>9,565,483</b>	<b>9,178,607</b>	<b>386,876</b>	<b>0.48</b>
Social contributions <sup>1)</sup>	-	6,584,239	6,323,536	260,703	0.32
Health contributions <sup>2)</sup>	-	2,981,243	2,855,071	126,172	0.16
<b>Tax and contribution revenues total</b>		<b>24,387,660</b>	<b>23,642,268</b>	<b>745,392</b>	<b>0.92</b>
Impact of the transfer of funds on a public-service purpose + tax credits		<b>325,002</b>	<b>315,703</b>	<b>9,299</b>	

Source: Financial Policy

1) Table showing the impact on the general government deficit

2) Social security contributions do not include, except from state-funded contributions, also revenues from armed forces contributions, penalties and imputed premiums.

Institute, Ministry of Finance of the SR

3) Health contributions do not include state paid premiums.

The revenue from social contributions from insurance premiums for economically active persons increased by 260,703,000 Euros. On the basis of an assessment of tax revenues<sup>2</sup> a positive development in the labour market contributed to a higher collection of almost 60%. The rest is brought by a higher success rate of collection. The actual revenue from health contributions from economically active persons is better than the budgeted revenue of 126,172,000 Euros. The higher revenue is the result of both positive developments on the labour market, which contributed 53% to higher collection efficiency. From 2015, a contribution deductible item from health contributions

<sup>2</sup> The assessment of the impact of individual factors on the actual tax and contribution revenues versus the budgeted revenues is based on the "Tax forecast assessment" manual, which is available at:

<http://www.finance.gov.sk/Default.aspx?CatID=8958>

applies. The actual impact of the contribution deductible item was higher by 19,346,000 Euros compared to the budgeted value. However, in the case of social and health contributions, it is assumed that the increase in the effective tax rate is not primarily due to a higher efficiency of contribution collection. Rather, this is an under-estimate of the officially reported wage base growth for 2016.

In the case of personal income, the total difference compared to the budget of 139,270,000 Euros was brought in particular by the personal income tax collection from employment amounting to 135,575,000 Euros. Positive developments in the labour market as well as higher tax collection contributed to higher revenues. Personal income tax from business <sup>3</sup> was higher by 3,695,000 Euros compared to the budget.

The revenue from the personal income tax<sup>4</sup> for the state budget for 2016 is higher by 265,735,000 Euros compared to the budget. The difference, however, is based on an estimate of the tax revenue for 2016. The actual tax revenue will be known in early 2018. The better revenue is mainly due to a higher success rate of tax collection.

VAT revenue <sup>5</sup> is, compared to the budget, lower by 208,544,000 Euros. The positive influence on the tax revenue was brought by the higher than expected success of tax collection in the amount of 227,586,000 Euros. On the other hand, a slightly negative influence was caused by the less favourable than expected development of the macroeconomic environment and the one-off effect of completing a higher volume of controls on excessive VAT deductions. The approved budget also included the expected increase in tax collection of 200,000,000 Euros, which was not fulfilled. Finally, legislation on the introduction of a reduced tax rate on selected foods, which was also not included in the budget, also negatively affected by the tax revenue.

The excise tax revenue consists mainly of the excise duty on tobacco and tobacco products and the excise duty on mineral oils. The excise tax revenue from tobacco products exceeded the budget level by 7,444,000 Euros, which can be attributed, in particular, to the growth of the effective tax rate. The excise tax revenue on mineral oils was higher by 4,876,000 Euros compared to the budgeted value. The budgeted reserve for the higher success rate of tax collection of 50,000,000 Euros was also fulfilled.

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<sup>3</sup> The revenue from the personal income tax from business for 2016 is only an estimate because the tax returns for 2016 will be submitted in 2017 and the actual tax return will be known only at the beginning of 2018.

<sup>4</sup> The revenue from the corporate income tax for 2016 is only an estimate because the tax returns for 2016 will be submitted in 2017 and the actual tax return will be known only at the beginning of 2018.

<sup>5</sup> VAT revenue for 2016 is just an estimate.

General government balance in 2016 according to ESA2010	in thousands of Euros	
	2016 (R - B)	Difference (% of GDP)
	-	
<b>1. Balance of general government - budget</b>	<b>1,556,503</b>	<b>-1.93</b>
1. Tax and contribution revenues of the general government	745,392	0.92
of which: tax revenues	358,516	0.44
contribution revenues	386,876	0.48
2. Impact of selected non-tax general government revenues	-243,889	-0.30
- Revenues from dividends and from profits from the profits of the state budget and MH Management, a.s.	15,981	0.02
- Capital revenues of the state budget - cash	-23,574	-0.03
- Revenues from the sale of emission allowances	-52,186	-0.06
- Revenues from bearer deposits	25,945	0.03
- Revenue from cash grants and government budget transfers	-190,555	-0.24
- NFV Cargo instalment revenue	-19,500	-0.02
3. Impact of selected cash expenditures of the state budget	535,644	0.66
- Transferred expenditures of the government budget	205,163	0.25
- Expenditures transferred from an EU source and co-financing	511,971	0.63
- Expenditures on the state debt servicing (accrual)	33,875	0.04
- Wage and contribution expenditures	-215,365	-0.27
4. Other selected general government expenditures	-649,931	-0.80
- Social security expenditures	-53,611	-0.07
- Expenditures on public health insurance	-214,769	-0.27
- Capital transfer to MH Invest	-130,000	-0.16
- Capital transfer - deposit into ZI NDS, a.s.	-220,000	-0.27
- Capital transfers to MH Invest II for industrial parks	-20,746	-0.03
- Capital transfers for write-off of claims in relation to foreign countries	-10,805	-0.01
5. Selected EU-related transactions	-354,945	-0.44
- Contribution to the EU budget	42,523	0.05
- Value adjustments to eliminate the impact of EU flows on the balance of general government	-209,810	-0.26
- Corrections to EU funds	-187,658	-0.23
6. Change in receivables and liabilities of the state budget	-9,248	-0.01
- Change in receivables	43,062	0.05
- Change in liabilities	-52,310	-0.06
7. Difference in the economy of central general government entities	-3,129	0.00
- of which: off-budget accounts	-7,593	-0.01
- of which state-owned companies	64,536	0.08
- of which medical facilities	-68,951	-0.09
- of which government contributory organisation	34,738	0.04
- of which public universities	42,324	0.05
- of which state funds not affected by revenues from emission	-59,651	-0.07

allowances		
- of which Eximbanka	9,206	0.01
- of which other entities of the central administration	-17,738	-0.02
8. Difference in the economy of territorial self-government	240,255	0.30
- of which municipalities	238,392	0.29
- of which higher territorial units	-19,155	-0.02
- of which transport enterprises	9,776	0.01
- of which contributory organisations of municipalities and higher territorial units	13,765	0.02
- of which other entities of local self-government	-2,523	0.00
9. The difference in the economy of social security funds (except for the revenues and expenditures of the public health and social insurance)	-270,233	-0.33
10. Other effects on the general government deficit	205,050	0.26
<b>2. Balance of general government - reality</b>	<b>-1,361,537</b>	<b>-1.68</b>

*Note: (+) means a positive impact and (-) negative impact on the general government balance*

The actual volume of **dividends** received was higher by 15,981,000 Euros compared to the expected dividend yield. The reason for the differences in the excess or non-fulfilment of the budgeted volume of dividends were different results achieved by the companies for 2015. The company with the highest positive influence was the company Slovenská elektrizačná prenosová sústava, a.s. (influence of cross-border cooperation and changes in dividend policy).

In 2016, Envirofond's economic performance deteriorated by 91,192,000 Euros. The budget **revenue from emission allowances** was 116,659,000 Euros, the actual revenues were 64,473,000 Euros, which represents a difference of 52,186,000 Euros. The impact of the accrual recording of revenues from emission allowances had a negative impact in the amount of 509,000 Euros. According to the ESA 2010 methodology, only the revenues from sale of emissions that are consumed in the economy are real revenues.

In 2016, the government budget revenues from **bearer deposits** amounted to 25,945,000 Euros with a positive impact on the budget.

**Transferred expenditures of the government budget.** Pursuant to the Financial Administration Act, capital expenditures and selected current government budget expenditures can be used for the intended purpose also in the next two budget years after the budget year for which they were budgeted. The European Union funds, state budget funds intended to finance joint programs of the Slovak Republic and the EU, and state budget funds intended to finance the purposes ensuing from international grant agreements concluded between the Slovak Republic and other countries can be used in the following financial years until their exhaustion. On one hand, this rule makes the use of public funds more efficient by not having the budget chapters motivated to absorb funds in the given year "at any cost", on the other hand it creates uncertainty in assessing the balance in accordance with the approved state budget. The commitment and carry-over of the expenditures into the next financial year reduce the actual real balance compared to the budget approved in that financial year; the transferred and used expenditures from the previous financial year, on the other hand, increase the balance in the given financial year. The net impact on the

general government balance depends on the resulting effect of the transfers. If the expenditures carried over to the next financial year are higher than those used from the previous financial year, the balance shall be reduced compared to the approved budget, in the opposite case it will increase.

The current and capital limits of the state budget expenditures (excluding EU funds and state budget funds intended to finance joint programs of the Slovak Republic) were carried over to 2016 from 2014 and 2015 (131E, 131F) in the total amount of 691,260,000 Euros, of which 401,141,000 was actually used in 2016. In 2016, funds were committed for an estimated transfer into 2017 in the amount of 746,378,000 Euros, of which budgeted funds for 2016 were 606,304,000 Euros.

For analytical estimation of the impact of the transferred state budget expenditures on the general government balance sheet in a given year, only the real expenditures used from the transferred funds from the previous years (401,141,000 Euros) are important, and only the part of the funds carried over to the following periods that included in the budgeted expenditures in 2016 (606,304,000 Euros).

A positive impact on the budget was also brought by the carried over expenditures from the EU funds and co-financing, and their absorption from the previous years amounted to 511,971,000 Euros.

**Payments to the EU budget** were lower than the budget by 91,923,000 Euros. This positive result was negatively affected by the accrual recording of expenditures related to the EU budget amendments of 49,400,000 Euros. Total savings amounted to 42,523,000 Euros on an accrual basis.

A **financial correction to EU funds** means an infringement of applicable Union or national law in respect of expenditures declared to the European Commission or in respect of expenditures approved at the national level, as a result of which the Slovak Republic is not reimbursed for these expenditures and they must then be covered by the state budget. The negative impact on the general government balance of 2016 was brought by financial corrections of 187,658,000 Euros, as a result of a reduction of the claim against the EU due to system corrections amounting to 112,582,000 Euros and individual corrections in the amount of 75,076,000 Euros. Systemic correction arises as a result of a repeated shortage identified in several projects, it is a consequence of a serious lack of effective functioning of management and control systems, including the lack of determining appropriate procedures. Individual discrepancy is a discovered deficiency (one-time error) that is associated with one operation, or one project and it is independent from other errors or deficiencies in the management and control system.

According to Eurostat Decision no. 22/2005 on the recording of transfers from the EU to the member states, the total impact of the EU flows according to the ESA 2010 methodology on the deficit of the general government should be zero. The adjusting item, which eliminates the impact of the EU funds on the general government balance, had a negative impact on the budget of 209,810,000 Euros.

The accrual **costs for financing the state debt** (the difference between the budgeted and the actual accrual transfer from the state budget to the balance of the state debt chapter account) were budgeted in the amount of 1,243,871,000 Euros, the actual costs were lower by 33,875,000 Euros. Savings were achieved through the monetary policy of the European Central Bank and the domestic macroeconomic fundamentals. The difference between budgeted and actual interest rates, and the budgeted and actual emission plan, reached a combined savings of 28,797,000 Euros. In 2016, Ardal emitted 530,300,000 Euros less than the projected emission plan at the time of budgeting. Lower fees related to the emission of securities had a positive impact on the total savings of 5,078,000 Euros.

The approved budget **for social insurance expenditures** amounted to 7,183,572,000 Euros, the achieved reality amounted to 7,178,332,000 Euros. Social insurance costs were cleared of the impact of the premiums paid in 2015, which was related to 2016 by 58,851,000 Euros. The result was a saving of social insurance expenses of 53,611,000 Euros.

**Expenditures on public health insurance** was budgeted in the amount of 4,271,478,000 Euros, however, the figure was in reality 214,769,000 Euros higher. The overall deficit was higher by 65,746,000 Euros compared to the budget.

**Changes in the balance of receivables** were related to advance payments provided for long-term tangible assets within the Ministry of Defense of the Slovak Republic for the purchase of military equipment amounting to 63,655,000 Euros.

The performance of the **National Motorway Company** had a positive impact of 62,529,000 Euros, compared to the budget mainly due to a reduction of liabilities by 59,501,000 Euros arising from investment construction and lower spending on the acquisition of capital assets of 85,879,000 Euros due to a time shift in the implementation of investment projects to the next period.

**Železnice Slovenskej Republiky (Railways of the Slovak Republic)** performed better than the budget by 46,264,000 Euros, mainly due to a lower spending on investments (the variance was due to a time shift in revenues reflecting a time shift in capital expenditures).

**Health facilities** included in the general government reached a deficit of 73,159,000 Euros, which was a deterioration of the performance compared to the budget by 68,951,000 Euros. Of this, the healthcare facilities included in the central administration had a deficit of 76,846,000 Euros. On the contrary, the healthcare facilities included in the local self-government had a surplus of 3,687,000 Euros. The difference compared to the budget is mainly due to an increase in liabilities to employees and an increase in liabilities from supplier invoices.

The performance of **public universities** was better than the budget of 42,324,000 Euros, which was mainly due to the allocation of more grants than the budget projected.

Improvement of the performance of **local self-government** positively contributed to the deficit by the amount 240,255,000 Euros, of which the municipalities contributed with the amount of 238,392,000 Euros. The positive result was influenced by the better tax collection commented above, as well as by comparison of the reality with the anticipated budget, which was 204,753,000



Euros lower for the item of grants and transfers compared to the approved budget of municipalities themselves. The higher territorial units negatively affected the deficit by 19,155,000 Euros. The local self-government is in this case considered to be municipalities, higher territorial units and their budgetary and contributory organizations, self-government transport companies and other local self-government entities.

The balance of the general government according to individual entities in 2016 is included in the following table.

<b>General government deficit according to individual entities</b>					<b>in thousands of Euros</b>
	<b>2014 Reality</b>	<b>2015 Reality</b>	<b>2016 Reality</b>	<b>2016 Budget</b>	<b>2016 (R - B)</b>
<b>Central administration</b>					
of which:					
Government budget <sup>1)</sup>	-1,881,505	-1,496,498	-1,833,187	-1,987,357	154,170
Contributory organisations of the central administration	-14,890	526	34,299	-439	34,738
State funds	209,094	232,756	187,998	299,835	-111,837
Eximbanka SR	19,644	-2,033	9,369	163	9,206
Government trading companies	-200,354	-755,226	95,052	30,516	64,536
of which:					
MH Management, as	-216,769	-849,265	-46,856	-9,892	-36,964
MH Invest, s.r.o.	non-applicable <sup>2)</sup>	40,540	10,378	0	10,378
MH Invest II, s.r.o.	-	-	-10,269	0	-10,269
JAVYS, a.s.	6,457	17,419	11,840	0	11,840
Railways of the Slovak Republic (ŽSR)	36,050	-16,044	46,264	0	46,264
Železničná spoločnosť Slovensko, a.s.	-28,850	22,777	-14,576	0	-14,576
Národná diaľničná spoločnosť, a.s.	3,677	16,518	98,419	35,890	62,529
Public universities	-15,602	-3,324	42,425	101	42,324
Medical facilities	-62,905	-70,877	-76,846	-5,211	-71,635
Other entities of the central administration	42,022	-15,796	-28,780	-11,042	-17,738
<b>Local self-government</b>					
Municipalities and their budgetary organizations	-11,099	64,558	348,274	109,882	238,392
higher territorial units and their budgetary organizations	16,604	58,123	84,308	103,463	-19,155
Contributory organisations of municipalities	1,859	4,568	11,906	-28	11,934
Contributory organisations of higher territorial units	3,344	5,082	931	-900	1,831
Transport enterprises	-46,100	-11,672	14,677	4,901	9,776
Medical facilities	970	3,146	3,687	1,003	2,684
Other entities of local self-government	-8,470	-2,553	-2,523	0	-2,523
<b>Social security funds</b>					
Social Insurance Agency	-38,660	-224,034	-180,428	-94,437	-85,991
Public health insurance	-70,068	53,664	-72,699	-6,953	-65,746

<b>General government deficit total</b>	<b>-2,056,116</b>	<b>-2,159,590</b>	<b>-1,361,537</b>	<b>-1,556,503</b>	<b>194,966</b>
<b>% of GDP</b>	<b>-2.72</b>	<b>-2.74</b>	<b>-1.68</b>	<b>-1.93</b>	<b>0.25</b>

<sup>1)</sup> Including government financial assets, off-budget accounts and the balance of the state debt  
Ministry of Finance of the SR

Source:

## 2.1. General government debt

**Maastricht public debt** amounted to 42,053,243,000 Euros at 31 December 2016, which was **51.94% of GDP**. Compared with the bases of the 2016 budget, the debt is lower by 0.2 pp. **In contrast to Maastricht revised debt in 2015, Maastricht debt grew by 758,263,000 Euros in 2016, but its ratio to GDP fell by 0.54 pp.** The contribution of the nominal GDP growth led to a reduction the general government debt of 1.5%.

Maastricht's public debt is conceived as a consolidated one, meaning that relations between individual general government entities are excluded. The groups of general government entities listed in the table below are internally consolidated for mutual group relationships (such as local self-government). The consolidation value of 1,591,610,000 Euros represents only loans between government groups, such as loans from the State Housing Development Fund provided to local self-government bodies. In addition to these relations, in the calculation of the Maastricht debt under the "state debt" component, it abstains from the liabilities of the Ministry of Finance of the SR to the Treasury from the so-called refinancing system (7,356,329,000 Euros) and liabilities from deposits of general government entities in the Treasury (3,793,969,000 Euros). In terms of the amount of mutual loans and credits in the general government, the most significant item of consolidation is the State Housing Development Fund (707,506,000 Euros), which provides repayable funds in particular to the local self-government bodies in the field of housing support. Another significant item of consolidation is the repayable financial assistance provided from the state budget to the Emergency Oil Stocks Agency (EUR 520,000,000) and the imputed loan of the Emergency Oil Stocks Agency (318,383,000 Euros). The other part of the consolidation consists mainly of repayable financial assistance provided from the state budget to cities, municipalities and other general government entities (41,339,000 Euros).

### Maastricht general government debt by individual entities in thousands of Euros

	31/12/2014	31/12/2015	31/12/2016	Amendment
	1	2	3	4 = (3-2)
<b>Central administration</b>				
of which:				
State debt	39,249,883	39,808,670	40,643,814	835,144
Contributory organisations of the central administration	1,038	2,012	2,704	692
Eximbanka SR	87,381	22,725	25,644	2,919
Government trading companies	743,191	656,791	648,656	-8,135
of which:				
MH Manažment, a. s.	15,415	15,313	15,223	-90
MH Invest, s. r. o.	2,720	2,730	70	-2,660
MH Invest II., s. r. o.			2,737	2,737
JAVYS, a. s.	0	1	307	306

Railways of the Slovak Republic (ŽSR)	63 074	63,222	62,944	-278
Železničná spoločnosť, a. s.	321,231	311,938	343,945	32,007
Národná diaľničná spoločnosť, a. s.	340,751	263,587	223,430	-40,157
Public universities	0	3,666	7,731	4,065
Medical facilities of the central administration	27,963	24,508	21,771	-2,737
Other entities of the central administration	520,003	521,111	521,300	189
<b>Local self-government</b>				
Municipalities and their budgetary organizations	1,236,742	1,374,885	1,334,719	-40,166
higher territorial units and and their budgetary organizations	363,586	369,159	347,635	-21,524
Contributory organisations of municipalities	661	932	936	4
Contributory organisations of higher territorial units	12	35	1,040	1,005
Transport enterprises	84,731	105,165	82,153	-23,012
Local self-government medical facilities	49	2,404	1,257	-1,147
Other entities of local self-government	5,797	2,705	5,082	2,377
<b>Social security funds</b>				
Social Insurance Agency	0	422	146	-276
Public health insurance	0	368	265	-103
<b>General government total</b>	<b>42,321,037</b>	<b>42,895,558</b>	<b>43,644,853</b>	<b>749,295</b>
<i>Consolidation</i>	<i>1,596,019</i>	<i>1,600,578</i>	<i>1,591,610</i>	<i>-8,968</i>
of which: consolidation in a local self-government group	641,705	693,234	744,036	50,802
<b>General government total consolidated</b>	<b>40,725,018</b>	<b>41,294,980</b>	<b>42,053,243</b>	<b>758,263</b>
<b>% of GDP</b>	<b>53.6</b>	<b>52.5</b>	<b>51.9</b>	<b>-0.5</b>

Source: Ministry of Finance of the SR

The increase in the nominal debt in 2016 was mostly due to a **cash deficit of the state budget** of 980,255,000 Euros. The increase in the Maastricht debt compared to 2015 had a **negative** impact on the following in particular:

- the cash deficit of the state budget and other requirements for foreign resources stemming from debt and liquidity management over the past year, which triggered the need to issue government treasury bills at a nominal value of 400,000,000 Euros and government bonds in the nominal value of 5,046,000 Euros;
- received bank loans from international financial institutions to the state debt in the amount of 330,000,000 Euros;
- an increase in the debt of Železničná spoločnosť Slovensko, a.s. by 32,007,000 Euros;
- the inclusion of Jadrová a vyrad'ovacia spoločnosť, a. s. (Nuclear and Decommissioning Company) in the general government sector caused an increase of the Maastricht public debt by 307,000 Euros.

**The positive** impact on the development of the Maastricht debt compared to its amount in 2015 was mainly due to the following:

- repayment of liabilities from government bonds in the nominal value of 4,784,112,000 Euros;
- repayment of loans in the state debt in the amount of 15,796,000 Euros;
- reduction of the consolidated debt of municipalities by 90,975,000 Euros;
- reduction of the consolidated debt of the higher territorial units by 21,579,000 Euros;

- the decrease in the indebtedness of the National Motorway Company (Národná diaľničná spoločnosť, a.s.) by 40,157,000 Euros as a result of the repayment of loans;
- a decrease of indebtedness of transport enterprises of local self-government 23,012,000 Euros.

**The Maastricht public debt was, as of 31 December 2016, mainly financed by securities** in the nominal value of 35,886,618,000 Euros (85.3%). A substantial part of these were government bonds in the nominal value 35,468,549,000 Euros and the Treasury bills in the amount of 400,000,000 Euros. Bank loans and other liabilities reached the value of 5,858,281,000 Euros (13.9%), of which 1,880,640,000 Euros represented the liability of the Slovak Republic from the EFSF. The amount of the liability did not change compared to the previous year. A specific component of the Maastricht debt is the deposit of funds in the Treasury of those clients who are not part of the general government; these liabilities amounted to 104,564,000 Euros (0.3%).

**From the currency perspective**, the Maastricht debt in 2016 consisted of 94% debt in Euros and 6% debt in other currencies, which are mainly in the government debt with bonds denominated in US dollars, Japanese yen and Swiss franc.

**From the perspective of the original maturity** (negotiated at the time of the debt) the Maastricht debt consists of 2% (821,908,000 Euros) of short-term debt, 98% (41,231,335,000 Euros) represents debt with an original maturity of more than one year.

**From the perspective of the territorial structure**, foreign creditors hold a majority of the Maastricht debt of the general government (52.8% or 22,195,258,000 Euros). Domestic creditors hold 47.2% (19,857,985,000 Euros) of the Maastricht debt, while these include domestic banking institutions and traders of securities.

### 2.1.1 Maastricht debt of state budget organizations

The state debt carried by the **state budget organizations**, which is administered by the Ministry of Finance of the Slovak Republic, amounted to the nominal value of 40,643,814,000 Euros at the end of 2016. Compared to the previous year, it grew by 835,144,000 Euros (+ 2.1%). The main cause of the increase in the state debt is a cash deficit of the state budget in case of deficit management, which is to be financed by external sources in case of inconsistency between revenues and expenditures during the year.

The state debt in the major party consists of liabilities from government bond issues (87.3%), loans (5.5%), EFSF liabilities (4.6%), and Treasury bills (1.0%).

<b>State debt according to debt instruments in thousands of Euros</b>				
	<b>31/12/2014</b>	<b>31/12/2015</b>	<b>31/12/2016</b>	<b>Amendment</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4 = (3-2)</b>
Government bonds	35,155,486	35,177,328	35,468,549	291,221
Treasury Bills	0	0	400,000	400,000
Bank loans and other loans	1,565,412	1,919,567	2,236,407	316,840
Deposit liabilities in the Treasury	105,396	192,586	104,564	-88,022
Securities	-	257,882	235,271	-22,611
Commitments from the EFSF	1,997,007	1,880,640	1,880,640	0
Input loans from EOSA	426,582	380,667	318,383	-62,284
<b>Total</b>	<b>39,249,883</b>	<b>39,808,670</b>	<b>40,643,814</b>	<b>835,144</b>

Source: Ministry of Finance of the SR, ARDAL

The Ministry of Finance of the Slovak Republic, on behalf of the Slovak Republic, receives loans from international financial institutions in support of national projects in the field of road infrastructure, environment, agriculture, informatisation and so on. The funds are also used to co-finance projects financed by the European structural funds and the Cohesion Fund. Of the value of these loans, loans from the European Investment Bank amount to 1,911,997,000 Euros and loans from the Council of Europe Development Bank 302,711,000 Euros. In 2016, funds from other loan tranches from the European Investment Bank totalled 105,000,000 Euros and from the Council of Europe Development Bank 225,000,000 Euros. All loans are long-term according to the original maturity, several with the agreed postponed commencement of the repayment period compared to the year of their receipt.

**In terms of original maturity**, the state debt is 98.2% long-term (39,904,024,000 Euros). The short-term state debt, which represents only 1.8%, consists of Treasury bills with a nominal value of 400,000,000 Euros, securities of 235,271,000 Euros (of which 203,780,000 Euros is passive collateral from derivative transactions carried out to secure foreign currency debt against exchange rate risks) and liabilities from deposits of those Treasury customers who are not included in the general government sector, amounting to 104,564,000 Euros. The detailed structure of the state debt according to original maturity is provided in the following percentages.

<b>State debt according to original maturity (in %)</b>				
	<b>Government bonds and Treasury Bills</b>	<b>Bank loans and other loans</b>	<b>Other liabilities</b>	<b>Total</b>
Up to 1 year	1.1	0.0	100.0	1.8
Up to 5 years	0.0	7.2	0.0	0.8
Up to 7 years	16.6	1.7	0.0	14.8
Up to 10 years	4.5	0.0	0.0	4.0
Up to 15 years	41.5	6.5	0.0	37.3
Up to 29 years	36.3	42.2	0.0	36.7
30 years and more	0.0	42.4	0.0	4.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Finance of the SR, ARDAL

**From the perspective of the territorial structure**, domestic creditors hold the amount of 18,678,191,000 Euros, which represents 46% of the state debt, while foreign creditors hold a total of 21,965,623,000 Euros (54%) as at the end of 2016.

### **2.1.2 Maastricht debt of other general government entities**

The consolidated value of the Maastricht debt of other general government entities as at 31 December 2016 amounted to 1,409,429,000 Euros. At the end of 2016 the state funds, the Slovak Land Fund, Slovenská konsolidačná, a.s., the Slovak National Center for Human Rights, the Health Care Surveillance Authority, the Audiovisual Fund, the Office for Audit Oversight, News Agency of the Slovak Republic, Danubiana, the Recycling Fund, the Education Support Fund, the Art Support Fund, the Resolution Council and Slovenská reštrukturalizacná, s.r.o. had no loans or credits. The following description of the debt components of the general government is on an unconsolidated basis. The following description of the debt of other entities is on an unconsolidated basis.

The debt of **state contributory organizations** reached the value 2,704,000 Euros in 2016. A substantial part of the debt consists of repayable financial assistance provided by the Ministry of Agriculture and Rural Development to the Slovak Rural Development Agency (430,000 Euros) and to the National Forest Centre (1,150,000 Euros). Furthermore, the debt of the state contributory organisations is made up of short-term guarantees amounting to 521,000 Euros and the financial leasing of 603,000 Euros. The debt of state contributory organizations increased compared to 2015 by 692,000 Euros.

**Exportno-importná banka Slovenskej republiky (Eximbanka)** contributed to the increase of the Maastricht debt in 2016 by the amount of 25,644,000 Euros. The debt of the entity is made up of domestic bank loans, whose state balance decreased by 10,800,000 Euros compared to 2015 to 5,000,000 Euros. On the other hand, the balance of liabilities to clients increased by 13,719,000 Euros to 20,644,000 Euros.

**State-owned companies** (belonging to the central government) have, after the state debt, the largest share (1.56%) of the general government debt. The following companies are included in the state-owned companies: MH Manažment, a.s., MH Invest, s.r.o, MH Invest II, s.r.o., Jadrová a

vyraďovacia spoločnosť, a.s., Železnice Slovenskej republiky, Železničná spoločnosť, a.s. and Národná diaľničná spoločnosť, a.s.

The debt of **MH Management, as**, which resulted from the issue of bonds of the National Property Fund in 1996, amounts to 15,223,000 Euros. Compared to 2015, the debt decreased by 90,000 Euros as a result of repayment of a part of the liabilities arising from the bonds.

**MH Invest, s.r.o.** contributed to the general government debt by short-term guarantees amounting to 70,000 Euros. In the previous year, the company posted a debt of 2,730,000 Euros, of which 2,720,000 Euros was a repayable financial assistance that was transferred to MH Invest II, s.r.o. in 2016.

**The debt of MH Invest II, s.r.o.** consists mainly of repayable financial assistance provided from the state budget in the amount of 2,720,000 Euros, which was transferred from MH Invest, s.r.o. Short-term guarantees in the amount of 17,000 Euros represent the remaining part of the debt.

**Jadrová a vyraďovacia spoločnosť, a. s.** included in the public sector this year, caused an increase in the Maastricht public debt of 307,000 Euros, by accepting short-term guarantees in that amount.

The debt of the **Železnice Slovenskej republiky (ŽSR)** reached 62,944,000 Euros in 2016, which was 278,000 Euros less than in 2015. It consists predominantly of long-term bank loans from domestic banks in the amount of 62,742,000 Euros, the amount of which has changed only minimally compared with the previous year, guarantees with a maturity of more than one year in the amount of 20,000 Euros and domestic financial leasing worth 2,000 Euros.

The debt of **Železničná spoločnosť Slovensko, a.s. (ŽSSK)**, which reached 343,945,000 Euros in 2016, increased year-to-year by 32,007,000 Euros. The debt of ŽSSK consists predominantly of domestic and foreign bank loans amounting to 297,139,000 Euros, long-term financial assistance from EUROFIMA, the amount of which gradually decreased by repayments to 46,706,000 Euros and short-term guarantees of 100,000 Euros.

The development of the debt of **Národná diaľničná spoločnosť, a.s.** had a positive impact on the Maastricht debt of general government. The year-to-year decrease of the debt by 40,157,000 Euros to 223,430,000 Euros was caused by the repayment of bank loans, which make up a substantial part of the debt of this entity. They reached the amount of 223,064,000 Euros. A smaller part of the debt of 366,000 Euros is for short-term guarantees.

The debt of **public universities** increased by 4,065,000 Euros compared to the previous year. Of the total amount of 7,731,000 Euros, 2,544,000 Euros was for bank loans provided by domestic banks, 2,143,000 Euros for mainly short-term guarantees, 44,000 Euros for long-term financial lease and 3,000 Euros was provided from the state budget as a repayable financial assistance.

The debt of **central health facilities** dropped year-to-year by 2,737,000 Euros. The debt in the amount of 21,771,000 is in the decisive part formed by bank loans, which grew year-to-year by 5,347,000 Euros to the level of 19,311,000 Euros. The growth of bank loans was due to the transfer of investment and lending credits to bank entities and their subsequent reclassification into bank

loans. An important part of the debt of the central health facilities consists of repayable financial assistance amounting to 1,874,000 Euros. Because of their repayment, the value is gradually decreasing. A less significant part of the debt consists mainly of short-term guarantees amounting to 392,000 Euros and financial lease of 194,000 Euros.

**Other entities of the central administration** report a debt amounting to 521,300,000 Euros with almost all of this value being the debt of the **Emergency Oil Stocks Agency** in the form of repayable financial assistance from state financial assets amounting to 520,000,000 Euros, which is the subject of consolidation at the level of the whole general government.

Debt of **municipalities** (including their budgetary organizations) in 2016 reached 1,334,719,000 Euros and in comparison with the situation in 2015 it decreased by 40,166,000 Euros. The decisive part of the municipal debt consists of bank loans and other credits in the amount of 1,331,873,000 Euros, while 707,506,000 Euros was provided by the State Housing Development Fund and 1,441,000 by the Environmental Fund. The cities Košice (19,500,000 Euros), Bratislava (10,000,000 Euros), Martin (2,500,000 Euros) and Lubotice (155,000 Euros) were provided repayable financial assistance in the total amount 32,155,000 Euros. Loans provided from the State Housing Development Fund, the Environmental Fund, the state budget, and repayable financial assistance are subject to consolidation. In terms of maturity, the municipal debt is predominantly of a long-term nature (98.5%) and the bulk of municipal debt is in the hands of domestic creditors (97.3%) in the form of banking institutions.

<b>Municipal debt according to debt instruments in thousands of Euros</b>				
	31/12/2014	31/12/2015	31/12/2016	Amendment
	1	2	3	4 = (3-2)
Loans from the State Building Fund (consolidated)	626,783	647,994	707,506	59,512
Bank loans	555,201	629,201	560,969	-68,232
Financial assistances	20,640	53,404	35,762	-17,642
of which: Repayable assistance funds to Žilina (consolidated)	11,733	11,733	0	-11,733
from other entities of the general government (consolidated)	3,164	31,953	34,759	2,806
Guarantees		3,638	11,739	8,101
Financial leasing	6,109	5,444	6,236	792
Investment supply loans and suppliers loans	20,345	11,804	5,040	-6,764
Other non-bank loans		14,238	3,180	-11,058
Securities	7,664	7,945	2,846	-5,099
Loans from the ENVF (consolidated)		1,217	1,441	224
<b>Unconsolidated municipal debt total</b>	<b>1,236,742</b>	<b>1,374,885</b>	<b>1,334,719</b>	<b>-40,166</b>
<b>Consolidated contribution of municipalities to the consolidated debt of the general government</b>	<b>595,062</b>	<b>681,988</b>	<b>591,013</b>	<b>-90,975</b>

Source: Ministry of Finance of the SR

**Higher territorial units** (including their budgetary organizations) were involved in the debt of general government in the value of 347,635,000 Euros, which was by 21,524,000 Euros less than in the previous year. The debt of higher territorial units consists mainly of bank loans amounting to 345,781,000 Euros and guarantees received in the amount of 1,854,000 Euros. Of the total debt, liabilities to domestic creditors amount to 235,036,000 Euros (67.6%) and to foreign creditors



112,599,000 Euros (32.4%). Loans from foreign creditors were provided to Bratislava (20,236,000 Euros), Trnava (5,000,000 Euros), Prešov (52,054,000 Euros) and Košice higher territorial unit (35,309,000 Euros). From the point of view of the original maturity, the debt of higher territorial units is almost in full value formed by long-term liabilities (99.5%).

<b>Debt of the higher territorial units by regions and debt instruments as of 31 December 2016 in thousands of Euros</b>			
<b>Self-governing region</b>	<b>Bank loans</b>	<b>Other debt instruments</b>	<b>Total</b>
Bratislava	37,067	136	37,203
Trnava	43,967	12	43,979
Trenčín	48,613	935	49,548
Nitra	24,761	209	24,970
Žilina	47,816	99	47,915
Banská Bystrica	38,133	192	38,325
Prešov	57,901	266	58,167
Košice	47,523	5	47,528
<b>Higher territorial unit total</b>	<b>345,781</b>	<b>1,854</b>	<b>347,635</b>

Source: Ministry of Finance of the SR

Debt of **municipal contributory organizations** in the amount of 936,000 Euros is formed especially by financial lease (800,000 Euros), the remainder is repayable financial assistance (34,000 Euros), other non-bank loans (36,000 Euros) and guarantees (66,000 Euros). The debt of municipal contributory organizations increased compared to 2015 by 4,000 Euros.

The debt of **the contributory organizations of the higher territorial units** amounting to 1,040,000 Euros is made up of financial leases (590,000 Euros) and financial guarantees (450,000 Euros).

**Local public transport companies** had a debt of 82,153,000 Euros in 2016. Most of the debt was formed by domestic and foreign bank loans in the amount of 81,881,000 Euros. The remainder consists of securities (266,000 Euros) and financial lease (6,000 Euros). The debt of transport companies mostly consists of liabilities with a maturity of more than one year (99.7%). The debt of transport companies decreased by 23,012,000 Euros due to repayment of previous loans.

The debt of **other local self-government entities**, for instance non-profit organizations, reached 5,082,000 Euros in 2016. Compared to the previous year, it increased by 2,377,000 Euros. The debt of these entities is largely made up of bank loans and other non-bank loans (4,116,000 Euros).

The debt of the **Social Insurance Company** and the **public health insurance** debt amounted to a total of 411,000 Euros, of which the Social Insurance Company reported 146,000 Euros. From the perspective of the debt instrument, these are only financial guarantees and year-to-year their unpaid value decreased by 379,000 Euros.

## **2.2. Comparison of the balance and the general government debt in the European Union**

Within the European Union (28 countries) in 2016, 11 countries reached a higher deficit and 18 countries achieved a higher general government debt than the Slovak Republic. **The average EU28**

**deficit was 1.7% of GDP** (Slovakia 1.68% of GDP) and the **average EU28 general government debt was 83.5% of GDP** (Slovakia 51.94% of GDP) in 2016.

The highest government deficits within the EU28 were reported in 2016 by countries such as France 3.4% of GDP, Romania 3.0% of GDP and the United Kingdom 3.0% of GDP. The very highest deficit in 2016 was reported by Spain at 4.5% of GDP. 10 countries reported surplus and two countries (Bulgaria, Latvia) managed to achieve a balanced budget. The best countries were traditionally Nordic and Baltic countries. The highest surplus over 1% of GDP was reported by Luxembourg (1.6% of GDP) and Malta (1.0% of GDP). The view of the highest public debt shows a similar result to that of deficits, so the highest debts were reported by the countries most affected by the economic and financial crisis of the past, including countries with long-term high debt such as Italy and Belgium.

The highest public debt in 2016 was again reported by Greece at 179.0% of GDP, Italy at 132.6% of GDP and Portugal at 130.4% of GDP. Estonia has the lowest debt at 9.5% of GDP. Slovakia with its 51.9% of GDP debt belongs among the countries with a lower debt, which is important from the point of view of the long-term sustainability of public finances.

<b>EU28 balance and general government debt (% of GDP)</b>						
	<b>Balance of general government</b>			<b>Gross general government debt</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>EU (28 countries)</b>	<b>-3.0</b>	<b>-2.4</b>	<b>-1.7</b>	<b>86.7</b>	<b>84.9</b>	<b>83.5</b>
<b>Euro Area</b>	<b>-2.6</b>	<b>-2.1</b>	<b>-1.5</b>	<b>92.0</b>	<b>90.3</b>	<b>89.2</b>
Belgium	-3.1	-2.5	-2.6	106.7	106.0	105.9
Bulgaria	-5.5	-1.6	0.0	27.0	26.0	29.5
Czech Republic	-1.9	-0.6	0.6	42.2	40.3	37.2
Denmark	1.4	-1.3	-0.9	44.0	39.6	37.8
Germany	0.3	0.7	0.8	74.9	71.2	68.3
Estonia	0.7	0.1	0.3	10.7	10.1	9.5
Ireland	-3.7	-2.0	-0.6	105.3	78.7	75.4
Greece	-3.7	-5.9	0.7	179.7	177.4	179.0
Spain	-6.0	-5.1	-4.5	100.4	99.8	99.4
France	-3.9	-3.6	-3.4	94.9	95.6	96.0
Croatia	-5.4	-3.4	-0.8	86.6	86.7	84.2
Italy	-3.0	-2.7	-2.4	131.8	132.1	132.6
Cyprus	-8.8	-1.2	0.4	107.1	107.5	107.8
Latvia	-1.6	-1.3	0.0	40.9	36.5	40.1
Lithuania	-0.7	-0.2	0.3	40.5	42.7	40.2
Luxembourg	1.4	1.4	1.6	22.4	21.6	20.0
Hungary	-2.1	-1.6	-1.8	75.7	74.7	74.1
Malta	-2.0	-1.3	1.0	64.3	60.6	58.3
Netherlands	-2.3	-2.1	0.4	67.9	65.2	62.3
Austria	-2.7	-1.1	-1.6	84.4	85.5	84.6
Poland	-3.5	-2.6	-2.4	50.2	51.1	54.4

Portugal	-7.2	-4.4	-2.0	130.6	129.0	130.4
Romania	-1.4	-0.8	-3.0	39.4	38.0	37.6
Slovenia	-5.4	-2.9	-1.8	80.9	83.1	79.7
<b>Slovakia</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-1.7</b>	<b>53.6</b>	<b>52.5</b>	<b>51.9</b>
Finland	-3.2	-2.7	-1.9	60.2	63.7	63.6
Sweden	-1.5	0.3	0.9	45.2	43.9	41.6
Great Britain	-5.7	-4.3	-3.0	88.1	89.0	89.3

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Source: Eurostat

### 3 State budget performance on cash basis

The state budget is an essential part of the budget of the general government and it provides for the financing of the main functions of the state in the respective budget year. The state budget for the respective budget year is approved by the National Council through the State Budget Act. The State Budget Act approves in particular the level of state budget revenues, the state budget limit, the maximum budgeted deficit or the minimum budget surplus of the state budget, unless the revenues and expenditures are balanced.

**The basic budget indicators of the state budget for 2016 were set by Act No. 411/2015 Coll. on the state budget for 2016, which determined the total revenues of the state budget in cash in the amount of 14,276,806,000 Euros and the total expenditures in the amount of 16,247,201,000 Euros. The deficit of the state budget was thus set at 1,970,395,000 Euros.**

**The actual revenues of the state budget** in the amount of 14,275,917,000 Euros were lower than the approved budget by 889,000 Euros and, compared to the actual figure of 2015, they were lower by 1,975,878 Euros. **The actual expenditures of the state budget** in the amount of 15,256,172,000 Euros were lower than the approved budget by 991,029,000 Euro and year-to-year they decreased by 2,910,219,000 Euros euros.

**The state budget deficit on cash basis of 980,255,000 Euros was in relation to the originally approved budget lower by 990,140,000 Euros and in relation to the adjusted budget, the reported deficit was lower by 608,412,000 Euros. The balance actually achieved decreased again by 952,341,000 Euros.**

A summary of budgeted and actually achieved basic budgetary indicators in 2016 and over the previous two years on a cash basis provides the following data:

State budget on cash basis in thousands of Euros						
	Reality		Budget 2016		Reality 2016	Difference
	2014	2015	Approved	Adjusted		
	1	2	3	4		
<b>Revenues total</b>	<b>12,496,866</b>	<b>16,233,795</b>	<b>14,276,806</b>	<b>14,057,602</b>	<b>14,275,917</b>	<b>-889</b>
of which: tax revenues	9,293,066	10,612,712	10,993,837	10,993,837	11,068,156	74,319
non-tax revenues	1,635,552	1,278,721	1,107,625	1,092,391	1,222,973	115,348
grants and transfers	1,568,248	4,342,362	2,175,344	1,971,374	1,984,788	-190,556
<b>Expenditures total</b>	<b>15,420,238</b>	<b>18,166,391</b>	<b>16,247,201</b>	<b>15,646,269</b>	<b>15,256,172</b>	<b>-991,029</b>
of which: current expenditures	13,441,150	13,498,303	14,352,887	13,590,637	13,353,916	-998,971
capital expenditures	1,979,088	4,668,088	1,894,314	2,055,632	1,902,256	7,942
<b>Deficit (-)</b>	<b>-2,923,372</b>	<b>-1,932,596</b>	<b>-1,970,395</b>	<b>-1,588,667</b>	<b>-980,255</b>	990,140

Source: Ministry of Finance of the SR

The approved revenues of the state budget for 2016 were lower than the approved income for 2015 by a total of 218,115,000 Euros as a result of lower grants and transfers by 1,137,808,000 Euros, lower non-tax revenues by 36,595,000 Euros and higher tax revenues by 956,288,000 Euros. The significant year-to-year decline in grants and transfers (by more than 50%) was due to the

historically highest fulfilment of revenues from the EU budget in 2015, which was a key year for absorbing the second programming period 2007-2013.

From tax revenues, a higher corporate income tax (520,547,000 Euros), value added tax (392,799,000 Euros) and excise taxes (69,346,000 Euros) were included in the budget. The budget assumed higher tax revenues, mainly due to the positive development of the Slovak economy and the profitability growth of companies.

The year-to-year comparison of approved expenditures of the state budget for 2016 and 2015 expected their decrease by 1,213,357,000 Euros. Current expenditures were projected in the budget year-to-year lower by 587,838,000 Euros and capital expenditures lower by 652,519,000 Euros. From the current expenditures, salaries, employee benefits, insurance premiums and contributions to insurance companies were foreseen higher (by 106,891,000 Euros) due to an increase in the salaries of civil servants and employees in the performance of public work, the application of new salary scales to pedagogical staff and professional staff and a new special salary scale for university teachers from 1 September 2016. Higher wage costs were also projected due to the Presidency of the SR in the EU Council. On the contrary, lower year-to-year expenditures were foreseen for goods and services (631,129,000 Euros) and for current transfers (by 54,560,000 Euros). Capital expenditures were foreseen higher in the budget year-to-year, eg. purchase of transport equipment (by 61,799,000 Euros), construction of new buildings and their technical improvement (by 49,666,000 Euros). On the contrary, transfers from the capital expenditures were foreseen lower than in 2015 by 862,209,000 Euros and the purchase of software lower by 50,083,000 Euros.

**During the budget year 2016 budgetary measures were implemented in accordance with the budgetary rules, which reduced the total approved revenues for 2016 by 219,204,000 Euros and the total approved expenditures by 600,932,000 Euros. The planned state budget deficit, adjusted for the year 2016, should be lower by the end of the year by 381,728,000 Euros, amounting to 1,588,667,000 Euros.**

Adjustments to the budget are made on the basis of updated information on the performance of the tasks and requirements of the different chapters of the state budget during the budget year, legislative changes that may bring about a change in revenues or expenditures, and on the basis of the current developments in the economy and public finances. In 2016, the Ministry of Finance carried out the total of 2,204 budgetary measures.

Revenues were mainly offset by lower fulfilment from foreign transfers, namely funds from the EU budget (by 203,373,000 Euros). Revenues from the sale of capital assets decreased by 26,330,000 Euros. The revenues from business and property ownership increased, especially dividends by 27,966,000 Euros. Current expenses were reduced by adjustments by 762,250,000 Euros and capital expenditures increased by 161,318,000 Euros. From the current expenditures, the decrease consisted mainly of services, in terms of which advance payments for EU projects are budgeted and the state budget funds for co-financing of projects, in line with the concept of financial management of the structural funds and the Cohesion Fund (551,513,000 Euros). After the

approval of projects of an investment nature, the respective funds are reported in the absorption of capital expenditures of individual chapters of the state budget.

Adjustments to budgeted revenues and budgeted expenditures, as in the previous year, were made mainly in accordance with Section 8 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts, based on which capital expenditures and certain current expenditures of the state budget may be used for the intended purpose in the following financial years until their exhaustion for the intended purpose (selected current expenditures in the next two financial years). This concerns, in particular, the EU funds and hence the funds intended for their co-financing.

The state budget daily balance during the year was managed in accordance with Act no. 386/2002 Coll. on the State Debt and State Guarantees and in accordance with Act No. 291/2002 Coll. on the State Treasury and on amending and supplementing certain acts as amended. With the momentary state budget surplus, the Debt and Liquidity Management Agency (hereinafter referred to as "Ardal"), on behalf of the Ministry of Finance of the Slovak Republic, traded with the financial resources on the financial market in line with the approved credit limits; on the contrary, in the event of a momentary deficit, it covered its financial resources from the issuance of government bonds and by disposable funds of the State Treasury.

State budget deficit reported as at 31 December 2016 in the amount of 980,255,000 Euros was covered by funds obtained from the sale of state securities worth 650,255,000 Euros and funds from the absorption of government loans in the total amount of 330,000,000 Euros<sup>6</sup>.

The following information on the state budget revenues and expenditures describes their cash performance as reflected in the revenue and expenditure accounts of government budgetary organizations during 2016. The commentary on the individual items of revenues and expenditures focuses on a description of the factors affecting their cash performance, the comparison being made against the approved budget and events of the previous period.

Any numerical differences between the table attachment and the data in the text portion of the final account are due to automatic rounding. The State Final Account of the Slovak Republic also includes a table attachment, which supplements the descriptive part of cash receipts and expenditures, broken down by economic and organisational classification. More detailed information on the revenues and expenditures of the individual chapters of the state budget is provided in the final accounts of the chapters, which are published on their web headquarters.

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<sup>6</sup> It involves drawing of loans from international financial institutions such as the European Investment Bank, which co-finance national projects in the fields of road transport, environment, industry, informatisation and the like.

### 3.1 State budget revenues

#### 3.1.1 Tax revenues

For 2016 tax revenues were foreseen in the budget in the amount of 10,993,837,000 Euros, which was, compared to 2015, an increase of 956,288,000 Euros. Since 2014, tax revenues have been budgeted annually higher than in the previous year, mainly on the basis of the expected positive development of the Slovak economy. GDP growth was projected at 3.1% of GDP, in fact it reached 3.3% of GDP. Tax revenues for 2016 reached the actual value of 11,068,156,000 Euros, which represents the implementation of the budget at 100.7%.

The total positive difference over the budget was 74,319,000 Euros, of which the *tax on income and capital assets* was higher than the budget by 344,385,000 Euros and *taxes on goods and services* were in fact lower than the budgeted amount of 276,928,000 Euros.

Compared to the situation in 2015, the total tax revenues of the state budget on a cash basis were higher by 455,444,000 Euros, which corresponds to a year-to-year growth of 4.3%. The highest year-to-year increase was recorded for *corporate tax*, namely 583,132,000 Euros. Personal income tax recorded a year-on-year decrease of 71,892,000 Euros. Taxes for goods and services reached a total year-to-year decrease of 67,943,000 Euros, which is the result of an increase in excise tax revenues by 73,879,000 Euros and a drop in VAT revenues by 140,800,000 Euros.

The overview of the fulfilment the tax revenues of the state budget provides the following data:

Tax revenues of the state budget in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousand s of Euros	in %
	1	2	3	4	5=4-3	6=4-3
<b>Taxes for goods and services</b>	<b>6,912,218</b>	<b>7,739,273</b>	<b>7,948,258</b>	<b>7,671,330</b>	<b>-276,928</b>	<b>-3.5</b>
of which:						
VAT	4,902,813	5,501,499	5,647,430	5,360,699	-286,731	-5.1
consumer taxes	2,009,327	2,096,600	2,160,333	2,170,497	10,164	0.5
taxes on use of goods and permits to carry out business	78	141,173	140,495	140,134	-361	-0.3
<b>Taxes on revenues and capital assets</b>	<b>2,318,952</b>	<b>2,826,349</b>	<b>3,010,410</b>	<b>3,354,795</b>	<b>344,385</b>	<b>11.4</b>
of which:						
personal income tax	232,618	60,413	17,979	-11,479	-29,458	-163.8
corporate income tax	1,911,273	2,603,931	2,825,628	3,187,063	361,435	12.8
income tax collected by deduction	175,061	162,005	166,803	179,211	12,408	7.4
<b>Taxes on international trade and transactions</b>	<b>31,512</b>	<b>28,893</b>	<b>23,430</b>	<b>28,887</b>	<b>5,457</b>	<b>23.3</b>
<b>Sanctions levied in tax proceedings and other taxes</b>	<b>30,384</b>	<b>18,197</b>	<b>11,739</b>	<b>13,144</b>	<b>1,405</b>	<b>12.0</b>
<b>Total</b>	<b>9,293,066</b>	<b>10,612,712</b>	<b>10,993,837</b>	<b>11,068,156</b>	<b>74,319</b>	<b>0.7</b>

Source: Ministry of Finance of the SR

As in previous years, the highest share of tax revenues is from taxes on goods and services (69.3%) and taxes on income and capital (30.3%).

**Taxes on goods and services** were estimated at 7,948,258,000 Euros. The actual income in amount of 7,671,330,000 Euros is over the budget of 276,928,000 Euros, which represents the fulfilment of the budget at 96.5%. Compared to 2015 (7,739,273,000 Euros), the cash revenues decreased by 67,943,000 Euros.

**Value Added Tax (VAT)** was budgeted in the amount of 5,647,430,000 Euros, and its actual collection in the amount of 5,360,699,000 Euros represents 94.9% fulfilment of the budget. The actual revenue of this tax was lower than the budgeted value by 286,731,000 Euros and compared to the yield in 2015 it was lower by 140,800,000 Euros.

The budgeted cash revenue for 2016 included the expected increase in the revenues of the state budget for VAT by 200,000,000 Euros, however, this budget reserve was not fulfilled. At the same time, the budget did not include the introduction of a lower tax rate on selected foods, with an estimated negative impact on the revenues of 65,822,000 Euros.

**The excise tax** was foreseen in the budget at 2,161,333,000 Euros. The actual yield was 10,164,000 Euros higher and reached 2,170,497,000 Euros, which means the fulfilment of the budget at 100.5%. Compared to 2015, the excise tax revenue was higher by 73,897,000 Euros, i.e. 3.5%, due to better economic development and higher tax collection efficiency. The estimated value of excise taxes also included a reserve of 50,000,000 Euros for a more efficient collection of excise tax on mineral oil. This reserve was fulfilled, as the budget estimated the revenues from this excise tax in the amount of 1,187,643,000 Euros and the reality was 1,189,979,000 Euros.

**Taxes on the use of goods and permits to carry on business** were budgeted at 140,495,000 Euros. In fact, the income from taxes on the use of goods and the work permit amounted to CZK 140,134 thousand Euros. The largest part of these taxes is the tax on motor vehicles, which was budgeted in the amount of 140,374,000 Euro, in fact it was just 378,000 Euros lower and reached the level of 140,036 Euros. These taxes include the revenues from the incoming road tax (-72,000 Euros) and the mining area tax (98,000 Euros).

**Taxes on income and capital assets** were budgeted at 3,010,410,000 Euros, the actual yield reached 3,354,795,000 Euros, or 3,357,745,000 Euros after the projection of 2,950,000 Euros from sanctions. Compared to the budget, they were higher by 344,385,000 Euros (or 347,335,000 Euros).

Since 2005, the personal income tax has been a proportionate tax. Under Act no. 564/2004 Coll. on the Budget Determination of the Revenue on the Income Tax from the Income of Local-Self Government and on amending and supplementing certain acts, the revenues from the tax are redistributed by the established mechanism between municipalities and higher territorial units. From 2016, the entire tax revenue will be reallocated between municipalities and higher territorial units. The share of municipalities of the personal income tax revenues increased to 70%. Higher territorial units account for the remaining 30% of the revenues. Only part of the tax revenue remains on the state budget account due to the shift between crediting the tax to the state budget account and transferring it to municipalities and higher territorial units.



**Income of the state budget from the personal income tax was budgeted in the amount of 17,979,000 Euros in respect of the aforementioned rules of fiscal decentralization and the actual fulfilment reached a negative value <sup>7</sup> -11 479,000 Euros or 8, 529 thousand Euros after transferring a part of the sanctions.**

The total income *from the proportional personal income tax*, including transfers to municipalities and higher territorial units, was budgeted at 2,263,315,000 Euros. The actual revenue from the personal income tax, including transfers to municipalities and higher territorial units, was budgeted at 2,376,502,000 Euros. Of which the revenue from tax on employment was 2,291,785,000 Euros and the revenues from the tax on entrepreneurial activity or other self-employment and from rent was 111,893,000 Euros. The transfer to the municipalities and the higher territorial units for 2016 amounted to 2,387,982,000 Euros or 2,385,032,000 Euros after transferring a part of the sanctions. The transfer of funds pursuant to Section 50 of Act No. 595/2003 Coll. on Income Tax, as amended, which reduces the total revenue on the personal income tax, reached the amount of 27,175,000 Euros.

*The corporate income tax* was budgeted at 2,825,628,000 Euros. The actual yield reached 3,187,063,000 Euros, which represents 112.8% budget fulfilment. The fulfilment exceeded the budgeted amount by 361,435,000 Euros, and year-to-year the cash revenues of this tax increased by 583,132,000 Euros. The main source of the exceeding of the budget cash revenue was a higher than expected corporate income tax settlement, reflecting the positive development of the Slovak economy and the year-to-year growth of profitability of companies attacking the 20% value in 2015.

In 2016, natural and legal persons had the option to donate 2% (in specific cases of legal persons only 1.5% and natural persons up to 3%) from the tax paid for a public beneficial purpose. In the course of the year the amount of 61,631,000 Euros was transferred, which is an increase of 4,681,000 Euros compared to the previous year. Natural persons transferred 27,175,000 Euros and legal persons 34,459,000 Euros.

<b>Transfer of tax proportion in thousands of Euros</b>			
	<b>Reality</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Transfer of a proportion of personal income tax for a particular purpose	21,740	24,231	27,175
Transfer of a proportion of corporate income tax for a particular purpose	30,466	32,719	34,456
<b>Total</b>	<b>52,206</b>	<b>56,950</b>	<b>61,631</b>

Source: Ministry of Finance of the SR

*Income tax collected by deduction* was estimated at 166,803,000 Euros and in fact it reached the revenues of 179,211,000 Euros. The budgeted revenue was fulfilled at 107.4%. Compared to 2015, the fulfilment of this tax was lower by 17,207,000 Euros. The revenue in 2016 was negatively affected by the development of the average interest rate on deposits. Positive tax developments

<sup>7</sup> The negative revenue to the state budget account occurred due to the annual settlement when the statutory claims of the local authorities on the revenue from the personal income tax were offset against the actually transferred funds for the given calendar year.

were affected by license fees, the amount of which does not have to be directly related to economic development.

- **The revenues from taxes on international trade and transactions** was budgeted at a total of 23,430,000 Euros. In fact, it reached 28,887,000 Euros, which represents the implementation of the state budget at 123.3%. Compared to 2015, the revenue was 6,000 Euros lower.

The biggest portion of the taxes on international trade and transactions is the revenues from the share of the selected funds. It involved a 25-percent of the customs duty collection as compensation for the cost of its collection. With the effect from 1 October 2016, this share was reduced to 20%. The actual revenue amounted to 28,845,000 Euros. Taxes on international trade and transactions also include revenues from import duties, which was levied before 1 May 2004. The import duties amounted to 39,000 Euros in 2016, the remains of the cancelled import surcharge reached the amount of 3,000 Euros.

- **The sanctions imposed in the tax proceedings and the penalties related to the payment of the tax** were budgeted in the amount of 11,739,000 Euros. Their actual amount reached the amount of 13,117,000 Euros or 10,167,000 Euros after a portion of the sanctions was transferred to the personal income tax, from which the revenues of the local self-government was declared. Implementation of the budget thus reached 111.7% (or 86.6%).

In the monitored year of 2016, the financial administration authorized on request of the tax entity a tax relief or wrote off tax arrears in accordance with Section 70 of the Tax Code in 3 cases in a total amount of 4,000 Euros. Relieves or remission of sanctions under Section 157 of the Tax Code were permitted in 426 cases in the total amount of 290,000 Euros. In 2015, 1,083 cases were approved in the total amount of 802,000 Euros.

Allowed tax relieves / remission of tax arrears / penalty relief / remission of sanction				
thousands of Euros				in
Financial authority	Tax relief or remission of tax arrears		Relieves or remission of sanctions	
	quantity	amount	quantity	amount
Tax offices	3	4	423	275
Customs offices / *	x	x	3	15
Financial Directorate of the Slovak Republic:	x	x	x	x
<b>Total</b>	<b>3</b>	<b>4</b>	<b>426</b>	<b>290</b>

\*The customs authorities do not grant relief or remission in accordance with Section 70 of the Tax Code Source:

Financial Directorate of the Slovak Republic:

- **Other taxes** are only taxes on assets whose income in 2016 amounted to 26,000 Euros.

*Detailed data on the fulfilment of the tax revenues of the state budget in 2016 are specified in table no. 2 of the table attachment of the national accounts.*

### 3.1.2 Non-tax revenues

Non-tax revenues to the state budget come in particular from property ownership in the form of dividends and profits, fees and payments, capital income and interest. These revenues amounted to 1,222,973,000 Euros in 2016, which was 8.6% of the total state budget revenues. Compared to 2015, the actual amount of non-tax revenues decreased by 55,749,000 Euros.

The following table summarizes the non-tax revenue outturn:

Non-tax revenues of the state budget in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousand s of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Revenues from business and asset ownership	625,684	493,085	461,217	496,367	35,150	7.6
Administrative fees and other fees and payments	497,678	323,534	324,503	337,394	12,891	4.0
Capital revenues	152,666	12,580	43,666	19,692	-23,974	-54.9
Interest on domestic and foreign loans, loans, repayable assistance funds	9,591	14,927	9,574	9,053	-521	-5.4
Other non-tax revenues	349,933	434,596	268,665	360,467	91,802	34.2
<b>Total</b>	<b>1,635,552</b>	<b>1,278,722</b>	<b>1,107,625</b>	<b>1,222,973</b>	<b>115,348</b>	<b>10.4</b>

Source: Ministry of Finance of the SR

▪ **Income from business and property ownership**, which amounted to 496,367,000 Euros, is the most important part of non-tax revenues. Of this amount, the most important part was the dividends received from state companies (divided in the previous period) in the amount 477,439,000 Euros, which were received by selected chapters of the state budget in 2016. The highest revenues from dividends was in the General Treasury Administration chapter, amounting to 401,840,000 Euros, especially from Slovenský plynárenský priemysel, a.s. and the individual energy companies. The second highest revenue was achieved by the Ministry of Finance of the SR, which received dividends in the amount of 62,572,000 Euros, of which the most from the company of Slovenská elektrizačná prenosová sústava, a.s. (53,351,000 Euros). The difference between the budgeted amount and the amount actually received amounted to 36,404,000 Euros, of which the biggest difference with Slovenská elektrizačná prenosová sústava, a.s. (25,075,000 Euros) due to a change in the dividend policy and higher revenues from cross-border cooperation, and at the same time lower costs of support services. In the case of Stredoslovenská energetika, a.s. the difference was 2,479,000 Euros due to the positive impact of an increase in energy delivery revenues, with a simultaneous decline in operating consumption and higher financial revenues. In case of Východoslovenská energetika HOLDING, a.s. the difference in reality compared to the budget (2,158,000 Euros) was the result of a higher profit from the group's operation due to an increase in revenues for energy supply and at the same time a drop in operating consumption.

A summary of the received dividends according to the chapters of the state budget is provided in the following table:

<b>Receipt of dividends according to the chapters of the state budget in thousands of Euros</b>						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Ministry of Foreign Affairs and European Affairs of the Slovak Republic	194	202	205	205	0	0.0
Správa služieb diplomatického zboru, a.s.	194	202	205	205	0	0.0
Ministry of Finance of the Slovak Republic	151,067	78,279	36,391	62,572	26,181	71.9
Tipos, národná lotériová spoločnosť, a.s.	3,000	8,500	5,000	5,000	0	0.0
Slovenská konsolidačná, a.s.	1,477	2,644	2,115	2,221	106	5.0
Slovenská záručná a rozvojová banka, a.s.	500	1,000	1,000	2,000	1,000	100.0
Slovenská elektrizačná prenosová sústava, a.s.	146,090	66,135	28,276	53,351	25,075	88.7
Ministry of Labor, Social Affairs and Family of the SR	32	32	30	27	-3	-10.0
Technická inšpekcia, a.s.	32	32	30	27	-3	-10.0
Ministry of Economy of the SR	14,200	23,065	10,154	11,939	1,785	17.6
Transpetrol, a.s.	7,000	7,000	7,000	6,939	-61	-0.9
Slovak Telekom, a.s.	5,576	11,065	x	x	x	x
JAVYS, a.s.	1,624	5,000	3,154	5,000	1,846	58.5
Ministry of Transport, Construction and Regional and Development of the SR	717	736	630	856	226	35.9
Letisko Poprad - Tatry, a.s.	150	0	x	x	x	x
Letisko Košice - Airport Košice, a.s.	226	458	375	589	214	57.1
Verejné prístavy, a.s.	341	269	255	255	0	0.0
Poštová banka, a.s.	0	9	0	12	12	x
General treasury administration	446,594	377,349	393,625	401,840	8,215	2.1
Slovenský plynárenský priemysel, a.s. <sup>8</sup>	446,594	288,547	300,000	303,000	3,000	1.0
Západoslovenská energetika, a. s.	0	31,089	28,783	29,361	578	2.0
Stredoslovenská energetika, a. s.	0	26,413	31,000	33,479	2,479	8.0
Východoslovenská energetika HOLDING, a.s.	0	31,300	33,842	36,000	2,158	6.4
<b>Total</b>	<b>612,804</b>	<b>479,663</b>	<b>441,035</b>	<b>477,439</b>	<b>36,404</b>	<b>8.3</b>

Source: Ministry of Finance of the SR

As part of other business income, the Ministry of Agriculture and Rural Development of the Slovak Republic received the amount of 5,320,000 Euros as a special levy on profits after taxation from the state-owned enterprises (LESY SR, š.p. 5,300,000 Euros and Plemenárske služby SR, š.p. 20,000 Euros), the Ministry of the Environment of the SR received 7,000,000 Euros from Vodohospodárska výstavba, š.p. and the Ministry of Finance of the SR received 250,000 Euros

<sup>8</sup> Chapter no. 1 of the national accounts specifies the amount of the dividend from SPP amounting to 315 mil. Euros. According to the ESA 2010 methodology, the dividend also includes 12 million Euros which were provided as a transfer to the capital city of Bratislava to provide for activities related to the Presidency of the SR in the EU Council. This amount was provided directly to the capital city of Bratislava; therefore, chapter no. 3 only lists the amount received in cash to the account of the General Treasury Administration.

from Eximbanka of the SR. The Ministry of Transport, Construction and Regional Development of the SR received the amount of 129,000 Euros from the rental of road rest areas.

In 2016, revenues from ownership of leased buildings, premises and facilities reached 5,017,000 Euros, the highest of which went to the Ministry of Foreign Affairs and European Affairs of the SR (946,000 Euros), the Ministry of the Interior of the SR (896,000 Euros), the Ministry of Justice of the SR (520,000 Euros), the Ministry of Culture of the SR (458,000 Euros).

▪ **The revenues from administrative fees and other charges and payments** depend on the number of individual proceedings during the year. The approved budget of 324,503,000 Euros reached as at 31 December 2016 the fulfilment in the amount of 337,394,000 Euros, which was an increase of 13,860,000 Euros in comparison with 2015.

A summary of the administrative fees and other fees and payments is provided in the following table:

Administrative fees and other fees and payments in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Administrative charges	203,606	203,095	204,817	219,894	15,077	7.4
Legal fees	31,367	7,205	32,744	-210	-32,954	-100.6
Revenues from the sale of stamps	83,714	161,006	x	x	x	x
Assay fees	603	600	600	622	22	3.7
Other fees	87,836	34,087	171,372	219,355	47,983	28.0
Licenses	86	197	101	127	26	25.7
Fines, penalties and other sanctions	68,922	53,944	69,754	51,862	-17,892	-25.7
Fees and payments from non-industrial and random sales	225,150	66,495	49,932	65,638	15,706	31.5
<b>Total</b>	<b>497,678</b>	<b>323,534</b>	<b>324,503</b>	<b>337,394</b>	<b>12,891</b>	<b>4.0</b>

Source: Ministry of Finance of the SR

Within this category, the highest revenues were achieved by *administrative fees*, namely 219,894,000 Euros. Of these, *other fees* were charged in the amount of 219,355,000 Euros. This includes, for example, administrative fees, flat rate fees for granting visas, maintenance fees for patents, court fees, etc. Exceeding the approved budget of *other fees* was achieved mainly within the chapter General Treasury Administration, namely by 47,842,000 Euros. Of the total amount of other fees (219,355,000 Euros) court fees were 33,935,000 Euros (collected through the E-KOLOK system<sup>9</sup> and also through state administration bodies) and other fees 172,674,000 Euros, of which E-KOLOK collected 158,062,000 Euros and the state administration bodies 14,612,000 Euros.

<sup>9</sup> E-KOLOK - the electronic payment system, which gradually replaces paper stamp payment since April 2014, and the state administration bodies are obliged to get involved in the central system of collecting, recording and clearing administrative and court fees.

Under the administrative fees *legal fees* were foreseen in the budget in the amount of 32,744,000 Euros and from the above method of their collection, the outturn is reported under *other fees*. The negative amount actually reported under the judicial fees is the amount of the fees refunded by the tax authorities if the decision to refund the fee came into force before the relevant court joined the E-KOLOK system.

*Assay fees* were achieved only in the chapter of the Ministry of Economy of the SR in the total value of 622,000 Euros and are about at the same level as in previous years.

Income from *licenses* (pursuant to Section 16 of Act No. 171/2005 Coll. on Gambling and amending and supplementing certain acts) was in the amount of 127,000 Euros in the General Treasury Administration chapter.

In addition to administrative charges, this category of revenues also includes *finer, penalties and other sanctions*. They arise in connection with a breach of the Finance Act, a breach of tax, pricing, customs and other regulations. These reached, as at 31 December 2016 the amount of 51,862,000 Euros and were collected for breaching of regulations. The largest share came from the chapter of the Ministry of the Interior of the SR (32,707,000 Euros), which involved revenues for fines imposed in proceedings. The Ministry of Labour, Social Affairs and Family of the SR achieved the amount of 6,922,000 Euros and the Ministry of Agriculture and Rural Development of the SR the amount of 3,813,000 Euros for regulatory breaches.

*Fees and payments from non-industrial and random sales* were received by chapters in the total amount of 65,638,000 Euros. Of these, the Ministry of Transport, Construction and Regional Development of the SR received the amount of 17,427,000 Euros for frequency management, technical regulation, toll revenues from concession roads of NDS, a.s., for maintenance and repair of roads and others.

The Ministry of Justice of the SR received the amount of 14,366,000 Euros, which included the revenues from the sale of products, goods and services for the Prison and Judicial Guards Corps in the amount of 12,791,000 Euros. Of this, the revenues from the side economy were 9,632,000 Euros and the revenues for medical performances in the amount of 1,916,000 Euros. In the civil part, the income was 492,000 Euros for the sale of surplus state property - the court building on Masarykova Street in Michalovce, receipts from the Commercial Bulletin and deposits provided in court proceedings.

The Ministry of the Interior of the Slovak Republic received the amount of 11,296,000 Euros for subsistence expenses, of which the amount of 11,212,000 Euros represented funds provided by the employer paid by employees or former employees of the Ministry of the Interior of the SR (in accordance with the Labour Code or the Collective Agreement), as well as contributions for employee meals from the Social Fund. These funds were not included in the budget.

The Ministry of Defense of the SR received the amount of 596,000 Euros for the sale of surplus and unusable movable property, in particular automotive and military technology. This sale was reported as administrative revenue rather than capital because these sold assets were purchased

from current expenses. The low implementation of this revenue compared to the budget value of 2,601,000 Euros was caused mainly by the transfer of state property to another asset managers in accordance with Act No. 278/1993 Coll. on the state property administration as well as the withdrawal of the winning bidder as well as the second round bidder in the sale of movable assets.

▪ **Capital revenues** are income from the sale of movable and immovable assets in the administration of individual chapters of the state budget. For 2016 these revenues actually reached 19,692,000 Euros and recorded a drop of nearly 55% compared to the approved budget. Failure to meet the annual budget was in several items of capital revenues, mostly in the revenue from the sale of capital assets at the Ministry of the Interior of the Slovak Republic.

The Ministry of Economy of the SR achieved the total capital revenues of 7,440,000 Euros, of which the highest were revenues from refunds in the amount of 6,732,000 Euros and the revenue from the sale of a building in the amount of 702,000 Euros.

The largest difference of the reality (4,183,000 Euros) compared to the budgeted amount (28,107,000 Euros) was recorded in the Ministry of the Interior budget chapter, up to 23,924,000 Euros. Due to the non-fulfilment of the total revenues of the chapter in 2016, its revenues in the amount 54,623,000 Euros were committed, of which 22,058,000 Euros due to the lengthy property legal process of the sale of surplus real estate and revenues from the rental of buildings. For this reason, the revenues from the sale of capital assets - employee flats, cars and others - were achieved in the amount of 1,256,000 Euros, while the budget foresaw a revenue of 23,275,000 Euros. Revenues in the amount of 2,927,000 Euros came from the sale of land sold by district authorities as temporary administrators for the purpose of property settlement of the co-ownership share of the property, from the sale of land of Národná diaľničná spoločnosť, a.s. for the purpose of performing constructions, the sale of land belonging to employee flats and others.

In the chapter of the Ministry of Education, Science, Research and Sport of the Slovak Republic, the amount of 2,077,000 Euros from the sale of buildings and land.

▪ **Interest on domestic and foreign loans, credits and repayable financial assistance** reached **9,053,000** Euros in 2016 and it formed the smallest part of non-tax revenues. Almost the entire amount (9,050,000 Euros) represented income of the General Treasury Administration chapter, of which 5,991,000 Euros represented interest on repayable financial assistance and state guarantees from Železničná spoločnosť Cargo Slovakia, a. s., the Emergency Oil Stocks Agency, the Ministry of Health of the Slovak Republic and the Ľubotice municipality. It was initially foreseen in the budget in the amount of 7,383,000 Euros and its non-fulfilment was caused by a number of factors. The municipality of Ľubotice was remitted of a part of the repayable financial assistance in 2016 and Železničná spoločnosť Cargo Slovakia, a.s. prematurely the repayable financial return in full amount, including interest, in 2015. At the same time, however, the Trnava University Hospital paid the interest from the 2009 repayable financial assistance, which was not foreseen in the budget.

The interest on the financial management accounts with the State Treasury amounted to 3,059,000 Euros, which means the budget was exceeded by 874,000 Euros. This revenue is higher than

budgeted amount due to an increase in average balances on the European Community funds accounts (in particular the Paying Authority), the State Housing Development Fund accounts, the accounts of voluntary clients and the accounts of other general government entities.

▪ **Other non-tax revenues** are comprised of revenues from insurance claims, gambling and other similar games, contributions, refunds and refunded unlawfully used or retained funds of non-profit organizations, budget organizations, municipalities, etc. For the year 2016, this category reached the amount of 360,467,000 Euros, which is the highest exceeding of the budget among the individual non-tax revenue items, namely by 91,802,000 Euros.

**Revenue from the gambling levy** was achieved in the General Treasury Administration chapter in the total amount of 186,616,000 Euros, which represents an overrun of the approved budget by more than 28%. This revenue overrun was caused by a change in the share of selected gambling types in the overall structure (the increase in the number of devices with a higher levy obligation - video games and increase in the sales of a given segment - odds betting).

**Refunded illegitimately used or retained funds** were budgeted at 6,346,000 Euros and in fact they reached the amount of 32,010,000 Euros. This difference was due to irregularities and other refunds for the European Union funds originally budgeted, but reached the actual amount of 24,740,000 Euros. Refunds for irregularities were mostly caused by non-compliance with the contract for granting of irrecoverable financial contribution to EU projects by recipients, refunds are repayments of unused advances to finance EU projects. These revenues were mainly achieved by the Ministry of Education, Science, Research and Sport of the SR (5,973,000 Euros), the Ministry of Environment of the SR (4,697,000 Euros), the Ministry of Labour, Social Affairs and the Family of the SR (4,094,000 Euros), the Ministry of Finance of the SR (3,591,000 Euros), the Ministry of Transport, Construction and Regional Development of the SR (3,025,000 Euros) and the Ministry of Agriculture and Rural Development of the SR (2,008,000 Euros). In addition to irregularities and refunds of EU funds, this includes unspent funds used or retained by natural persons (5,033,000 Euros), budgetary and contributory organizations (1,078,000 Euros) and other entities.

**The revenues from the contribution** constituted funds from the settlement of the relations of business entities, contributory and budgetary organizations, central authorities, non-profit organizations, municipalities and higher territorial units with the state budget. In 2016, their volume reached 20,820,000 Euros, of which 20,803,000 Euros in the General Treasury Administration chapter. The largest share of this amount was the income from financial settlement with the Ministry of Labour, Social Affairs and Family of the SR amounting to 10,432,000 Euros, the Ministry of Interior of the SR in the amount of 2,590,000 Euros, the Ministry of the Environment of the SR in the amount of 1,086,000 Euros and the Office of the Government of the Slovak Republic in the amount of 1,147,000 Euros.

**Revenues from the refunds** were foreseen in the budget in the amount of 6,515,000 Euros and actually reached 10,721,000 Euros. The highest value of 5,632,000 Euros was received by the General Treasury Administration. This was in particular a refund of pre-financing for the Swiss



Financial Mechanism in the total amount of 4,465,000 Euros. The Ministry of Education, Science, Research and Sports of the SR reached the revenue 1,284,000 Euros and the Ministry of Labour, Social Affairs and Family of the SR the amount of 1,012,000 Euros.

*Other revenues* reached the highest fulfilment within the non-tax revenue item in the amount of 103,382,000 Euros. The Ministry of Economy of the SR received the amount of 72,634,000 Euros from transmission and distribution system operators, who are required to pay to the state budget a levy on the amount of electricity sold to end customers. In the chapter of the Ministry of Agriculture and Rural Development of the SR, other revenues amounted to 12,473,000 Euros, of which 11,201,000 Euros was obtained by the chapter on the basis of Government Resolution No. 330/2015 to the Financial Statements of the Slovak Land Fund as at 31 December 2014 and the draft of the settlement of the economic result for 2014, according to which funds from the Slovak Land Fund were transferred to the off-budget account of the chapter and used to finance current expenditures. In 2015, the amount of 8,000,000 Euros was used in this way, in 2016 the amount of 11,201,000 Euros. The balance of funds in the amount of 1,854,000 Euros remained in the off-budget account of the department and will be used in other periods. In the chapter of the Ministry of Justice of the SR, the total fulfilment was 8,358,000 Euros. These funds mainly came from the reimbursement of the costs of incarceration and punishment, the reimbursement of the claims of the accused and the convicted, the sale of surplus property, refunds and credit notes, and others. The Ministry of the Interior of the SR received other revenues worth 5,319,000 Euros, where the highest share was for contributions for taking away agricultural land, compensation for the loss of non-productive functions of the forest, revenues from the costs of proceedings, revenues from regression payments, revenues from deaths, lapse legacies, reimbursement of staff telephone expenses, forfeited custodies, revenues from proceedings on the renewal of land registration and others.

*Detailed data on the fulfilment of the tax non-revenues of the state budget in 2016 are specified in table no. 3 of the table attachment of the national accounts.*

### **3.1.3 Grants and transfers**

Grants and transfers were budgeted for the year 2016 in the total amount of 2,175,334,000 Euros (of which foreign 2,143,158,000 Euros and domestic 32,186,000 Euros), which is less by 1,137,808,000 Euros compared to 2015. Only transfers were budgeted, as the amount of grants that make up contributions from voluntary donors, contributors, and so on cannot be estimated in advance. The real state budget revenues from grants and transfers amounted to 1,984,788,000 Euros and compared to the previous year, performance was lower by as much as 2,357,574,000 Euros.

The following table summarizes the grant and transfer outturn:

<b>Grants and transfers in thousandd of Euros</b>						
	<b>Reality</b>		<b>Budget</b>	<b>Reality</b>	<b>Difference</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>in thousands of Euros</b>	<b>in %</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4-3</b>	<b>6=4-3</b>
Domestic grants and transfers	300,501	49,027	32,186	35,242	3,056	9.5
Foreign grants and transfers	1,267,747	4,293,335	2,143,158	1,949,546	-193,612	-9.0
of which: transfers from the EU budget	1,257,505	4,280,041	2,143,158	1,939,787	-203,371	-9.5
<b>Total</b>	<b>1,568,248</b>	<b>4,342,362</b>	<b>2,175,344</b>	<b>1,984,788</b>	<b>-190,556</b>	<b>-8.8</b>

Source: Ministry of Finance of the SR

▪ **Domestic grants and transfers** with their actual fulfilment in the amount of 35,242,000 Euros accounted for only 1.8% of total achieved grants and transfers. The most important part of this income was the income from contributions of health insurance companies to the operation of the emergency medical service centres and the activities of the National Health Information Centre in the amount of 29,965,000 Euros in the chapter of the Ministry of Health of the SR. The Slovak Academy of Sciences achieved income in the amount of 1,847,000 Euros from the Slovak Research and Development Agency. The chapter of the Ministry of Agriculture and Rural Development of the SR received the amount of 1,500,000 Euros from the Slovak Land Fund pursuant to Resolution of the Government of the SR No. 565/2016 intended to finance the provision of land consolidation projects carried out pursuant to Act No. 330/1991 Coll. on land consolidation, settlement of land ownership rights, district land offices, the land fund and land associations, and the restoration of land records pursuant to Act No. 180/1995 Coll. on some measures for the arrangement of land ownership of land, as amended by later regulations for 2016.

▪ **Foreign grants and transfers** were budgeted for 2016 in the amount of 2,143,158,000 Euros and mainly consisted of funds from the EU budget for the National Strategic Reference Framework programs under the 2nd programming period as well as the Partnership Agreement programs under the 3rd programming period, namely from the structural funds, the Cohesion Fund and the Agricultural Funds. The actual implementation of these revenues amounted to 1,949,546,000 Euros, of which transfers amounted to 1,939,787,000 Euros and grants amounted 9,759,000 Euros.

**Foreign transfers** reached as at 31 December 2016 the amount of 1,939,787,000 Euros, which represented a lower real income than the approved budget of 203,371,000 Euros. Almost the entire amount is made up of funds from the EU budget and their actual outturn fell significantly by more than 50% compared to 2015, but in line with the lower approved budget. This was due to the historically highest fulfilment of revenues from the EU budget in 2015, which was a key year for absorbing the 2nd programming period 2007-2013. The highest revenues from foreign transfers were in the chapter of the Ministry of Agriculture and Rural Development of the SR in the total value of 896,648,000 Euros. These funds were mainly provided by the European Agricultural Guarantee Fund, the European Regional Development Fund and the European Agricultural Fund for Rural Development. The Ministry of Transport, Construction and Regional Development of the

SR received the amount of 298,647,000 Euros from the European Funds from the operational programs of Transport and Integrated Infrastructure, the Ministry of the Environment of the SR received the amount of 260,107,000 Euros from the European Commission intended to co-finance the operational program of the Environment and Environmental Quality.

For more detailed information on revenue in the form of transfers from the EU budget, see separate chapter 3.4. relations of the state budget to the European Union.

**Foreign grants**, which were not budgeted, reached the total of 9,759,000 Euros. These were mainly revenues from the EU budget (7,696,000 Euros) and used in particular for cross-border cooperation programs, education, research, transport infrastructure projects and security, migration and border control. It also included revenues provided from abroad outside of the EU budget in the amount of 2,063,000 Euros.

The Ministry of Interior of the SR received the highest volume of foreign grants in the amount of 2,828,000 Euros. They involved, in particular, the funds received and used for the Return Fund, the Integration Fund, the Asylum and Migration Fund, the European Refugee Fund, the European Territorial Cooperation programs, the Freedom, Security and Justice program, Frontex (Border and Coastal Agency guard), Europol - Fraud Investigation. The funds were also received and used for humanitarian aid projects for Greece and Slovenia, the establishment of an early warning system, the fight against human trafficking and others.

The Ministry of Transport, Construction and Regional Development of the SR achieved the revenue of 1,469,000 Euros and almost the whole amount was provided for services of the Transport Authority on the basis of the Air Act, in particular for air calibration measurements and verification within the framework of the Single European Sky project. The Statistical Office of the Slovak Republic received, in the form of a regular grant, the amount of 1,260,000 Euros from the European Commission in order to introduce new statistical surveys.

*Details of state budget revenues by chapters, categories of budget classification and by sources for year 2016 are shown in table no. 4 through 6 of the attachment of the national accounts.*

### **3.2 State budget expenditures**

The approved budget expenditures was greatly influenced by the measures ensuing from the constitutional law on budget accountability and by ensuring effective and sustainable public finances. The budget of expenditures for 2016 also took into account the current legislative changes and the rules of budgetary management in accordance with Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts, as amended (hereinafter referred to as "the Public Administration Budgetary Rules Act"):

- the option of using capital expenditures for the intended purpose in the following two financial years after the budget year for which they were budgeted;
- the option of using EU funds, including co-financing from the state budget in the following financial years until their exhaustion for the intended purpose;

- in case of regular transfers, with the exception of wages granted to beneficiaries after 1 October of the financial year, the option of their use until the end of the first quarter of the following year;
- multi-annual budgeting for three financial years;
- budgeting in the form of current and capital expenditures when applying the budget classification;
- use of program budgeting to allow a transparent evaluation of the formulated objectives;
- provision of subsidies in accordance with the State Budget Law for the relevant financial year.

*A detailed overview of the state budget expenditures in 2016 according to the categories of budget classification and state budget chapters, current transfers and capital expenditures is presented in table 7 through 9 of the attachment to the national accounts.*

### 3.2.1 State budget expenditures by economic classification

For 2016, the total state budget expenditures were planned at 16,247,201,000 Euros, which, compared to the approved budget for 2015, represented a decrease of 0.5%. The actually incurred expenditures were in the amount of 15,256,172,000 Euros, to which the current expenditures contributed in the amount of 13,353,916,000 Euros and capital expenditures in the amount of 1,902,256,000 Euros. The total expenditures were lower compared to the approved budget by 911,030,000 Euros and decreased by 2,910,219,000 Euros in the year-to-year comparison.

#### 3.2.1.1 Current expenses

The approved budget defined the **current expenditures** at 14,352,887,000 Euros. Their actual drawing reached the amount of 13,353,916,000 Euros, which reflected the ongoing optimization of the central government's activities. The reduction in spending of the planned expenditures reached 7.8% and was reflected mainly in the category of goods and services and in the category of regular transfers.

The overview of current expenditures in the structure of the economic classification is specified in the following table:

Current expenditures by economic classification in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Wages, salaries, employee benefits and other personal settlements	1,626,366	1,677,390	1,621,891	1,776,555	154,664	9.5
Premiums and contributions to insurance companies	579,308	604,645	571,310	632,010	60,700	10.6
Goods and services	1,443,262	1,590,167	1,815,234	1,459,354	-355,880	-19.6
Current transfers	9,791,940	9,625,831	10,344,182	9,485,727	-858,455	-8.3
of which:						
in terms of general government	4,699,535	4,405,975	4,272,171	4,344,119	71,948	1.7

individuals and non-profit legal entities	3,510,557	3,691,591	4,150,188	3,809,874	-340,314	-8.2
non-financial entities and transfers by contributory organisations not included in the general government	847,188	859,603	1,117,523	618,022	-499,501	-44.7
to domestic financial institutions	1,565	2,023	3,340	2,127	-1,213	-36.3
abroad	733,095	666,639	800,960	711,585	-89,375	-11.2
Repayment of interest and payments related to the loan	274	270	270	270	0	0.0
<b>Total</b>	<b>13,441,150</b>	<b>13,498,303</b>	<b>14,352,887</b>	<b>13,353,916</b>	<b>-998,971</b>	<b>-7.0</b>

Source: Ministry of Finance of the SR

▪ **Expenditures on wages, salaries and other personal settlements**

Act No. 411/2015 on the State Budget for 2016 stipulated the **limit of the expenditures for wages, salaries and other personal settlements** for employees of budgetary organizations of the chapters of the state budget as a mandatory indicator **from code 111** (state budget source) amounting to 1,621,891,000 Euros. During the year this limit was increased by budget measures to 1,725,366,000 Euros. From the adjusted wage and salary expenditure limit at this source, the amount actually used was 1,722,886,000 Euros, which is about 111,049,000 Euros more than in the previous calendar year. The year-to-year increase in expenditures on wages, salaries and other personal settlements was mainly influenced by an increase of 4% in the salaries of civil servants (in the state employment and in the civil service) and employees in carrying out work in the public interest by 4%, with the effect from 1 January 2016 amounting to 55,946,000 Euros. At the same time, the year-to-year increase was influenced also by the application of new salary tariffs for pedagogical staff and professional staff and a new special salary tariff scale for university teachers under Act No. 217/2016 Coll., which amends and supplements Act No. 553/2003 Coll. on Remuneration of Certain Employees Performing Work in Public Interest and on amending and supplementing certain acts as amended from 1 September 2016 in the amount of 2,202,000 Euros. Following the publication of the average wage in the economy of the Slovak Republic in 2015 by the Statistical Office of the Slovak Republic, there were simultaneous adjustments in the salaries of judges (by 6,835,000 Euros), prosecutors (by 4,372,000 Euros) and constitutional judges (by 98,000 Euros). The level of wage expenditures in 2016 was also affected by the need to provide for the presidency of the Slovak Republic in the Council of the European Union, to finance the remuneration of administrative capacities due to a lack of funds, and also to fund the remuneration of project sustainability staff. In connection with the creation of a new chapter of the state budget, the Office of the Deputy Prime Minister's Office for Investments and Informatization of the SR had to secure the financing of the remuneration of its employees, and to strengthen the remuneration of certain selected categories of employees (e.g. in the judiciary sector, labour offices and children's homes, the Financial Directorate of the SR, etc.). In addition, the increase in expenditures on salaries was also partially affected by personnel strengthening and financing of some activities (eg prosecutor's office, anti-terrorism legislation, teacher's assistants). The balance of the year-to-year increase in wage and salary expenditures was also affected by committing wage and salary expenditures associated with the change in the form of management of the budgetary organizations, or with their use in other expenditures of the chapter (eg with the modernization of

the Armed Forces of the Slovak Republic). The revised budget of expenditures on wages, salaries and other personal settlements with all resources amounted to 1,767,296,000 Euros.

**In reality the wages, salaries and other personal settlements of employees of budgetary organizations of the chapters of the state budget for all resources spent required the amount of 1,776,555,000 Euros, which is 99,165,000 Euros more than in 2015.** In addition to the state budget resources (source 111), the funds received from the EU budget and co-financing from the state budget were used in the amount of 41,700,000 Euros, which is a year-to-year decrease of 10,876,000 Euros. In addition, in compliance with the provisions of Section 23 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration, the funds from off-budget resources were drawn on wages and salaries in the amount of 11,969,000 Euros, which is year-to-year 1,008,000 Euros less. The limit of expenditures on wages, salaries and other personal settlements was observed as a binding indicator on source 111 (budget resources of the chapter) in all chapters of the state budget.

**The limit of the number of employees for budgetary organizations of the chapters of the state budget** was approved by the Resolution of the Government of the SR No. 544/2015 to the draft budget of the general government for the years 2016 through 2018 on the level of 127,531 persons (2015: 127,260 after the National Council of the Slovak Republic meeting it was adjusted to 127,266 persons), of which the approved administrative capacities specifically monitored (this is a special group of employees who are, pursuant to the approved Resolution of the Government of the Slovak Republic, until 31 December 2016 without the entitlement to additional resources from the state budget involved in management, implementation and control of the European Structural and Investment Funds in the transition period of the 2014-2020 programming period) there were 1,047 persons, of which for the central body apparatus there were 614.

During the year, the number of staff was increased by budgetary measures by 1,836 persons to 129,367 persons. The administrative capacities specifically monitored were increased by 394 to the number of 1 441 persons, their actual occupancy reached 1,183 administrative capacities. The adjusted number of employees was most affected by an increase in the number of employees by 1,140 persons in the chapter of the Ministry of Interior of the SR (1,120 police officers) in connection with the fight against terrorism, protection of the Schengen border, strengthening of the Office for the Protection of Senior Officials and Diplomatic Missions and strengthening the activities of the Migration Office. The increase in the number of employees was significantly affected by adjustments carried out for the purpose of implementing projects financed from EU funds and co-financing from the state budget amounting to 874 persons, specifically in the chapter of the Ministry of Labour, Social Affairs and Family of the SR (632 persons), the Ministry of Interior of the SR (108 persons), the Ministry of Culture of the SR (114 persons) and the Ministry of Finance of the SR (20 persons).

In connection with the preparation and provision for the Presidency of the SR in the Council of the European Union, adjustments were made in the budgetary organizations of the state budget chapters amounting to 315 persons. Other reasons for the year-to-year increase in employment of budgetary organizations include the increase of teachers' assistants by 138 persons in the chapter of the Ministry of the Interior of the SR, an increase by 60 new prosecutors in the General Prosecutor's Office of the Slovak Republic, 40 employees in the chapter of the Ministry of Justice of the SR to provide for the counter-terrorism legislation, 20 new judges' assistants in the Supreme Court of the Slovak Republic as well as 13 court counsellors in the chapter of the Office of the Constitutional Court of the SR.

In addition to delimitations from the Office of the Government of the SR and the Ministry of Finance of the SR, the limit of the number of employees was increased by 35 persons to provide for the activities of the new Deputy Prime Minister's Office for Investments and Informatization of the SR. In addition, in several chapters the number of employees was increased to a small extent in order to provide for new legislation (e.g. the Ministry of Justice of the SR, Ministry of Economy of the SR), adopted resolutions of the Government of the Slovak Republic (e.g. Ministry of Transport, Construction and Regional Development of the SR), securing administrative capacity (e.g. the Ministry of the Interior of the SR, the Ministry of Economy of the SR) and in order to implement organizational changes and strengthen the activities of expert departments (e.g. Ministry of Finance of the SR). Other changes made in the resulting balance of the year-on-year increase in the number of employees were due mainly to organizational changes and changes in the form of economy in the chapter of the Slovak Academy of Sciences (-740 persons).

**The actual fulfilment of the limit of the number of employees of the budgetary organizations of the chapters of the state budget reached 123,158 persons, which is 1,041 persons less compared to their actual fulfilment in 2015 and less than the previously approved limit by 4,373 employees.** Compared to the adjusted limit of the number of persons, the real number is lower by 6,209 persons, of which 4,014 persons are chapters of the Ministry of the Interior of the SR and the Ministry of Defense of the SR. The comparison of the real fulfilment of the number of employees with the approved limit means that out of 32 chapters of the state budget (without the Deputy Prime Minister's Office for Investments and Informatization of the SR founded as of 1 June 2016) the number of employees approved by the Resolution of the Government No. 544/2015 was not fulfilled by 29 chapters. Only the chapter of the Ministry of Foreign Affairs and European Affairs of the SR, the Ministry of Labour, Social Affairs and Family of the SR and the Antimonopoly Office of the SR reached the approved limit of the number of staff. The adjusted limit of the number of employees of budgetary organizations in 2016 was not fulfilled by any chapter of the state budget. The year-to-year comparison of the real number of persons in 31 chapters of the state budget (the Office of the Judicial Council of the SR was not a separate chapter in 2015 and the Deputy Prime Minister's Office of the SR was created only in 2016) shows that in 17 chapters there was an increase in the number of employees, of which the highest increase in the number of employees was at the Antimonopoly Office of the SR (36.6%), the Ministry of Foreign Affairs and European Affairs of the SR (12.6%) and the Office of the Constitutional Court of the

SR (9.7%). In absolute terms, the highest increase in the number of employees was at the Ministry of Labour, Social Affairs and Family of the SR (139 persons). In 11 chapters of the state budget, the number of employees decreased year-to-year, of which, in percentage and absolute terms most significantly at the Slovak Academy of Sciences (-35.7%; -679 persons) due to organizational changes and at the Ministry of Education, Science, -34.2%; -720 persons) mainly due to a lack of implementation of projects.

For the **apparatus of the central authorities** expenditures on wages, salaries and other personal settlements in the amount of 192,810,000 Euros were approved. During the year this limit was increased by budget measures to 220,050 Euros. Employees of the central authorities were paid wages and salaries in the amount of 248,370,000 Euros including EU funds, co-financing from the state budget and off-budget resources. Expenditures on wages, salaries and other personal settlements of the central body apparatus increased year-to-year by 22,022,000 Euros, especially in connection with the provision of SK PRESS, with a salary increase of employees by 4% from 1 January 2016 and with the strengthening and the financial provision of specialised departments as well as the creation of a new chapter or new workplaces. The binding limit of wages, salaries and other personal settlements of the central authority apparatuses at source 111 was observed.

For the **apparatuses of the central authorities**, a mandatory **limit of the number of employees** on the level of 11,760 persons was approved for 2016, of which the approved administrative capacities were specifically monitored at 614. The approved number of employees was increased by 831 persons to 12,591 persons during the year, especially in connection with the provision for SK PRESS. In fact, the apparatuses of central authorities in 2016 employed 11,461 persons, which is 422 more compared to 2015. The administrative capacities specifically monitored were in the apparatuses of the central authorities increased by 404 to 1,018 persons, their actual fulfilment reaching 835 administrative capacities.

The Resolution of the Government of the SR No. 544/2015 in annex no. 2 for 2015 approved the systematization of customs officers in the civil service, the systematization of police officers in the civil service and the systematization of members of the Fire and Rescue Corps and members of the Mountain Rescue Service in the civil service. The binding systematization indicators for each category of employee at the source 111 was complied in all chapters. In accordance with the provisions of Section 23 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration, and on amending and supplementing certain acts as amended, off-budget funds were also drawn in terms of wages of customs officers.

*The overview of the fulfilment of the number of employees, wages, salaries and other personal settlements in the chapters of the state budget for 2016, including the evaluation of systemization is presented in tables 22, 24 through 26 of the table part of the national accounts.*



- **Premiums and contributions to insurance companies**

In 2016 the state budget chapters posted expenditures on insurance premiums and the contributions to insurance companies amounting to 571,310,000 Euros (source state budget 111). In the course of the year this amount was adjusted to 629,633,000 Euros in aggregate for all sources. The real expenditures on insurance premiums and contributions to insurance companies increased year-to-year by 27,365,000 Euros (4.5%) and reached the amount of 632,010,000 Euros. The higher absorption of expenditures on insurance premiums reflects increased spending on wages, salaries and other personnel costs, and is mainly related to increase in employee salaries. Expenditures on insurance premiums and contributions to insurance companies were drawn in the following structure:

*Expenditures on insurance premiums to the Social Insurance Company* in the amount of 245,665,000 Euros reached a year-to-year increase of 3.6 % (2015: 237,241,000 Euros); of which the highest volume comprised of old-age retirement premiums of 140,152,000 Euros, the premiums to the solidarity reserve fund in the amount of 47,563,000 Euros and disability retirement premiums in the amount of 27,958,000 Euros.

*Premiums for specific accounts* in the chapters of the state budget which include the management of armed, security and rescue units, increased by 5.1% year-to-year and reached the amount of 191,546,000 Euros (2015: 182,182,000 Euros); of which the decisive share was the retirement premiums in the amount of 148,725,000 Euros. The reason for the increase in premiums for specific accounts is above all the increase in wage and salary expenditures of civil servants (in particular the increase in salaries and in the number of staffing for some of the activities) to which this insurance premiums is linked. Disability retirement premiums reached the amount of 22,342,000 Euros and sickness insurance in the amount of 10,398,000 Euros.

*Insurance premiums to health insurance companies* grew by 4.5% year-to-year and reached the amount of 182,467,000 Euros (2015: 174,575,000 Euros); of which Všeobecná zdravotná poisťovňa, a.s. received 143,593,000 Euros and the other remaining health insurance companies received 38,874,000 Euros.

*Contribution to supplementary pension insurance companies* was paid in the amount of 12,135,000 Euros (2015: 10,489,000 Euros) and increased by 15.7% on a year-to-year basis.

*Contributions to old-age pension savings* were in the amount of 197,000 Euros and increased year-to-year by 24.7%.

- **Goods and services**

In the state budget, expenditures in the amount of 1,815,234,000 Euros were budgeted in the form of goods and services. The real absorption of 1,459,354,000 Euros, which in relation to the approved budget represents a decrease of 19.6%, mainly reflected the fact that the services were also funded by advance payments for EU projects and state budget funds for co-financing of projects in line with the concept of financial management of the structural funds and the Cohesion Fund. However, the settlement of the advance payments provided is made on the relevant items of

the budget classification according to the expenditures actually incurred. The adjustment of budgetary expenditures is related to the total expected revenues from EU funds in a given year.

Expenditures allocated to goods and services financed purchases of standard goods and services required by the operation of individual offices (energy, travel, transport, maintenance and repairs, rental of movable and immovable property, postal and telecommunications services, etc.). Their structure is included in the following overview:

<b>Good and services in thousands of Euros</b>						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Travel expenses	29,969	33,449	32,615	37,233	4,618	14.2
Energy, water and communications	185,019	183,302	186,497	176,436	-10,061	-5.4
Material	304,384	186,366	155,243	176,356	21,113	13.6
Transport expenses	49,944	61,810	64,046	69,369	5,323	8.3
Routine and standard maintenance	183,475	233,025	158,128	233,491	75,363	47.7
Rentals for renting of immovable and movable assets	155,811	163,946	161,868	163,352	1,484	0.9
Services	534,660	728,269	1,056,837	603,117	-453,720	-42.9
<b>Total</b>	<b>1,443,262</b>	<b>1,590,167</b>	<b>1,815,234</b>	<b>1,459,354</b>	<b>-355,880</b>	<b>-19.6</b>

Source: Ministry of Finance of the SR

*Travel expenses* were used to reimburse the work travel expenditures of employees. More than 68% of this expenditure category (25,474,000 Euros) was spent on *cross-border reimbursements*, of which the highest volume of 7,559,000 Euros for the Ministry of Foreign Affairs and European Affairs, 3,900,000 Euros for the Ministry of Defense of the SR and 3,513,000 Euros for the Ministry of the Interior of the SR. Increased spending compared to the budget was mainly due to SK PRESS (including foreign working trips, reimbursements to spouses and children), followed by foreign activities mainly under the NATO cooperation plan, peace mission plan, peace support and counter-terrorism operations, a plan of bilateral cooperation with the armed forces of the individual NATO member states, a plan of other international events, a plan for cooperation with the EU, the SK PRES 2016 plan and the Slovak verification centre plan, and for sending of police officers to partner countries in connection with assistance in the context of the migration crisis. Refunds for *domestic* work trips were absorbed in the amount of 9,722,000 Euros (especially in the chapter of the Ministry of Defense of the SR 3,209,000 Euros and the Ministry of Interior of the SR 2,332,000 Euros). Payment of *other refunds* required 2,019,000 Euros (for example, temporary assignment to work, etc.).

The *energy, water and communications* item includes cumulative expenditures on all types of energy, postal and telecommunication services and also on communications infrastructure. They are mainly involved in *energy* payments of 77,265,000 Euros (of which the Ministry of the Interior of the SR had the highest amount of 27,213,000 Euros and the Ministry of Defense of the SR 18,183,000 Euros). The expenditures on *postal and telecommunication services* were in the amount

of 43,296,000 Euros (of which, in particular, the Ministry of the Interior of the SR, 10,587,000 Euros, the Ministry of Justice of the SR 8,686,000 Euros, the Ministry of Labour, Social Affairs and Family, 7,860,000 Euros). Expenditures on *communication infrastructure* 44,866,000 Euros were mostly used to reimburse services related to long-distance telecommunication circuits, data networks, fixed networks, server housing, on-line support etc., especially in the chapter of the Ministry of Finance of the Slovak Republic (12,957,000 Euros) and the Ministry of the Interior (12,648,000 Euros). Payments for *water, sewage* were in the amount of 11,008,000 Euros, which represented a saving of 10,061,000 Euros, which was recorded on the energy item. The amount of the savings was mainly affected by the chapters of the Ministry of Defense of the SR and the Ministry of Interior of the SR, mainly due to inaccurately planned expenditures for the stated purpose and the real need affected by for example by a moderate and shorter winter in early 2016, the saving was also related to the payment of advance payments for energy in December.

In the *material* item, the most budgetary resources were used for *general material* in the amount of 44,375,000 Euros, of which in particular the chapter of the Ministry of the Interior of the SR 17,975,000 Euros, besides regular office supplies and consumables for computer technology, e.g. including the purchase of vehicle license plates, chemicals for expertise, vaccination serums, animal material (in particular feed). Expenditures on *work clothes, footwear and work equipment* 26,826,000 Euros were implemented mainly in the departments of the Ministry of the Interior of the SR 15,385,000 Euros (modernization of equipment for police officers, fire and rescue corps and mountain rescue service, purchase of work boots of the fire and rescue corps) and the Ministry of Defense of the SR 8,012,000 Euros (clothing, footwear, protective clothing for professional soldiers of Slovak armed forces). The *food* expenditures were in the amount of 24,618,000 Euros (in particular the chapters of the Ministry of Labour, Social Affairs and Family of the SR 9,030,000 Euros and the Ministry of Justice of the SR 9,005,000 Euros). Most food expenditures were used to help those most in need (through the Operational Program for Food and Basic Material Assistance) and for state-owned children's homes. Expenditures on *special machinery, equipment, equipment, technologies and tools* were in the amount of 16,454,000 Euros (the Ministry of the Interior of the SR had a decisive share of 10,541,000 Euros) and for *special material* 15,723,000 Euros (the Ministry of the Interior of the SR had a decisive share of 8,458,000 Euros). Expenditures on *printing, books, textbooks and teaching aids* were in the amount of 12,276,000 Euros; the Ministry of Education, Science, Research and Sport of the SR had a decisive share of 9,192,000 Euros for the purchase of methodological aids for the project EnglishGO - New Methods and Instruments for Teaching English at Secondary Schools, implemented by the Methodological and Teaching Centre in the amount of 4,970,000 Euros, methodological aids within the project of Teaching Slovak Language and Slovak Literature in Schools with Teaching Conducted in Hungarian.

**Transport** costs include the transportation of people and goods for business purposes, including service and leased vehicles, in furthermore the cost of servicing, maintenance and repair of the vehicles. For the year 2016, the largest share was for payments for *fuels, lubricants and oils* in the amount of 31,826,000 Euros and they were drawn mainly in the budget chapter of the Ministry of the Interior of the SR (15,995,000 Euros). Funds in the amount 27,159,000 Euros were use to

provide for the *service, maintenance and repairs of vehicles* (of which the decisive share in the chapter of the Ministry of the Interior 19,335,000 Euros), furthermore for *insurance* in the amount of 5,446,000 Euros and *other* transport expenditures 4,938,000 Euros.

***Routine and standard maintenance*** includes work and service expenditures to provide for the normal operation of assets, e.g. buildings, operating equipment, office equipment, software, and so on. In terms of volume the biggest absorption was required by *software* maintenance in the amount of 94,689,000 Euros, especially in the context of company informatisation, information security, advisory activity, analysis, implementation and updating of systems. The chapter of the Ministry of Finance of the SR had a decisive share in the amount of 44,587,000 Euros. To finance the maintenance of *buildings and facilities* the amount of 50,199,000 Euros was used, of which the most in the chapter of the Ministry of Transport, Construction and Regional Development of the SR (27,035,000 Euros). Expenditures related to the maintenance of *special machines and devices* were 44,722,000 Euros, of which the Ministry of Defense of the Slovak Republic had the highest expenditures of CZK 38,341,000 Euros. For the *maintenance of other assets*, the chapters of the state budget drew the total of 43,882,000 Euros.

From the ***rent*** item the amount of 160,023,000 Euros was paid on the *rent for buildings, facilities or parts thereof*, of which the decisive share was that of the chapter of the Ministry of Transport, Construction and Regional Development of the SR in the amount 124,699,000 Euros. A substantial part (124,416,000 Euros) was used to pay for the availability of the 2nd PPP package - to cover the undisputed parts of the monthly unit payments invoiced by Granvia, a.s. in accordance with the concession contract.

Of the total expenditures for ***services*** implemented in the amount of 603,117,000 Euros, the highest expenditures were focused on *special services*, in the amount 204,702,000 Euros, while the Ministry of Defense of the SR used the most funds for this purpose in the amount of 46,408,000 Euros, in particular for the defense of the state, the Ministry of Agriculture and Rural Development of the SR 44,023,000 Euros in particular for the stabilization of cattle with market milk production and support for the stabilization of sheep, goat and poultry, and the Ministry of Finance of the SR 42,924,000 Euros. An important item of this expenditure group was also the *general services* 66,741,000 Euros, additional *subsistence expenses* for employees according to valid regulations (57,162,000 Euros).

The *irregularities and other refunds for EU funds included in the state budget* accounted for 21,549,000 Euros, of which 5,672,000 Euros Ministry of the Interior of the SR, 4,869,000 Euros, the Ministry of Health of the SR, 3,644,000 Euros, the Ministry of Transport, Construction and Regional Development of the SR and other 7,364,000 Euros. In most cases, there was a refund when clearing an unused deposit or based on post-audit findings.

The approved budget and the subsequent fulfilment of expenditures in the service category are affected by the expected payments of funds from the EU budget, as indicated at the beginning of the goods and services description.

▪ **Current transfers**

The largest part of current expenses is made up of transfers. These expenditures are carried out without any recipients providing services or goods in return. A transfer payment of general character intended for different or unspecified objectives is always considered a current transfer. They are sorted according to the recipient or the type of provided payment. Transfer can only be financial in the form of contributions, subsidies and other financial relationships.

Current transfers were implemented from a state budget source in the amount of 8,626,786,000 Euros, of which 495,491,000 Euros for the co-financing of the EU projects and from the source of the EU in the amount of 353,450,000 Euros. The budget in the given expenditure category was approved in the amount of 10,344,182,000 Euros, which corresponded to 72.1% of the total current expenditures. The real expenditures amounted to 9,485,727,000 Euros (2015: 9,625,831,000 Euros) and were lower than the budget by 858,455,000 Euros.

<b>Current transfers in thousands Euros</b>						
	<b>Reality</b>		<b>Budget</b>	<b>Reality</b>	<b>Difference</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>in thousands of Euros</b>	<b>in %</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4-3</b>	<b>6=4-3</b>
Transfers within the general government	4,699,535	4,405,975	4,272,172	4,344,120	71,948	1.68
Transfers to individuals and other legal entities	3,510,557	3,691,591	4,150,188	3,809,873	-340,315	-8.20
Transfers to non-financial entities and contributory organizations	847,188	859,603	1,117,523	618,022	-499,501	-44.70
Transfers to domestic financial institutions	1,565	2,023	3,340	2,127	-1,213	-36.32
Transfers abroad	733,095	666,639	800,959	711,585	-89,374	-11.16
<b>Total</b>	<b>9,791,940</b>	<b>9,625,831</b>	<b>10,344,182</b>	<b>9,485,727</b>	<b>-858,455</b>	<b>-8.30</b>

Source: Ministry of Finance of the SR

The item of *transfers within the general government* included funds in the amount of 4,344,120,000 Euros (2015: 4,405,975,000 Euros) for the following categories of beneficiaries:

Expenditure on transfers to the **Social Insurance Company and health insurance companies** amounted to 365,341,000 Euros (2015: 453,015,000 Euros), the General Treasury Administration contributed mainly to their provision in the amount of 365,324,000 Euros in connection with covering the deficits of the basic old-age insurance fund. The downward trend in the transfer to the Social Insurance Fund to cover the deficit of the basic old-age pension insurance fund was due to the opening of the 2nd pension pillar from 15 March to 15 June 2015 and the return of a part of policyholders to the 1st pay-as-you-go pillar as well as a higher rate of premium collection by the Social Insurance Company. These facts have a significant share in increasing the revenues of the Social Insurance Company (from insurance premiums) and in maintaining its ability to pay, and thus a lower transfer from the state budget was sufficient.

Transfers to **public universities** were provided in the amount of 514,004,000 Euros (2015: 498,154,000 Euros). Their funding was mainly implemented by the Ministry of Education, Science, Research and Sports of the SR (511,248,000 Euros) to support and develop university

education, ensuring the operation of universities, basic research, accommodation facilities, catering and social support for students. The highest payments were provided to the Comenius University in Bratislava (108,226,000 Euros), the Slovak University of Technology in Bratislava (66,180,000 Euros) and the Technical University of Košice (43,866,000 Euros).

An important item was transfer payments **to settle the off-budget state debt account**, which were reimbursed in the amount of 1,174,727,000 Euros from the General Treasury Administration chapter. This is a debit balance account through which the Debt and Liquidity Management Agency performs transactions related to interest and charges paid from 2012 onwards, to Ardal continuously transfers and directs interest received and fees related to financial transactions executed on behalf and to the account of the Ministry of Finance of the SR. The resulting balance of received and repaid interest and fees is offset on monthly basis from the budget expenditure account of the General Treasury Administration chapter and at the end of the year it has a zero balance. From the sources of the chapter of the General Treasury Administration, the **expenditures for the financing of the** operational program for Cross-Border Cooperation between the Slovakia and the Czech Republic 2007-2013 were drawn in the amount of 8,720,000 Euros, the operational program for Cross-Border Cooperation between Poland and Slovakia 2007-2013 in the amount of 1,814,000 Euros, the operational program of Cross-Border Cooperation between Hungary and Slovakia 2007-2013 in the amount of 575,000 Euros, projects of the EEA Financial Mechanism in the amount of 997,000 Euros, projects of the Norwegian Financial Mechanism in the amount of 555,000 Euros and irregularities of the EEA Financial Mechanism and the Norwegian Financial Mechanism in the amount of 500,000 Euros.

For transfers to **municipalities to cover the costs of the delegated tasks of the state administration**, the amount of 805,781,000 Euros (2015: 756,305,000 Euros) was drawn, financial flows were provided to a decisive extent by the chapter of the Ministry of the Interior of the SR in the amount of 799,334,000 Euros (783,007,000 Euros) by financing the activities of schools, including the increase in the salaries of educational, professional and non-teaching staff, provision of local state administration in regional education for school authorities (3,087,000 Euros). The Ministry of the Interior of the SR financed the delegation of tasks of the state administration for matrimonial activities (6,269,000 Euros), election to the National Council of the SR (4,550,000 Euros), reports, registration of residence, the register of citizens, the register of addresses (1,889,000 Euros), environmental care (497,000 Euros).

Other transfers to **municipalities in addition to the transfer to pay for the costs of the delegated tasks of the state administration** amounted to 76,773,000 Euros (2015: 99,330,000 Euros), to which the chapter of the Ministry of Labour, Social Affairs and Family of the SR contributed significantly (61,643,000 Euros). Expenditures were directed, as in the past, mainly to co-finance social services for public providers of these services (40,643,000 Euros), non-repayable financial contributions under the operational programme of employment and social inclusion (1,805,000 Euros) and to ensure performance of a specific beneficiary, support for the upbringing to dietary habits and the fulfilment of the educational obligations of children threatened by social exclusion, in accordance with Act No. 544/2010 Coll. on Subsidies within the Competence of the Ministry of Labour, Social Affairs and Family of the SR (11,224,000 Euros). The transfer payments to

municipalities were also implemented by the Ministry of Agriculture and Rural Development of the SR (5,143,000 Euros), of which the most significant expenditures were implemented under the Rural Development Program of the SR 2007-2013 to provide for the Basic Services and Renewal in Rural Areas in the total amount of 3,177,000 Euros and payments made on the basis of requests for non-repayable financial contribution under the Regional Operational Program 2007-2013 in the amount of 1,486,000 Euros; from other chapters (9,987,000 Euros).

The Ministry of Education, Science, Research and Sports of the SR funded regional schools, the secondary schools founded by **higher territorial units, to cover the costs of the delegated tasks of the state administration**, by transfers in the amount of 410,791,000 Euros (2015: 400,881,000 Euros) as follows: Bratislava 40,263,000 Euros, Trnava 39,164,000 Euros, Trenčín 44,579,000 Euros, Nitra 50,826,000 Euros, Žilina 59,565,000 Euros, Banská Bystrica 45,382,000 Euros, Prešov 64,214,000 Euros and Košice 66,798,000 Euros.

The transfer payments to **higher territorial units, in addition to the transfers to cover the costs of the delegated tasks of the state administration**, in volume of 5,736,000 Euros (2015: 32,691,000 Euros), were to a great extent covered by the Ministry of Agriculture and Rural Development 2,430,000 Euros (2015: 4,958,000 Euros), where all expenditures were granted on the basis of requests for non-repayable financial contribution from the European Regional Development Fund 2007-2013; the Ministry of Labour, Social Affairs and Family of the SR (1,450,000 Euros) and from other chapters 1,857,000 Euros.

**Other entities of the general government** were provided budget funds in the total amount of 262,712,000 Euros (2015: 335,046,000 Euros). They were paid in particular by the chapter of the Ministry of Transport, Construction and Regional Development of the Slovak Republic (209,559,000 Euros), which was received by Železničná spoločnosť Slovensko, a.s. to provide for the contract for public transportation services in the operation of passenger transport. In addition, current transfers were provided to Železnice Slovenskej republiky, a.s. on the basis of the Contract Agreement on the operation of railway infrastructure in amount of 272,500,000 Euros under the sub-program of Support for Public Services - Railway Operation as well as regular transfers to fulfil the tasks of the inter-ministerial sub-program of Transport and Telecommunication Support in the amount of 578,000 Euros.

**Contributory organisations** included by the Statistical Office in the general government were allocated budget funds in the amount of 275,102,000 Euros (2015: 315,873,000 Euros, which were provided in particular by the chapters of the Ministry of Culture of the SR (73,244,000 Euros), spending on the basic activities of contributory organizations and on the sustainability of projects of the operational program of the Information Society (66,764,000 Euros), for the implementation of projects in the field of cultural activities (4,989,000 Euros) and cultural activities related to SK PRESS (1,490,000 Euros); the Ministry of the Environment of the SR (38,895,000 Euros) for the projects of the operational program of the Environmental Quality with the main impact on the increase compared to the approved budget (25,515,000 Euros) being the reimbursement of funds from the previous years carried out in relation to the completion of projects, a significant amount was also paid to the Slovak Academy of Sciences (34,899,000 Euros), where the main impact on

the amount was the transformation of 8 budgetary organizations into contributory organisations (10,703,000 Euros).

Transfers to the **state-owned special-purpose funds** drew 86,809,000 Euros (2015: 332,682,000 Euros together with Slovenská záručná a rozvojová banka, a.s.). The Ministry of Economy provided for the National Nuclear Fund the amount of 65,176,000 Euros from levies from transmission and distribution network operators and the amount of 270,000 Euros to cover the costs of handling nuclear material and radioactive waste whose origin is unknown. At this item of transfers, the Ministry of Agriculture and Rural Development of the SR within the Integrated Regional Operational Program 2014-2020 provided 36,283,000 Euros as an intervention for the project of "Increasing the Energy Efficiency of Apartment Buildings" for the beneficiary - Slovenská záručná a rozvojová banka Asset Management, a.s.

For the item of *transfers to individuals and non-profit legal persons* the budgeted amount was 4,150,188,000 Euros, namely for payments in the form of contributions, benefits, pensions, severance payments, membership fees, scholarships. Their actual drawing accounted for 28.5% of the total amount of current transfers, which in absolute terms amounted to 3,809,874,000 Euros (2015: 3,691,591,000 Euros). The relevant transfers were directed towards the following purposes:

<b>Transfers to individuals and non-profit natural persons in thousands of Euros</b>							
	Reality		Budget	Reality	Difference		
	2014	2015	2016	2016	thousands of Euros	in %	
	1	2	3	4	5=4-3	6=4-3	
Social benefits	1,359,617	1,334,336	1,395,429	1,319,098	-76,331	-5.5	
Transfers to paid premiums for groups of persons established by the law	1,444,444	1,579,384	1,610,866	1,623,596	12,730	0.8	
Transfers to of civil associations, foundations, non-profit organizations, political parties and movements, trade unions, church. and private schools, churches, religious societies...	303,915	352,183	349,299	331,797	-17,502	-5.0	
Contribution to specific account	94,601	96,074	98,020	94,158	-3,862	-3.9	
Individuals	83,793	88,186	124,394	114,898	-9,496	-7.6	
Active labour market measures	128,467	134,371	132,547	171,594	39,047	29.5	
Other transfers	95,720	107,057	439,633	154,733	-284,900	-64.8	
<b>Total</b>	<b>3,510,557</b>	<b>3,691,591</b>	<b>4,150,188</b>	<b>3,809,874</b>	<b>-340,314</b>	<b>-8.2</b>	

Source: Ministry of Finance of the SR

The highest representation within this budget group was achieved by *transfers for paid insurance premiums for groups of persons established by the law* (1,623,596,000 Euros), which were mainly provided by the Ministry of Health of the Slovak Republic, namely for the payment of health care for state insured persons pursuant to Act No. 580/2004 Coll. on Health Insurance as amended (1,392,100,000 Euros). The amount of the insurance premiums actually paid by the state is based on the average of the actual number of state insured persons (the total number of these insured persons for the year 2016 was on average of 2,986,188 persons).



An important item within transfers to individuals and non-profit legal persons is *social benefits* (1,319,098,000 Euros), which were drawn in the amount of 76,331,000 Euros, less than budgeted. This saving was mainly achieved due to the emergency benefits and the compensation for the social impacts of severe disability. With the emergency benefits, a year-to-year drop in expenditures of 30,700,000 Euros was recorded. The amount of emergency benefits is mainly related to the development of the number of recipients of the benefit, the decline of which is mainly due to the rejection of activation through the activation centres, the annual increase of the pension benefits, but also the departure from the system due to the performance of a work activity. The largest amount of spending to compensate for the social consequences of a severe disability is for drawing of funds for a cash contribution for care (the decrease in spending was mainly due to an increase in pension benefits and a natural decrease of those who care).

*Transfers to non-financial entities and transfers to contributory organizations not included in the general government of the Slovak Republic* were budgeted at 1,117,523,000 Euros and their absorption reached the level of 618,022,000 Euros; their use is provided in the following overview:

<b>Transfers of non-financial entities and transfers to contributory organizations not included in the general government of the SR in thousands of Euros</b>						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
A legal entity established by the government, a municipality or a regional authority	276,474	293,303	213,968	46,935	-167,033	-78.1
Other legal entity	476,815	471,279	881,163	479,633	-401,530	-45.6
Natural person to entrepreneur	91,129	85,975	19,378	90,528	71,150	367.2
Contributory organization not included in the general government	2,770	9,046	3,014	926	-2,088	-69.3
<b>Total</b>	<b>847,188</b>	<b>859,603</b>	<b>1,117,523</b>	<b>618,022</b>	<b>-499,501</b>	<b>-44.7</b>

Source: Ministry of Finance of the SR

The highest share was reached by **transfers to other legal persons**, which were mainly paid by the Agricultural Paying Agency (436,348,000 Euros), which is a part of the Ministry of Agriculture and Rural Development of the SR. Payments were related to support measures to preserve agricultural production and strengthen the positions of farmers. A significant amount of transfers to other legal entities was provided by the Ministry of Economy of the SR (16,783,000 Euros), which was used in the context of the development of industry and business support, with the benefit of aid being an increase in the competitiveness of industry. From the chapter of the Ministry of Education, Science, Research and Sport of the SR (15,084,000 Euros), funds were provided for research and development projects.

Of the total savings on the transfers to non-financial entities and transfers to contributory organizations not included in the general government of the SR in the amount of 499,501,000 Euros, transfers to other legal entities had the largest share (401,530,000 Euros). These are payments under the European Agricultural Guarantee Fund (direct payments and market-based expenditures) and the European Agricultural Fund for Rural Development (Rural development program of the SR 2014-2020), for which the allocated budget can be absorbed until the end of the

2014-2020 programming period. Unused funds in 2016 in the total amount of 455,236,000 Euros at the end of the year, due to the timing of calls for projects were transferred to 2017, with the possibility of their targeted absorption in the following financial year. Any additional volume differences between the approved budget and the actual absorption may also be caused by authorized internal budget adjustments between individual economic classifications (other entities were successful in the calls than those originally defined - eg natural persons).

On transfers to **legal entities established by the state, a municipality or a higher territorial unit**, the highest expenditures (22,760,000 Euros) were incurred by the chapter of the Ministry of Economy of the SR, which were mainly used to strengthen the competitiveness and growth of small and medium-sized enterprises, and furthermore to the program of the downturn of the ore mining industry. Until 2013, transfers to Železnice SR a Národná diaľničná spoločnosť, a.s. were also reported this budget item, and since 2014 this budget item has included transfers to other entities of the general government.

**Transfers to a natural person entrepreneur** were provided in a significant portion by the Ministry of Agriculture and Rural Development of SR in the amount of 90,125,000 Euros (to which the Agricultural Paying Agency contributed 90,116,000 Euros). These included direct payments which represented support measures for active farmers, payments for agricultural practices beneficial to the climate and the environment, compensation for areas with natural or other constraints under the Rural Development Program and expenditures to support market-oriented expenditures. Budget overrun was caused by allowed internal budget adjustments between individual economic classifications.

Budgeted **contributions to organizations not included in the general government in the register of organizations administered by the Statistical Office of the SR** were transferred mainly to the Ministry of the Interior of the SR (925,000 Euros).

The approved budget for *transfers to domestic financial institutions* represented 3,340,000 Euros. Expenditures actually spent on the activity of the Office of the Council for Budget Responsibility was 1,066,000 Euros, to cover property damage of 1,060,000 Euros (provided by the General Treasury Administration chapter to provide for the implementation of the program of providing financial assistance of the Ministry of Finance of the SR through Slovenská záručná a rozvojová banka, a.s.).

The expenditure item of *transfers abroad* includes the payments to other governments, international organizations, non-profit legal persons and other entities abroad. In the approved budget there were resources reserved for them in the amount of 800,960,000 Euros; the actually implemented expenditures amounted to 711,585,000 Euros (2015: 666,639,000 Euros). The decisive item was the **Slovak Republic's contributions into the EU budget** in particular from the source based on the value added tax and the source based on the GNP, the Slovak Republic's share of the correction for the UK, the Slovak Republic's share of the correction for Denmark, the Netherlands, Sweden and Austria, the retroactive effect of the new decision on own resources of the EU on the Slovak Republic's contributions in 2014 and 2015 and the impact of the change in

the cost of the collection of traditional own resources for 2016. The final contribution of own funds budgeted in the chapter of the General Treasury Administration amounted to 634,796,000 Euros.

**International organizations** were paid 74,956,000 Euros, of which the main contribution was from the Ministry of Foreign Affairs and European Affairs of the SR in the amount of 32,847,000 Euros, the General Treasury Administration 13,674,000 Euros, the Ministry of Education, Science, Research and Sport of the SR 10,920,000 Euros and the Ministry of Defense of the SR 9,256,000 Euros, other transfer payments abroad amounted to 2,060,000 Euros. Payments of the Ministry of Foreign Affairs and European Affairs of the SR were intended for contributions to individual international organizations, such as UN Peacekeeping Operations (9,373,000 Euros), regular budget of the United Nations (3,683,000 Euros), EU Refugee Facility in Turkey (3,113,000 Euros), voluntary contribution to the EU Regional Trust Fund in response to the crisis in Syria (3,000,000 Euros), the Council of Europe - regular budget (2,426,000 Euros), V4-International Visegrad Fund (2,000,000 Euros). From the General Treasury Administrator chapter, funds were specifically paid to the account of the European Commission with the State Treasury, which was intended to cover the contribution of the Slovak Republic to the European Development Fund, a contribution to the Technical Assistance Fund of the Slovak Republic and the International Investment Bank (1,000,000 Euros) and a contribution to the Council of Europe Development Bank - Slovak Fund for Inclusive Growth (738,000 Euros). The most significant amounts of transfers abroad carried out by the Ministry of Education, Science, Research and Sports of the Slovak Republic were provided as regular contributions for memberships in international organizations, namely CERN (5,155,000 Euros), JOINT INSTITUTE, EUROPEAN XFEL, OECD, IEA.

▪ **Repayment of interest and other payments related to loans, credits, repayable financial assistance and financial lease**

The approved budget in this category was absorbed in full amount of 270,000 Euros (2015: 270,000 Euros) for handling fees in the chapter of the General Treasury Administration.<sup>10</sup>

The **total expenditures related to state the debt management**, including the above mentioned handling fees, amounted to 1,190,877,000 Euros in the budget, while the actually implemented expenditures reached 1,174,727,000 Euros.

State debt expenditures in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
debt servicing - transfer	1,280,660	1,159,664	1,190,877	1,174,727	-16,150	-1.4
handling charges	274	270	270	270	0	0
<b>Government debt total</b>	<b>1,280,934</b>	<b>1,159,934</b>	<b>1,191,147</b>	<b>1,174,997</b>	<b>-16,150</b>	<b>-1.4</b>

Source: Ministry of Finance of the SR

<sup>10</sup>From 2012, the balance of income and expenditure transactions related to Ardal's financial operations transferred to the expenditure budget line of transfer to the budgetary organization

▪ **Extra-budgetary funds**

In 2012, according to Act No. 291/2002 Coll. on the State Treasury and on amending and supplementing certain acts as amended for the effective functioning of the state debt management, a separate off-budget account (so-called state debt balance account) was established. The specified off-budget account is used for income and expense transactions performed by Ardal on behalf of the Ministry of Finance of the SR. The balance of the off-budget account is offset by a transfer from the state budget's expenditure budget account monthly and by the end of the year to a zero balance.

The revenue transactions of the state debt account balance constitute the income of the state debt (Ardal) from the recovery of temporarily disposable funds on the money market in the form of interbank deposits, repurchase trades and other financial instruments. Other revenues are transfers from the state budget.

The expenditure operations consist mainly of the payment of coupon yields to the owners of government bonds issued on the domestic and foreign financial markets, payment of the aliquot interest and bonuses for the repurchase of government securities, payment of the discount of the outstanding government securities, repayment of interest within the refinancing system of the Ministry of Finance to the State Treasury, costs associated with financial transactions related to money transactions, repayments of interest on loans and fees associated with the state debt management.

Expenses were spent in the course of the year according to the payment schedule and the international agreements binding the Slovak Republic.

<b>Statement of revenues and expenditures on the balance of state debt account in thousands of Euros</b>			
	<b>Reality</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Revenues</b>	<b>311,236</b>	<b>421,486</b>	<b>382,116</b>
<b>Expenditures total</b>	<b>1,591,896</b>	<b>1,581,150</b>	<b>1,556,843</b>
of which:			
interest on government bonds + trades + loans	1,423,384	1,442,417	1,437,878
interest from the refinancing system - state treasury	45,029	46,916	48,459
disagio (securities discount)	114,180	87,349	65,028
fees	9,303	4,468	5,478
<b>Total balance</b>	<b>1,280,660</b>	<b>1,159,664</b>	<b>1,174,727</b>

Source: Ministry of Finance of the SR

In the cash budget of the state debt in 2016 the savings reached 16,150,000 Euros. The positive impact was a decline in interest rates, to which the purchases of Slovak government bonds by the ECB (NBS) in the context of quantitative easing (PSPP - the public sector purchase program) contributed to a significant extent. The decline in interest rates when the bonds with high coupon rates are sold compared to yields to maturity resulted in high premiums and therefore corresponding savings in debt costs. Developments in interest rates on the financial markets and active portfolio management were reflected in a decline in the average weighted interest rate of

government liabilities from 2.84% p.a. in 2015 to 2.58% p.a. at the end of 2016. The state debt management was also significantly influenced by the state budget over the course of the year. The act approved the cash deficit for 2016 in the value of 1,970,395,300 Euros, while in reality it reached 1,588,667,000 Euros, i.e. 80.6% of the approved budget deficit for 2016. The functioning state Treasury system had a beneficial effect on the development of expenditures, which, in addition to the centralization of public sector financial resources, also ensured an improved position of the state in relation to the interbank market.

### 3.2.1.2 Capital expenditures

Capital expenditures include expenditures on the acquisition of tangible and intangible assets, including expenses related to the acquisition of such assets (eg assembly work, transport). The capital expenditures budget for 2016 amounted to 1,894,314,000 Euros, which increased by budget measures to 2,055,632,000 Euros. In fact, 1,902,256,000 Euros (2015: 4,668,088,000 Euros). Substantial changes in the adjusted budget resulted from the implementation of Section 8 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts. Pursuant to this section, at the end of the current financial year, the Ministry of Finance of the Slovak Republic may commit the expenditures (to reduce the adjusted budget) to the unabsorbed funds, which will be used in the next financial year and thus increase the adjusted budget for the next financial year. The Ministry of Finance of the SR will allow the expenditure limit to be exceeded in the next financial year.

The overview of capital expenditures is provided in the following table:

<b>Capital expenditures in the basic economic structure in thousands of Euros</b>						
	<b>Reality</b>		<b>Budget</b>	<b>Reality</b>	<b>Difference</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>in thousands of Euros</b>	<b>in %</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4-3</b>	<b>6=4-3</b>
<b>Acquisition of capital assets</b>	<b>510,435</b>	<b>1,289,260</b>	<b>573,364</b>	<b>692,400</b>	<b>119,036</b>	<b>20.8</b>
of which:						
purchase of vehicles	54,814	236,566	100,610	178,983	78,373	77.9
construction of buildings and their technical evaluation	150,377	415,862	127,748	164,432	36,684	28.7
purchase of machinery, devices, equipment, technology	117,008	286,033	116,701	139,930	23,229	19.9
purchase of land and intangible assets	133,165	272,243	7,557	111,123	103,566	1,370.5
purchase of buildings, objects and their parts	45	4,539	1,563	4,630	3,067	196.2
other capital expenditure (documentation, reconstruction and modernization of machinery and other)	55,026	74,017	219,185	93,302	-125,883	-57.4
<b>Capital transfers</b>	<b>1,468,653</b>	<b>3,378,828</b>	<b>1,320,950</b>	<b>1,209,856</b>	<b>-111,094</b>	<b>-8.4</b>
of which:						
in terms of general government non-financial entities and contributory organisations not included in the general government	1,142,183	2,321,559	1,025,406	810,993	-214,413	-20.9
transfers to financial institutions		35,000	0	31,080	31,080	0

individuals and non-profit legal persons	22,303	31,684	46,651	15,570	-31,081	-66.6
abroad	895	3,147	0	1,558	1,558	0
<b>Total</b>	<b>1,979,088</b>	<b>4,668,088</b>	<b>1,894,314</b>	<b>1,902,256</b>	<b>7,942</b>	<b>0.4</b>

Source: Ministry of Finance of the SR

#### ▪ Acquisition of capital assets

This category consists of expenditures on the procurement of capital assets, i.e. tangible and intangible assets. The approved budget for 2016 was set at 573,364,000 Euros, which increased by budget measures to 845,850,000 Euros. The real absorption amounted to 629,400,000 Euros (2015: 1,289,260,000 Euros).

The increase in the reported amount compared to the budget was in the amount of 119,035,000 Euros (155,904,000 Euros) and the Ministry of Finance of the SR (by 75,921,000 Euros), while the largest decrease in the amount actually posted compared to the budgeted was in the General Treasury Administration (by 176,627,000 Euros).

*The purchase of vehicles* amounted to 178,983,000 Euros, of which the largest share of expenditures being the chapter of the Ministry of Interior of the SR 113,834,000 Euros and the Ministry of Defense of the SR amounted to 58,170,000 Euros. Compared to 2015, this category recorded a decrease of 57,583,000 Euros.

Expenditures of the Ministry of the Interior of the SR predominantly consisted of expenditures for the *purchase of transport aircraft* worth 90,328,000 Euros. These expenditure were used to purchase two Airbus aircraft (one in operation, the other in procurement), two Fokker aircraft, a government squadron renewal, Bell helicopter equipment for police, customs and VAT payment purposes. Expenditures on purchase of special vehicles in the amount of 17,482,000 Euros were used mainly for the reconstruction of fire trucks, for the purchase of ambulance cars (2 pcs.), tunnel special automobile, staff car, technical car, snowmobiles (10 pcs) and others.

The Ministry of Defense of the Slovak Republic recorded under this item an advance payment of 58,170,000 Euros, in particular for the acquisition of multipurpose helicopters, trucks, tractors and trailers

*Implementation of buildings and their technical improvement* represented expenditures in the amount of 164,432,000 Euros, compared to 2015, the expenditures decreased by 251,430,000 Euros. The highest share of expenditures was incurred by the Ministry of Transport and Construction and Regional Development of the SR (82,872 Euros). Within this category, the Ministry of Defense of the Slovak Republic also had significant expenditures in the amount of 31,097,000 Euros, the Ministry of Justice of the SR in the amount of 14,464,000 Euro and the Office of the National Council of the SR (12,014,000 Euros).

The acquisition of capital assets of the Ministry of Transport, Construction and Regional Development of the SR represents mainly the expenditures drawn in the program of 053 Road Infrastructure. It involves expenditures of the Slovak Road Administration for the Road Network projects, the projects implemented within the Operational Program Transport (OPT) and the

Operational Program Integrated Infrastructure (OPTII), the expenditures on the OPT and the OPTII and expenditures on the preparation of projects with planned funding from the EU funds.

Expenditures of the Ministry of Defense of the Slovak Republic for the *construction of new buildings* amounted to 14,196,000 Euros and for *reconstruction and modernization* in the amount of 16,901,000 Euros. These were funds that were used mainly to provide for the fulfilment of the defense tasks of the state.

The chapter of the Ministry of Justice of the SR drew expenditures under the Prison program (7,590,000 Euros), for reconstruction of a building and signalling-security equipment at the Dubnica nad Váhom Prison and the reconstruction of the Bratislava Detention Facility (5,374,000 Euros). Other expenditures were spent on the reconstruction of detention facilities, district courts, etc.

Expenditures of the Office of the National Council were provided mainly within the framework of the investment action of National Cultural Monument Bratislava Castle for the reconstruction of the castle palace and objects in the Bratislava Castle complex in the total amount of 11,529,000 Euros.

***Purchase of machinery, equipment, devices and technologies*** reached the value of 139,930,000 Euros, which represented an increase in expenditures of 23,229,000 Euros compared to the approved budget. The largest share of expenditures was provided by the Ministry of Defense of the SR (72,726,000 Euros), the Ministry of Interior of the SR (43,552,000 Euros), the Ministry of Finance of the SR (7,548,000 Euros) and the Ministry of Foreign Affairs and European Affairs of the SR (6,938,000 Euros). Compared to the previous period, there was a significant decrease in the use of these expenditures by 146,103,000 Euros.

The Ministry of Defense of the Slovak Republic drew funds for the *purchase of special machinery, equipment, devices, technologies* in the amount of 71,694,000 Euros, which it used to provide for the defense of the state.

The Ministry of the Interior of the SR used the most funds for the *purchase of computer technology* (27,770,000 Euros) under a grant from the European Regional Development Fund titled - Building a solution providing IaaS services - Cloud of the Ministry of Interior of the SR (purchase of servers, external firewalls, disk arrays and others) and from the state budget within the framework of the investment action of the Police Information Services (purchase of servers, disk arrays with accessories, firewall and others). Expenditures on the purchase of special machines, appliances, equipment, equipment and tools amounted to 9,589,000 Euros.

The Ministry of Finance of the SR, in this item of capital expenditures, drew the most expenditures on *the purchase of computer technology* in the actual value of 5,817,000 Euros, which involved the purchase of computer technology to combat fraud and for the Economic Mobilisation program for the Financial Directorate of the Slovak Republic.

***The purchase of land and intangible assets*** amounted to 111,123,000 Euros, the approved budget for this item was exceeded by 103,566,000 Euros. (2015: 272,243,000 Euros). The biggest part of

the expenditures belonged to the chapter of the Ministry of Interior of the SR (29,954,000 Euros), the chapter of the Ministry of Finance of the SR (19,975,000 Euros) and the chapter of the Ministry of Justice of the SR (18,935,000 Euros). From the aforesaid category, the highest expenditures were on purchase of *software* (105,754,000 Euros). The exceeding of the approved budget was caused to the biggest extent by the Ministry of the Interior of the SR (by 29,954,000 Euros), the Ministry of Finance of the SR (by EUR 19,841 thousand), the Ministry of Justice of the SR (EUR 18,565 thousand) and the Ministry of Education, Science, Research and Sport of the SR (by 10,266,000 Euros).

The Ministry of Finance of the SR received the largest amount of funds for the purchase of software in the mentioned item of capital expenditures. The most significant absorption was reported by the Ministry of Finance of the SR within the program Information Society in the amount of 8,830,000 Euros and the program UNITAS for the purchase of software for the tax administration in the amount of 4,932,000 Euros. The Financial Directorate of the Slovak Republic, within the chapter of the Ministry of Finance of the SR, drew funds for software aimed at combating tax evasion and customs duty evasion, together with related licenses in the amount of 2,543,000 Euros.

The Ministry of the Interior used the most funds also to buy *software* (29,777,000 Euros). Of the aforesaid amount, the biggest share of the funds used within the framework of the Police Information Systems project was 10,072,000 Euros especially for the expansion and stabilization of the information system, testing, etc. The second highest share was from absorption of the grant from the European Regional Development Fund for the electronic services of the systems of the Ministry of Interior of the SR in the police force section - phase 2 in the amount of 8,835,000 Euros for testing and training, inclusion and stabilisation.

The Ministry of Justice of the Slovak Republic drew capital expenditures in particular for the Information Society 2014-2020 program in the amount of 17,343,000 Euros, the project of the Information System of Application Architecture and Security Infrastructure Phase II (12,948,000 Euros) and the project of the Information System of the Insolvency Register Phase 2 (4,395,000 Euros).

The Ministry of Education, Science, Research and Sport of the Slovak Republic drew expenditures in the amount of 11,364,000 Euros to acquire software (RIAM branch information system, editorial portal, elektronisation of the educational system of regional education).

The Ministry of Transport, Construction and Regional Development of the SR reported expenditures in the amount of 4,520,000 Euros (3,286,000 Euros) to acquire software within the framework of the Renewal of the Technical Basis for the Maintenance of Roads and Motorways (application and database modifications of ESID Manager, Modular extension of the Road Network Model Information System to support the reference network of local roads, etc.).

Expenditures on the *purchase of land* were reported in the amount of 4,405,000 Euros, of which the highest amount was the chapter of the Ministry of Transport, Construction and Regional Development of the SR (3,821,200 Euros).



The capital expenditures were used for the *reconstruction and modernization of machinery and equipment* in the value of 82,117,000 Euros. Of this, the most significant amount of 60,057,000 Euros was the chapter of the Ministry of Finance of the SR, in which the Financial Directorate of the Slovak Republic reported the amount of 43,673,000 Euros for the implementation of integration works for the communication of information systems consisting of the modification and management of data transformed from legacy systems and in connection with the implementation of a data warehouse solution (DWH), its development, optimization and consolidation of the integration interface in the area of data structures and their flows, functionalities, processes and outputs.

In the case of the *purchase of buildings, facilities and their parts, the* expenditures amounted to 4,630,000 Euros; almost the whole amount was reported in the chapter of the Ministry of Interior of the Slovak Republic (4,289,000 Euros) and was used in full amount to acquire a building under the program of Effective and Reliable State Administration - Citizen Contact Administrative Office in Martin.

#### ▪ **Capital transfers**

Capital transfers include payments made in order to enable the beneficiary to acquire capital assets or to compensate for their damage or destruction. The approved budget for 2016 was set at 1,320,950,000 Euros. In fact, capital transfers amounted to 1,209,856,000 Euros (2015: 3,378,828,000 Euros), accounting for almost 63.6% of total capital expenditures. The decrease between the years was affected by high spending of the EU funds in 2015, when the EU funds absorption was historically the highest.

Of the total amount of capital transfers the amount of 727,377,000 Euros was from the EU funds and 482,479,000 Euros was from the source of the state budget (of which 259,240,000 Euros of co-financing).

*Transfers within the general government* amounted to 810,993,000 Euros, which is 67.0% in terms of capital transfers.

The Ministry of Transport, Construction and Regional Development of the SR provided the most capital transfers in the general government in the amount of 528,900,000 Euros, of which to Národná diaľničná spoločnosť, a.s. in the amount of 401,952,000 Euros, which used for the program of Integrated Infrastructure (227,166,000 Euros) for the projects D1 Hričovské Podhradie - Lietavská Lúčka, phase 2, D3 Žilina Strážov - Žilina Brodno, phase II, R2 Zvolen east - Pstruša phase II. Under the Road Infrastructure program, transfers in the amount of 161,752,000 Euros were used for projects D1 Fričovce - Svinia, R2 Ruskovce - Pravotice, R4 Prešov northern bypass, D3 Svrčinovec - Skalité and others, and in the program of Transport for the project of the Construction of Motorways 13,034,000 Euros.

The provided transfer to Železnice Slovenskej republiky (49,367,000 Euros) was used to provide for the modernization and development of the rail transport route (38,320,000 Euros), in terms of the EU funds and their co-financing (OPT) the funds were used for the Modernization and Development of Railway Infrastructure (8,651,000 Euros), construction of public terminals for

intermodal transport (1,771,000 Euros), Construction of Intelligent Transport Systems Infrastructure.

*Contributory organizations* were provided 92,143,000 Euros, the largest share being provided by the Ministry of Health (29,082,000 Euros), the Office of the Government of the SR (22,780,000 Euros) and the Ministry of Culture of the SR (14,944,000 Euros).

The Ministry of Health of the Slovak Republic provided transfers to *contributory organizations*, to the National Centre of Health Organizations in the amount of 9,153,000 Euros especially on tasks in the field of health informatics, administration of the national health information system, standardization of health informatics, health statistics and provision of library and information services in the field of medical science and health. To several hospitals, including the Bratislava University Hospital (3,375,000 Euros), to purchase hospital equipment and equipment in the field of medical technology, reconstruction and purchase of diagnostic equipment, to the Louis Pasteur University Hospital in Košice (3,308,000 Euros) for setting up new pavilions, solving emergency situations, reconstructing lifts, and so on, and to the Faculty Hospital in Nitra (2,000,000 Euros) to build a heliport.

The Office of the Government of the Slovak Republic has provided a transfer to the National Agency for Network and Electronic Services for the project of the Digital Curriculum Within Reach, to ensure the operation of the information systems created within the successfully completed OP IS projects and for expenditures related to the implementation of system changes resulting from changes in the legislation, to provide for adjustment of information systems created within projects of the Central Public Administration Portal (ÚPVS) and the Electronic Identification Card, to implement the "Optimization of the Central Components of the e-Kolok service", to provide for the extension of the functionalities to ÚPVS - the functionality of the Central Data Room and the Identity Access Management (to verify user identity) in connection with a change in legislation.

The chapter of the Ministry of Culture provided transfers in the total amount of 14,499,000 Euros to *contributory organizations* as part of the projects of creation, dissemination, protection and presentation of cultural values and creation and implementation of policies, for instance to the Slovak National Museum for the reconstruction of the Holocaust Museum in Sereď and the implementation of exhibitions at the Bratislava Castle, to SEUK for the purchase of instruments, reconstruction and modernization of premises, etc.

The Chapter of the Ministry of Education, Science, Research and Sport of the SR provided *funds* to the *contributory organizations* in the amount of 8,326,000 Euros to support mobility and commitment in the field of education, to coordinate the cross-cutting activities of the government science and technology policy, to support children and youth, and to the R&D operational program (for infrastructure and R&D support). Most funding was provided to the contributory organization - the Science and Technology Information Centre (5,110,000 Euros) and the SAV Chemical Institute (495,000 Euros).

*The municipalities* were granted 177,169,000 Euros (2015: 455,943,000 Euros), the highest amount was provided by the Ministry of Economy of the SR (62,800,000 Euros), the Ministry of Transport, Construction and Regional Development of the SR (35,386,000 Euros), the Ministry of the Environment of the SR (29,288,000 Euros), the Ministry of Agriculture and Rural Development of the SR (26,940,000 Euros) and the Ministry of the Interior of the SR (13,149,000 Euros).

Transfers of the Ministry of Economy of the SR in the amount of 62,800,000 Euros were provided to *municipalities* in terms of the measure of building and modernisation of public lighting for towns and municipalities and providing consulting on energy savings for the reconstruction and modernization of public lighting for towns and municipalities.

The Ministry of Transport, Construction and Regional Development of the SR provided *municipalities* with transfers under the Program Construction and Restoration of Housing Fund in the amount of 25,652,000 Euros for the purchase of rented apartments and the provision of technical equipment, as a part of the integrated transport systems infrastructure development program for the cities of Bratislava and Košice, in the amount of 7,551,000 Euros.

The expenditures of the Ministry of Agriculture and Rural Development of the SR were provided to the *municipalities* (26,940,000 Euros) for the absorption of Eurofunds under the Regional Operational Program 2007-2013, for the Infrastructure for education, social services, social protection and social guardianship, and for strengthening the cultural potential of the regions, regeneration of settlements, regional roads ensuring transport serviceability of regions. Under the Rural Development Program 2014-2020, funds have been provided to support infrastructure related to the development, modernization or adaptation of agriculture and forestry, afforestation and restoration of forests damaged by forest fires and natural disasters.

The Ministry of the Interior of the SR provided the *municipalities* with transfers mainly in terms of the program of education and training of young people for completing the construction, development projects, reconstruction of boiler rooms, roofs, social facilities, gyms, accidents, construction of modular schools, camera systems and others.

*The public universities* were provided 13,673,000 Euros (2015: 274,835,000 Euros), as well as in previous years, most from the chapter of the Ministry of Education, Science, Research and Sport of the SR in the amount of 13,641,000 Euros, in particular on the coordination of cross-cutting activities of the government science and technology policy, on university education and the provision for the operation of universities, on the development of universities, on the R&D operational program (to support research and development and the infrastructure of universities). They were funds for providing for the main tasks of public universities as defined by Act No. 131/2002 on Universities and on amending and supplementing certain acts for wages, operation, etc.

Transfers to ***non-financial entities and contributory organizations not classified in the general government*** amounted to 350,655,000 Euros, which represents almost 30.0% of the total amount of capital transfers. The highest figures were recorded in the chapters of the Ministry of Economy of

the SR (154,631,000 Euros), the Ministry of the Environment of the SR (145,507,000 Euros) and the Ministry of Agriculture and Rural Development of the SR (43,194,000 Euros).

The Ministry of Economy of the SR provided transfers to *another legal person* in the amount of 144,282,000 Euros. From this, under the Operational Program of Competitiveness and Economic Growth for Innovation and Technology Transfers (89,510,000 Euros) to support the deployment of innovative and advanced technologies to increase the competitiveness of industry and services, securing sustainable industrial production and achieving a level comparable to the EU countries and participation of Slovak producers at fairs, exhibitions, trade missions as part of a separate aid scheme. In terms of the Support for Business Activities in Tourism (33,913,000 Euros), transfers were provided to support the growth of the competitiveness of tourism in the area of provided services by supporting investment and non-investment activities in the private sector and support of building complex services with year-round use.

The Ministry of the Environment of the SR provided these transfers under sub-item to *other legal person* amounting to 131,936,000 Euros, in terms of the program of integrated protection and rational exploitation of water, to Západoslovenská vodárenská spoločnosť, a. s. (39,668,000 Euros), Stredoslovenská vodárenská spoločnosť, a.s. (13,963,000 Euros), Východoslovenská vodárenská spoločnosť, a.s. (9,212,000 Euros) and other water companies to build, complete and intensify sewerage and wastewater treatment plants. In terms of the program of air protection and minimization of adverse impacts of climate change, transfers were provided to heating companies in the total amount of 4,888,000 Euros especially on changes in production processes. In terms of the waste management program, funds were provided to Západoslovenská vodárenská spoločnosť, a.s. in the amount of 14,576,000 Euros for the project of the North Wastewater Treatment Plant.

The Ministry of Agriculture and Rural Development of the SR provided *other legal persons* with transfers under the measures: Support for investments in agricultural enterprises, support for investments for processing/marketing and development of agricultural products (construction, reconstruction and modernization of buildings, equipment, machinery and equipment related to the processing, storage and marketing of agricultural products, purchase of special lorries etc.), support for investments in the infrastructure related to the development, modernisation or adaptation of agriculture and forestry, aid for investment in the creation and development of non-agricultural activities, support for afforestation, aid for the prevention and restoration of forest damage caused by forest fires, and natural disasters and catastrophic events and support for forest renewal.

**Transfers to financial institutions** were provided by the Ministry of the Environment of the SR in the amount of 27,687,000 Euros to Slovenská záručná a rozvojová banka, Asset Management, a. s. under the program of sustainable use of natural resources through the development of environmental infrastructure (investment in the waste management sector) and in terms of the program of energy efficient low carbon economy in all sectors (promotion of energy efficiency and exploitation of renewable energy sources). The Ministry of the Interior provided funds in the amount of 3,393,000 Euros.

*Transfers to individuals and non-profit legal persons* were provided in the amount of 15,570,000 Euros (2015: 31,684,000 Euros), of which *non-profit legal persons* 8,639,000 Euros EUR (2015: 28,589,000 Euros). *Civic associations, foundations and non-investment funds* provided 5,120,000 Euros. This group of entities also includes *churches*, which were provided 997,000 Euros (2015: 2,684,000 Euros).

*Transfers abroad* amounted to 1,558,00 Euros (2015: 3,147,000 Euros), of which 1,297,000 Euros was the contribution of the Ministry of Foreign Affairs and European Affairs of the SR to the international organization for the construction of the NATO building in Brussels.

### 3.2.2 Expenditures according to functional classification

State budget expenditures according to the functional classification shall be classified in accordance with Decree of the Statistical Office of the Slovak Republic No. 257/2014 Coll. (so-called COFOG). This classification represents a breakdown of expenditures by function, the function being a certain area of activity that the organisation finances, for example, education, health and so on. Expenditures are assigned to the function they are associated with, regardless of the main subject matter of the organization itself.

Total expenditures according to functional classification are consistent with expenditures according to economic classification, only described in terms of the activity funded by state administration budgetary organizations. In case of a methodologically correct application of this classification, the justification for the fulfilment or exceeding the approved budget is the same as in Chapter 3.2.1.

State budget expenditures according to functional classification in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
General public services	3,346,439	3,611,678	3,513,411	3,107,621	-405,790	2.8
Defense	659,274	757,132	780,216	800,328	20,112	-3.0
Public order and security	1,462,222	1,773,727	1,518,717	1,801,271	282,554	16.8
Economic area	3,047,896	4,889,969	3,600,283	2,791,762	-808,521	35.8
Environmental protection	222,890	621,309	202,935	322,540	119,605	206.2
Housing and civic amenities	186,721	173,317	166,781	185,914	19,133	3.9
Health service	100,710	127,082	114,094	134,124	20,030	11.4
Recreation, culture and religion	300,786	336,886	296,802	332,321	35,519	13.5
Education	1,977,559	2,082,010	1,977,821	1,995,694	17,873	5.3
Social security	4,115,741	3,793,281	4,076,141	3,784,597	-291,544	-6.9
<b>Total</b>	<b>15,420,238</b>	<b>18,166,391</b>	<b>16,247,201</b>	<b>15,256,172</b>	<b>-991,029</b>	<b>11.8</b>

Source: Ministry of Finance of the SR

#### ▪ General public services

Expenditures on general public service accounted for 20.4% of the total state budget expenditures. These expenditures include general government funds for the activities of a defined circle of central government authorities, expenditures on government debt management, basic research, foreign

economic aid to developing countries and countries in the process of transformation, etc. The approved state budget amounted to 3,513,411,000 Euros, while the real expenditures amounted to 3,107,621,000 Euros. Compared to the previous year, expenditures decreased by 504,057,000 Euros. The most significant savings compared to the approved budget in 2016 were recorded in the General Treasury Administration in the amount of 630,538,000 Euros, of which 588,155,000 Euros in the executive and legislative bodies, financial and budgetary affairs and foreign relations. Exceeding the adjusted budget was recorded by the group of General Services by 25,239,000 Euros, of which 12,478,000 Euros belonged to the Government Office of the SR.

The largest amount of funds was spent in the area of executive and legislative bodies, finance and budget affairs, foreign relations (1,481,165,000 Euros), where contributions to the European Union budget based on value added tax and GNP reached 634,796,000 Euros in the General Treasury Administration. Expenditures of the Ministry of Finance of the Slovak Republic amounted to 429,003,000 Euros, of which the expenditures for the purchase, reconstruction and modernisation of the software were 128,643,000 Euros, expenditures on routine and standard maintenance of assets were 55,710,000 Euros, expenditures on the purchase of machinery, equipment, devices and tools amounted to 7,506,000 Euros.

In the area of the public debt transactions, the General Treasury Administration was used to draw expenditures worth 1,174,727,000 Euros.

#### ▪ **Economic area**

Expenditures in this section accounted for 18.3% of total expenditures. In the economic area, the expenditures related to the various types of transport and the construction of transport infrastructure, agriculture, forestry, fuel and energy sectors, mining of minerals, etc. are categorised. The approved budget amounted to 3,600,283,000 Euros, in reality it was lower by 808,521,000 Euros. The Ministry of Transport, Construction and Regional Development of the SR (1,370,394,000 Euros) and the Ministry of Agriculture and Rural Development of the SR (813,701,000 Euros) had the highest expenditures in this area.

In the *Transport* group, the actual expenses amounted to 1,311,722,000 Euros (2015: 2,674,382,000 Euros), compared to the approved budget, they decreased by 531,502,000 Euros. The increase in expenditures at the Ministry of Transport, Construction and Regional Development of the SR was affected in particular by the release of committed funds pursuant to Section 8 of Act No. 523/2004 Coll., i.e. it involved the release of unspent funds from previous years, as well as the release of EU funds and the corresponding co-financing.

In the *Agriculture, Forestry, Fisheries and Hunting* group, the reality achieved was 754,832,000 Euros (2015: 1,068,788,000 Euros), while it involved in particular the financing of EU operational programs.

In the *General Economic, Trade and Work* group, there was a decrease in the reality (571,183,000 Euros) compared to the approved budget of 182,324,000 Euros. The largest decrease occurred in

the chapter of the Ministry of Agriculture and Rural Development of the SR amounting to 247,873,000 Euros.

In the *Fuel and Energy* group, there was an increase of 14,533,000 Euros compared to the approved budget, of which the share of the increase of the Ministry of Economy of the SR was 65.6%, which involved the classic release of Section 8 on the payment unit.

- **Social security**

Expenditures in the section of social security accounted for 24.8% of total expenditures. These are state budget funds that are used to provide social protection in old age, to support families and children, social assistance to citizens in material and social need, sickness, disability and severe disability, etc. The approved budget amounted to 4,076,141,000 Euros, in reality it was lower by 291,544 Euros. The largest savings of 261,014,000 Euros was in the *Old age* group (social service facilities, other social services, contributions to non-government entities), to which the chapter of the General Treasury Administration contributed 269,665,000 Euros, where the savings in question were achieved due to improved premium collection from the economically active population compared to the projected assumption.

The second highest saving in the amount of 67,612,000 Euros were expenditures in the group *Social assistance to citizens in material and social need*, where the Ministry of Labor, Social Affairs and Family of the SR reported the highest savings (68,535,000 Euros). Lower expenditures than planned were mainly due to a decrease in the number of recipients of benefits in material needs.

- **Education**

Expenditures on education in 2016 accounted for 13.1% of total expenditures. In addition to funding all levels of education, expenditures were also used on services in education, for example meals, transport, medical care and the activities of bodies and organizations providing education. The approved budget was 1,977,821,000 Euros, the actual expenditures compared to the approved budget increased by 17,873,000 Euros. Compared to the previous year, expenditures decreased by 86,316,000 Euros. The highest expenditures were in the chapter of the Ministry of the Interior of the SR (1,147,587,000 Euros) and the chapter of the Ministry of Education, Science, Research and Sport of the SR (832,622,000 Euros). The highest expenditures were in the area of the non-classified education in the amount of 1,045,243,000 Euros, the secondary education in the amount of 481,279,000 Euros and tertiary education in the amount of 310,402,000 Euros.

The expenditures of the Ministry of Interior of the Slovak Republic were 104,437,000 Euros higher compared to the approved budget in accordance with the act on the budgetary rules of the general government, by the funds received from the pupils' statutory representatives from the partial reimbursement of the cost of the food and they were used to provide for catering facilities. The Ministry of the Interior of the SR reported the amount of 950,759,000 Euros, which significant expenditures from the state budget for transfers to a municipality to cover the costs of the delegated tasks of the state administration in the amount of 783,007,000 Euros, transfers to a church school in

the amount of 82,678,000 Euros, private school transfers in the amount of 66,522,000 Euros and capital transfers to a municipality in the amount of 7,137,000 Euros.

- **Public order and security**

The expenditures accounted for 11.8% of total expenditures. This is an area of activities of the state police, courts, imprisonment, fire protection as well as the financing of the central authorities that provide for these activities in terms of competence. The approved budget was 1,518,717,000 Euros, the reality was 282,554,000 Euros higher. Expenditures compared to the previous year increased by 27,544,000 Euros. A substantial part of the excess expenditures consist of *expenditures on public order and security* (121,247,000 Euros) and *police services* (112,352,000 Euros). The exceeding of these expenditures was caused in particular by the chapter of the Ministry of the Interior of the SR with expenditures on the acquisition of technical equipment and wage expenditures for a higher number of policemen.

- **Defense**

Expenditures in the section of defense accounted for 5.2% of total expenditures. These are mainly military and civil protection expenditures and foreign military assistance. The approved budget was 780,216,000 Euros, the reality was 20,122,000 Euros higher. Expenditures on *military defense* reached 763,294,000 Euros, of which the expenditures of the Ministry of Defense of the Slovak Republic amounted to 757,874,000 Euros, and of which EUR 246,740 were used for wages, and for the acquisition of goods and services 189,504,000 Euros.

- **Environmental protection**

Expenditures in this section accounted for 2.1% of total expenditures. Expenditures in the sector amounted to 322,540,000 Euros, as well as in the previous budget periods, they were spent on wastewater treatment (145,338,000 Euros) and waste management (92,820,000 Euros). Expenditures dropped by 298,769,000 Euros compared to the previous year.

- **Recreation, culture and religion**

Expenditures on recreation, culture and religion were implemented in the amount of 332,321,000 Euros, which represented an increase of 35,520,000 Euros compared to the approved budget. The largest part of the expenditures was in the chapter of the Ministry of Culture of the SR (228,102,000 Euros). The highest expenditure was in the area of *cultural services* in the total amount of 151,725,000 Euros.

- **Housing and civic amenities**

Expenditures in this section amounted to 185,914,000 Euros, of which a decisive contribution was by the Ministry of Transport, Construction and Regional Development of the SR (113,764,000 Euros). Expenditures were used to build and renovate the housing fund, for providing a subsidy for the insulation of a family house, for the State Housing Development Fund, a state premium for construction savings, a state allowance and state allowance for young people to mortgage loans, replacement rental flats, and research and development in the field of housing and civic amenities.



Expenditures on housing development amounted to 116,207,000 Euros, and expenditures on municipal development amounted to 68,757,000 Euros.

▪ **Health service**

Expenditures in this section accounted for 0.9% of the total expenditures. This section includes expenditures that include activities such as institutional and outpatient healthcare, public health services (blood bank operations, disease detection, epidemiological data collection). The Ministry of Health of the SR contributed the largest share of expenditures (116,719,000 Euros), which in the *group of Health Service Non-Classified* incurred expenditures amounting to 64,186,000 Euros, especially in the area of subsidies, drug issues, pharmaceuticals, informatics, the activities of the Inspectorate of Spas and Springs of the Ministry of Health of the SR, the National Monitoring Centre for Drugs and funds for expenditures granted for the provision of health care pursuant to Section 9 of Act of the National Council of the SR No. 580/2004 Coll. (homeless people). In the group *Protection, Support and Development of Public Health*, the Ministry of Health of the SR drew up to 31,573,000 Euros designated for regional public health offices and the Public Health Authority of the SR.

*A detailed overview of the state budget revenues according to functional specification is specified in table no. 11 of the table attachment of the national accounts.*

### **3.2.3 Relationship of the state budget to municipalities**

In 2016 the budgets of individual chapters provided to the budgets of municipalities the amount of 1,059,724,000 Euros in the form of current and capital grants and transfers, of which regular grants and transfers amounted to 882,555,000 Euros and capital grants and transfers amounted to 177,169,000 Euros. Compared to the reality of 2015, this is, in total, for all expenditure sources (including the EU and off-budget resources) an increase by 94,963,000 Euros, but from the state budget an increase of only 13,827,000 Euros.

Grants and transfers from source 111 - state budget were provided in the amount of 905,805,000 Euros. Of these, regular grants and transfers amounted to 864,012,000 Euros and capital grants and transfers amounted to 41,793,000 Euros. In terms of current transfers, the amount of 805,781,000 Euros was provided to finance the competencies of the delegated tasks of the state administration, namely in the chapters of the Ministry of Interior of the SR (799,334,000 Euros), the Ministry of Transport, Construction and Regional Development of the SR (6,436,000 Euros) and the Ministry of Foreign Affairs and European Affairs of the SR (11,000 Euros). Of this amount, the most funds went to education (783,007,000 Euros), the other to general public services (registry, population register) and the economic area for construction and road transport. For other activities provided by municipalities within their self-governing capacity, for example to support regional development, tourism, housing development, infrastructure renewal and the like, the expenditures were in the amount of 100,024,000 Euros.

A summary of grants and transfers provided to municipalities according to each section of the functional classification provides data in the following table:

<b>Grants and transfers provided to municipalities according to the functional classification sections in thousands of Euros</b>							
	Reality		Budget	Reality	of which: source 111*	Difference	
	2014	2015	2016	2016		in thousand s of Euros	in %
	1	2	3	4		6=4-3	7 = 4-3
General public services	35,523	31,643	17,251	19,325	17,466	2,074	12.0
Public order and security	3,896	3,200	355	1,509	1,114	1,154	325.1
Economic area	114,993	292,166	152,682	55,056	8,958	-97,626	-63.9
Environmental protection	72,543	107,704	0	26,397	55	26,397	x
Housing and civic amenities	54,856	53,858	18,809	94,869	30,541	76,060	404.4
Health service	734	3,340	0	868	4	868	x
Recreation, culture and religion	6,285	6,410	2,000	5,103	4,103	3,103	155.2
Education	714,735	760,683	718,114	796,447	791,388	78,333	10.9
Social security	52,178	52,573	55,508	60,150	52,176	4,642	8.4
<b>Total</b>	<b>1,055,743</b>	<b>1,311,577</b>	<b>964,719</b>	<b>1,059,724</b>	<b>905,805</b>	<b>95,005</b>	<b>9.8</b>

Comment: \* only state budget resources

Source: Ministry of Finance of the SR

The large differences between the approved budget and the reality were recorded in the economic area (by 97,626,000 Euros) at the Ministry of Agriculture and Rural Development of the SR, in the housing and civic amenities (76,060,000 Euros) at the Ministry of Economy of the SR and they are explained below under the relevant chapters.

Grants and transfers from individual budget chapters were provided to municipal budgets in the following breakdowns:

<b>Grants and transfers provided to municipalities according to the chapters of the state in thousands of Euros</b>							
	Reality		Budget	Reality	of which: source 111*	Difference	
	2014	2015	2016	2016		in thousand s of Euros	in %
	1	2	3	4		6=4-3	7 = 4-3
Ministry of Interior of the SR	744,498	771,199	732,076	814,307	808,828	82,231	11.2
Ministry of Economy of the SR	11,554	28,917	3,746	64,328	0	60,582	1,617.2
Ministry of Labor, Social Affairs and Family of the SR	63,196	68,692	55,509	61,946	52,170	6,437	11.6
Ministry of Transport, Construction and Regional Development of the SR	56,976	133,883	20,214	42,990	34,829	22,776	112.7
Ministry of Agriculture and Rural Development of the SR	72,482	134,400	144,830	32,084	0	-112,746	-77.8
Ministry of Environment of the SR	76,720	127,089	0	30,390	0	30,390	x
General treasury administration	16,322	17,293	4,700	8,324	7,324	3,624	77.1
Government Office of the SR	2,848	8,477	50	1,761	719	1,711	3,422.0
Ministry of Culture of the SR	3,583	3,154	0	1,717	1,717	1,717	x
Ministry of Health of the SR	734	3,340	0	868	4	868	x
Ministry of Finance of the Slovak	0	3,902	0	735	0	735	x

Republic							
Ministry of Education, Science, Research and Sports of the SR	6,825	11,231	3,594	232	172	-3,362	-93.5
Ministry of Foreign Affairs and European Affairs of the SR	5	0	0	42	42	0	0.0
<b>Total</b>	<b>1,055,743</b>	<b>1,311,577</b>	<b>964,719</b>	<b>1,059,724</b>	<b>905,805</b>	<b>94,963</b>	<b>9.8</b>

Comment: \*only state budget resources

Source: Ministry of Finance of the SR

The **Ministry of the Interior of the Slovak Republic** contributed the largest amount to the total amount of grants and transfers provided to municipalities, which for this purpose spent 814,307,000 Euros, which is compared to the approved 82,231,000 Euros. Of the total amount, 799,334,000 Euros was spent to cover the costs of the delegated tasks of state administration in the education sector. These funds were mainly intended to provide education and training in primary and secondary schools and to provide for their operation (722,798,000 Euros). Other funds were used to cover the costs of education vouchers, teacher assistance, reconstruction and accident handling, transport, ski trainings, construction of barrier-free schools, registrar activities and others.

In the budget chapter of the **Ministry of Economy of the SR**, funds were spent in the amount of 64,328,000 Euros in terms of the financing of projects of the Operational Program of Competitiveness and Economic Growth for the reconstruction and modernization of public lighting for cities and municipalities. The approved budget was significantly increased through an adjustment due to the reallocation of funds from other measures of the Operational Program of the Competitiveness and Economic Growth.

The **Ministry of Labour, Social Affairs and Family of the Slovak Republic** provided a total amount of 61,946,000 Euros. Of which the sum of 40,555,000 Euros was designated for 185 towns and municipalities to co-finance social services for 361 social services facilities (in particular facilities for seniors, nursing facilities, day care centres, social care homes, shelters, dormitories and other), and 11,154,000 Euros to support the upbringing of dietary habits and the fulfilment of the schooling obligations of a child at risk of social exclusion, to secure the performance of a specific beneficiary and to provide institutional care in non-state facilities.

In the chapter of the **Ministry of Transport, Construction and Regional Development of the SR** in the form of grants and transfers for municipalities the funds were provided in the total amount of 42,990,000 Euros. Of these, the amount of 25,652,000 Euros was directed to the acquisition of rented apartments and their technical equipment, the amount of 7,551,000 Euros for the construction of infrastructure of integrated transport systems in Bratislava and Košice, the amount of 6,436,000 Euros for activities in the area of transport and construction order, the amount of 1,062,000 Euros to support the development of the least developed districts and others.

In the budget chapter of the **Ministry of Agriculture and Rural Development of the SR**, the originally approved budget of 144,830,000 Euros was adjusted to the reduced amount of 32,084,000 Euros and in this amount the funds were also transferred to municipalities in the form of grants and transfers. The budget adjustment was mainly due to the end of the possibility of disbursing funds under the 2nd programming period of 2007-2013 from the European Regional

Development Fund and also by not implementing the estimated assessment of expenditures under the 3rd programming period 2014-2020 due to the absence of calls. Unabsorbed budget expenditures in 2016 were tied by the budget measure of the Ministry of Finance of the SR until 2017.

The most significant current expenditures were the payments of VAT paid to municipalities as current transfers from the state budget of the SR from previous years under the Rural Development Program of the SR 2007-2013 for the measures of Basic Services and Renewal in Rural Areas in the total amount of 3,177,000 Euros. Of the actually capital expenditures, the most significant payments were made from the European Regional Development Fund. More specifically, within the Regional Operational Program 2007-2013, the amount of 20,735,000 Euros was paid for measures: education infrastructure, social services infrastructure, social and legal protection and social guardianship, strengthening the cultural potential of the regions, regeneration of settlements and regional communications ensuring the transport services of the regions. Under the Rural Development Program 2014-2020, municipalities were provided with funds in the total amount of 4,034,000 Euros for the measures: support for infrastructure investments related to the development, modernization or adaptation of agriculture and forestry, support for afforestation and restoration of forests damaged by forest fires and natural disasters. In terms of the operational program of the Bratislava Region 2007-2013, the municipalities received 1,072,000 Euros for measures: regeneration of settlements, regional and urban mass transportation and information society.

From the chapter of the **Ministry of the Environment of the SR**, the municipalities received the amount of 30,390,000 Euros. The highest amount of 25,206,000 Euros went to reimbursement of project expenditures under the operational program of Environment. These were, for example, the following projects: sewage and waste water treatment plants in Selice and Dobšiná, completion of sewerage network in Gabčíkovo, sewage and water supply for Modrý Kameň, construction of sewage network in Kútники and Lužianky and many others. Another amount of 4,082,000 Euros was designated for projects of the Environmental Quality Operational Program, in particular the sewage and waste water treatment plant in Čierny Balog, the reduction of the energy requirements of the building of the Liptovský Mikuláš City Hall and others.

In the chapter of the **General Treasury Administration** the municipal subsidies were approved in the total amount of 4,700,000 Euros. In reality funds were provided to municipalities in the total amount of 8,324,000 Euros including 3,000 Euros returned as unabsorbed funds in the year in which they were provided. The subsidies were provided to municipalities for the individual needs of the municipalities, for the rescue and restoration of cultural monuments, for activities improving the socio-economic situation and others.

According to Act No. 564/2004 Coll. on the Budget Determination of the Revenue on the Income Tax from the Income of Local-Self Government in 2016, the budget revenue of the local government tax revenue was 70.0% (68.5% in 2015) of the total personal income tax. The actual transfer of personal income tax to municipal budgets by the tax authorities was made in the amount

of 1,671,614,000 Euros including the settlement for the previous year (1,471,699,000 Euros in 2015).

An overview of the binding limits of subsidies to municipalities for 2016 is specified in the table part of the national accounts of the SR, in table no. 20.

### 3.2.4 Relationship of the state budget to higher territorial units

In 2016 the budgets of individual chapters provided to the budgets of higher territorial units provided the amount of 446,180 Euros in the form of current and capital grants and transfers, of which regular grants and transfers amounted to 416,527 Euros and capital grants and transfers amounted to 29,653,000 Euros. Compared to the previous two years, this is the least, compared to 2015 a decrease of 36,580,000 Euros.

Grants and transfers from source 111 - the state budget were provided from individual chapters in the total amount of 415,258,000 Euros, of which regular grants and transfers in the amount of 413,424,000 Euros and capital grants and transfers in the amount of 1,834,000 Euros. Almost the total amount of the state budget (410,791,000 Euros) was intended to finance the competencies of the delegated tasks of state administration in the context of current transfers, namely in the chapter of the Ministry of Education, Science, Research and Sport of the SR. These funds were intended to finance the competencies of the delegated tasks of the state administration in the field of education and certain activities provided by the higher territorial units within their self-governing competence.

A summary of grants and transfers provided to higher territorial units according to each section of the functional classification provides data in the following table:

Grants and transfers provided to higher territorial units according to the sections of functional classification in thousands of Euros							
	Reality		Budget	Reality		Difference	
	2014	2015	2016	2016	of which: source 111*	in thousand s of Euros	in %
	1	2	3	4	5	6=4-3	7 = 4-3
General public services	5,751	1,860	10	4,379	134	4,369	43,690.0
Public order and security	1	8	0	23	23	23	x
Economic area	40,988	55,997	0	24,420	509	24,420	x
Environmental protection	2,048					x	x
Health service		500				x	x
Recreation, culture and religion	3,072	5,204	0	3,465	959	3,465	x
Education	409,874	417,266	434,581	412,059	411,799	-22,522	-5.2
Social security	1,780	1,925	0	1,834	1,834	1,834	x
<b>Total</b>	<b>463,514</b>	<b>482,760</b>	<b>434,591</b>	<b>446,180</b>	<b>415,258</b>	<b>11,589</b>	<b>2.7</b>

Comment: \*only state budget funds

Source: Ministry of Finance of the SR

### 3.2.5 Drawing of state budget reserves

Pursuant to Section 10 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts as amended, to cover unforeseen expenditures necessary to ensure budget management or to cover the reduction of budgeted revenues budgetary reserves in the state budget are created.

The National Council of the Slovak Republic, through Act No. 411 of 20 November 2015 on the State Budget for 2016, approved the amount of statutory reserves as follows:

<b>Statutory reserves released by a payment order in thousands of Euros</b>						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Reserve of the Government of the SR	2,050	0	5,000	19	-4,981	-99.6
Reserve of the Prime Minister of the SR	2,388	5,620	1,500	3,060	1,560	104.0
Reserve for EU funds and EU contributions	0	1,809	4,700	11,109	6,409	136.4
<b>Total</b>	<b>4,438</b>	<b>7,429</b>	<b>11,200</b>	<b>14,188</b>	<b>2,988</b>	<b>26.7</b>

Source: Ministry of Finance of the SR

#### ▪ Reserve of the Government of the Slovak Republic

The Reserve of the Government of the Slovak Republic is budgeted to cover unforeseen and extraordinary needs related to ensuring fulfilment of the internal and external tasks of the Slovak Republic. Its use is decided by the Government of the Slovak Republic on the proposal of the Minister of Finance. The total amount of 258,000 Euros was released from the reserve of the government of the SR, of which, by means of payment orders, the amount of 19,000 Euros and in the form of budgetary measures, the amount of 239,000 Euros.

Pursuant to the Resolution of the Government of the SR No. 524 of 23 November 2016 to secure the state funeral of the former President of the SR Michal Kováč, the amount of 19,000 Euros was paid to the Capital City of Bratislava and through budgetary measures the amount of 71,000 Euros to the Office of the President of the SR, 27,000 Euros to the Ministry of Culture of the SR and 21,000 Euros to the Ministry of Defense of the SR.

Pursuant to Resolution of the Government of the SR No. 474 of 12 October 2016 the amount of 120,000 Euros was released by means of a budget measure as a contribution to the survivors of the victims of a tragic accident of the emergency rescue service helicopter near Strelníky.

#### ▪ **Reserve of the Prime Minister of the Slovak Republic**

The Reserve of the Prime Minister of the SR in accordance with Section 10(3) of the Act on the Budgetary Rules of the Public Administration is budgeted and reported in the budget chapter of the Office of the Government of the Slovak Republic. The Prime Minister decides on the use of funds.

The approved budget of the reserve of the Prime Minister of the SR in the amount of 1,500,000 Euros was increased by adjustments to the amount of 3,079,000 Euros. In total, the beneficiaries, which were mainly non-profit organizations, municipalities and towns, were provided 3,123,000 Euros by a payment order of 3,060,000 Euros and by budget measures 63,000 Euro.

#### ▪ **Reserve for EU funds and EU contributions**

**The reserve for EU funds and EU contributions** was budgeted for 2016 in the amount of 4,700,000 Euros. Funds from the reserve in 2016 were intended for additional expenditures related to the financing of joint programs, streamlining the financial management system for EU funds and other financial instruments and bank charges related to contributions to the general budget of the EU. Over the course of the year, the EU Reserve and EU contributions increased by 11,500,000 Euros. During the year 2016, the reserve was drawn by means of payment orders in the amount of 11,109,000 Euros. The reserve balance of 2016 in the amount of 5,141,000 Euros together with the deferred funds from the previous years in the amount of 47,585,000 Euros was, in accordance with Act No. 523/2004 Coll. on the Budgetary Rule committed to use in the coming years in a total amount of 52,726,000 Euros.

### **3.3 State financial assets**

State financial assets or state financial liabilities are part of the draft state budget for the year in question. Financial operations with state financial assets and other operations that affect the balance of the state financial assets are not part of the state budget revenues and state budget expenditures. The administration of the state financial assets and the state financial liabilities is carried out by the Ministry of Finance of the SR within the scope of the budgetary rules act, with some transactions requiring government approval and some also approval by the National Council of the SR<sup>11</sup>.

Under the Budgetary Rules Act, the state financial assets include:

- the state money generated from the results of budget management of the state budget from previous years;
- the state funds from the repayment of principals of granted repayable financial assistances, loans and credits;
- state ownership interests;
- funds in the treasury and on the current accounts of state budgetary organizations and state contributory organizations, and a levy for the violation of financial discipline when dealing with state financial assets;
- state-owned securities;

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<sup>11</sup> Section 13 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts as amended.

- state receivables from reimbursable financial assistance, loans and credits;
- other funds at the discretion of the Government or the National Council.

The state financial liabilities consist of:

- liabilities from issued state securities (bonds, treasury bills);
- liabilities from received government credits;
- liabilities of state contributory organisations arising from credit relations.

The state financial assets are kept on separate off-budget accounts in the treasury and their balance is always transferred to the next financial year. In addition to funds arising from government debt management operations, the decisive dividends from state-owned companies are transferred from the former National Property Fund, the income from the sale of shares in state-owned companies, the special levy of selected financial institutions<sup>12</sup> and a special levy on carrying out business in regulated sectors<sup>13</sup>. The income financial operations of the state financial assets include repayments of principals from repayable financial assistance. On the contrary, expenditures represent a transfer of funds to the state budget for the implementation of budgetary expenditures, while their impact on the balance of the state financial assets is neutral. The financial operations on the expenditure side of state financial assets also include the provision of repayable financial assistance, the payment of shares in the registered capital of foreign financial institutions (such as the European Investment Bank) and other transactions. The following overview of state financial assets is cleared off accounts that are used for state debt operations.

<b>Selected accounts of state financial assets in thousands of Euros</b>			
	<b>Reality</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Status of as 1 January</b>	<b>1,023,082</b>	<b>1,006,865</b>	<b>2,123,062</b>
<b>Revenues</b>	<b>1,199,267</b>	<b>1,320,393</b>	<b>224,597</b>
of which:			
purpose committed funds from the National Property Fund	267,361	808,872	5,107
repayment of repayable financial assistance principals	488,199	117,372	9,141
special contribution of financial institutions	153,191	110,289	119,772
special contribution from business in regulated sectors	158,082	283,713	82,252
anonymous deposits	106	113	30
other	132,328	34	8,295
<b>Expenditures</b>	<b>1,215,484</b>	<b>204,196</b>	<b>389,208</b>
of which:			
purpose committed funds from the National Property Fund	548,734	134,490	36,483
granting of repayable financial assistance	534,400	49,700	2,500
special contribution of financial institutions	0	20,000	0
special contribution from business in regulated sectors	0	0	350,000
anonymous deposits	509	0	8
other	131,841	6	217
<b>Status as at 31 December</b>	<b>1,006,865</b>	<b>2,123,062</b>	<b>1,958,451</b>

<sup>12</sup> Act no. 384/2011 Coll. on the special levy of selected financial institutions and on amending and supplementing certain acts as amended.

<sup>13</sup> Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries and on amending and supplementing certain acts as amended.



The budgeted revenues of the state financial assets for 2016 were lower compared to 2015, mainly due to dividends and asset sales. Due to the transfer of shareholder rights from the former National Property Fund to the Ministry of Economy of the SR, the dividends of selected state-owned companies represent state budget revenues at the level of this chapter. Lower dividends were also budgeted due to the last year's sale of the interest in Slovak Telekom, a.s. For 2016 at the same time no revenue from the sale of state assets was budgeted.

*A levy for financial institutions* contributes to creating mechanisms for the involvement of these financial institutions in the cost of future financial crises in the banking sector, ensuring a fair burden sharing and to prevent large taxpayers expenses, government and economy spending in resolving financial crises, stimulating selected financial institutions to limit systemic risks and safeguarding the stability of the financial sector of the Slovak Republic. The 2016 budget assumed revenues from this levy of 113,806,000 Euros, which is by 9,218,000 Euros more than in 2015. In reality the revenues of 119,772,000 were achieved. Higher revenues from the levy were due to the growth of the base (bank deposits) as well as an increase in the effective tax rate.

*Revenues from a special levy on business in regulated industries* serve to create a targeted specific portion of the state financial assets which can be used to finance priority projects to kick-start economic growth and employment. The 2016 budget assumed revenues of 76,447,000 Euros, which is by 3,401,000 Euros more than in 2015. The actual receipts on the account of the state financial assets under this special levy amounted to 82,252,000 Euros.

The *revenues from repayment of repayable financial assistance* was budgeted in the total amount of 15,023,000 Euros. In particular, revenues from the repayment of repayable financial assistance provided to the city of Žilina were budgeted in the amount of 11,733,000 Euros, and from the repayment of repayable financial assistance provided to MH Invest, s. r.o. in the amount of 2,720,000 Euros. The actual revenues from the repayable financial assistance provided were 9,141,000 Euros, of which from the repayment of the financial assistance to the city of Žilina 8,621,000 Euros, from the repayment of the assistance to the city of Košice 500,000 Euros and the repayment of the financial assistance to the municipality of Lúbotice 20,000 Euros.

On the expenditure side, for 2016, the transfer of funds from dividends from the National Property Fund to the state budget was budgeted at 47,000 Euros, deposit with international financial institutions in the total amount of 4,080,000 Euros and the provision of another tranche of 8,000,000 Euros from the repayable financial assistance to the city of Košice. The budgeted expenditures and expenditure financial operations of the state financial assets were down by 29,712,000 Euros year-to-year due to planned expenditures on strengthening the registered capital of some state-owned companies in 2015, while for 2016 no spending titles were planned.

In reality expenditures from the state financial assets were made in the amount of 389,208,000 Euros. *The repayable financial assistance account* provided on the basis of the Resolution of the Government No. 118/2016 to the city of Martin 2,500,000 Euros to provide for the city's self-governing functions, which have been threatened by a legal dispute.

The total amount of 350,000,000 Euros was released *from the state financial assets account for the special levy on business in the regulated industries*, of which for the increase the capital of MH Invest, s.r.o. due to the preparation of the industrial park for the Jaguar Land Rover investor 130,000,000 Euros and 220,000,000 Euros to increase the registered capital of the National Motorway Company for the purpose of securing projects for the construction of the motorway infrastructure and expressways.

*From the account of special purpose funds of the National Property Fund*, funds were further provided to increase the registered capital of MH Invest II, s.r.o. in the amount 25,802,000 Euros (the company repaid a part in the amount 5,056,000 Euros in 2016, of which EUR 2,454,000 Euros to Veľká Ida and 2,602,000 Euros to the Nitra industrial park), 7,326,000 Euros was used to provide a repayable financial assistance in the volume of 3,000,000 Eur to Pavel Šafárik University in Košice to restore the damaged property of the university after a devastating fire.

### **3.4 Relations of the state budget with the EU**

**The revenues of the Slovak Republic from the EU budget** are made up of foreign transfers and foreign grants provided from the EU budget. Revenues from foreign transfers were budgeted in the state budget for 2016 in the amount of 2,143,158,000 Euros. The budget for foreign transfers was adjusted to the level of 1,939,785,000 Euros. The actual implementation of the Slovak Republic's revenues from the EU budget in the amount of 1,947,481,000 Euros, of which revenues for foreign transfers were 1,939,785,000 Euros and revenues for foreign grants provided from the EU budget in the amount of 7,696,000 Euros.

**Levies and contributions to the EU general budget** include contributions to the EU budget and contributions to the European Development Fund. Levies and contributions of the Slovak Republic to the EU general budget were budgeted for 2016 in the amount of 841,480,000 Euros.

*Payments for traditional own resources* (75% or 80%<sup>14</sup> from the collection of duties and levies and fees in the sugar sector) were budgeted in the amount of 104,200,000 Euros. During the year 2016, the Slovak Republic contributed the amount of 94,602,000 Euros.

*Other contributions to the EU budget* were budgeted in the State Treasury in the chapter of the General Treasury Administration (VAT based source, GNP based source, the share of Slovakia following the UK correction, the share of Slovakia for corrections for Denmark, the Netherlands, Sweden and Austria, retroactive effect of the new decision on own EU funds for the Slovak Republic contributions in 2014 and 2015 and the impact of the change in the costs on the collection of traditional own resources for 2016) in the amount of 726,719,000 Euros. These were reduced by budget measures in the course of 2016 to 637,725,000 Euros. The final contribution of own funds budgeted in the chapter of the General Treasury Administration amounted to 634,796,000 Euros.

*Contributions of the Slovak Republic to the European Development Fund (EDF)* were budgeted in the amount of 10,561,000 Euros, while the implementation reached the amount of 10,505,000

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<sup>14</sup> On 1 October 2016, the Council Decision 2014/335/EU, Euratom of 26 May 2014 on the European Union's system of own resources came into effect, according to which 80% of the selected traditional own resources is the revenue of the general budget of the EU, and the remaining 20% are retained by the member states to cover the cost of their collection.

Euros. The actual amount of the Slovak Republic's contribution depends on the absorption capacity of the EU's development aid in the beneficiary states of Africa, the Caribbean and the Pacific, the overseas countries and territories.

At the same time, it should be noted that in 2016 the Slovak Republic transferred to the EU general budget a contribution to the Refugee Facility in Turkey in the amount of 3,113,000 Euros (covered by the chapter of the Ministry of Foreign Affairs and European Affairs of the SR).

Prehľad o odvodoch a príspevkoch SR do všeobecného rozpočtu EÚ za rok 2016 je uvedený v nasledovnej tabuľke:

Revenues from the EU budget and levies and contributions to the EU general budget in thousands of Euros						
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Traditional own resources	95,499	88,910	104,200	94,602	-9,598	-9.2
Payments of the SR to the EU budget without traditional own resources	683,264	599,458	726,719	634,796	-91,923	-12.6
<b>Payments to the EU budget total</b>	<b>778,763</b>	<b>688,368</b>	<b>830,919</b>	<b>729,398</b>	<b>-101,521</b>	<b>-12.2</b>
Contributions of the SR to the European Development Fund	6,603	7,140	10,561	10,505	-56	-0.5
<b>Payments and contributions of the SR total</b>	<b>785,366</b>	<b>695,508</b>	<b>841,480</b>	<b>739,903</b>	<b>-101,577</b>	<b>-12.1</b>
Foreign transfers*	1,257,505	4,280,041	2,143,158	1,939,785	-203,373	-9.5
Foreign grants from the EU budget	7,586	8,832	0	7,696	7,696	-
<b>Revenues from the EU budget</b>	<b>1,265,091</b>	<b>4,288,873</b>	<b>2,143,158</b>	<b>1,947,481</b>	<b>-195,677</b>	<b>-9.1</b>
<b>Net financial position</b>	<b>479,725</b>	<b>3,593,365</b>	<b>1,301,678</b>	<b>1,207,578</b>	<b>-94,100</b>	<b>-7.2</b>

\*The real amount for 2016 is based on the source of the EU funds. In terms of the economic classification, the difference compared to the statements from the state treasury is 2,000 Euros.

Source: Ministry of Finance of the SR

On the basis of implemented revenues from the EU budget in 2016 in the amount of 1,947,481,000 Euros and levies and contributions to the EU general budget in the amount of 739,903,000 Euros, **the net financial position of the Slovak Republic towards the EU budget for 2016 represents the amount of 1,207,578,000 Euros**, which represents a year-to-year decrease of 2,385,787,000 Euros. Significant year-to-year decline in the net financial position was due to the historically highest fulfilment of revenues from the EU budget in 2015, which was a key year for absorbing the second programming period 2007-2013.

The overview of the annual revenues from the EU budget and the levies and contributions of the Slovak Republic to the general EU budget is presented in the following table:

<b>The overview of the annual revenues from the EU budget and the levies and contributions of the SR to the general EU budget</b>			
<b>in thousands of Euros</b>			
<b>Year</b>	<b>Total revenues</b>	<b>Total payments and contributions</b>	<b>Net financial position</b>
2004	303,990	290,689	13,301
2005	704,993	485,614	219,379
2006	893,623	526,326	367,297
2007	910,838	589,800	321,038
2008	893,497	643,374	250,123
2009	1,119,659	695,726	423,933
2010	1,672,483	627,529	1,044,954
2011	2,041,093	704,656	1,336,437
2012	2,137,849	722,831	1,415,018
2013	2,185,358	825,098	1,360,260
2014	1,265,091	785,366	479,725
2015	4,288,873	695,508	3,593,365
2016	1,947,481	739,903	1,207,578
<b>Total</b>	<b>20,364,828</b>	<b>8,332,420</b>	<b>12,032,408</b>

Source: Ministry of Finance of the SR

For the period from the accession of the Slovak Republic to the EU, the budget of the Slovak Republic received revenues from the EU in the amount of 20,364,828,000 Euros and the Slovak Republic transferred the amount of 8,332,420,000 Euros to the EU general budget resulting in the **net financial position towards the EU of 12,032,408,000 Euros**. Since 2004, the Slovak Republic received from the EU budget 2.4 times the funds it contributed to the EU budget.

### **3.4.1 Revenues from the EU budget**

Revenues from the EU budget are budgeted as foreign transfers. The approved budget for revenues from foreign transfers for 2016 amounted to 2,143,158,000 Euros. The real revenues from the EU budget also include revenues from foreign grants, which are not budgeted as it is not possible to predict their amount from individual providers. The actual implementation of the Slovak Republic's revenues from the EU budget amounted to 1,947,481,000 Euros, of which revenues for foreign transfers were 1,939,785,000 Euros and revenues for foreign grants 7,696,000 Euros.

**Revenues from foreign transfers** are budgeted within individual chapters at the level of payment units, the Agricultural Paying Agency and the Ministry of Labour of Social Affairs and Family of the SR for the Fund for Aid to the Most Deprived. The funds were budgeted for the 2nd and 3rd programming periods, namely for the structural funds, the Cohesion Fund and the agricultural funds.

In 2016 the budget of revenues from the EU funds was adjusted to the level of 1,939,785,000 Euros. The adjustments were made in connection with the settlement of funds for financial corrections pursuant to Section 15 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration, in connection with the received notifications on the amount of funds to be used in the following years pursuant to Section 8 of Act No. 523/2004 Coll. on the Budgetary Rules of the

Public Administration and in connection with other commitments pursuant to Section 18 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration.

The actual fulfilment of revenues from foreign transfers in the amount of 1,939,785,000 Euros represents the fulfilment on the level of 100% of the adjusted budget. Revenues from the structural funds and the Cohesion Fund amount to 1,410,889,000 Euros, which represents fulfilment on the level of 72.7% of the achieved revenues from foreign transfers. Revenues from the agricultural funds were in the amount of 528,896 Euros, which represents fulfilment on the level of 27.3% of the achieved revenues from foreign transfers.

The actual fulfilment of revenues from the structural funds and the Cohesion Fund was negatively impacted by the 95% cut-off rate by the EC in the 2nd programming period due to the completion of implementation, which was the cause of not fulfilling the revenues of payment units for aggregate payment requests in the amount of 355,919,000 Euros. By sending the final documentation by the Slovak Republic to the Commission as at 31 March 2017, the process of concluding the 2nd programming period 2007 - 2013 began. The conclusion of the 2nd programming period is foreseen in the coming years, after the EC has verified the documentation and endorsed the final calculation for the programs. After receiving the final payments from the EC, payments to the state budget will be made subsequently.

The real fulfilment of **revenues from foreign grants** provided from the EU budget in 2016 was in the amount of 7,696,000 Euros. Foreign grants include exclusively foreign grants provided from the EU budget, the provision of which is managed by the EU in a centralized manner. These revenues mainly from foreign grants from the EU budget were used in particular for cross-border cooperation programs, programs in the area education, research, transport infrastructure projects and security, migration and border control.

The overview is stated in the following table:

Implementation of revenues from the EU budget	Reality				Budget	Reality	in thousands of Euros	
	2014		2015		2016	2016	Difference	
							in thousands of Euros	
	1	2	3	4	5=4-3	6=4-3		
Agricultural funds 2nd programming period	127,513	196,217	1,800	311	-1,489	-82.7		
Agricultural funds 3rd programming period	378,241	427,555	709,510	528,585	-180,925	-25.5		
<b>Agricultural funds total</b>	<b>505,754</b>	<b>623,772</b>	<b>711,310</b>	<b>528,896</b>	<b>-182,414</b>	<b>-25.6</b>		
Structural funds 2nd programming period	447,149	2,042,872	123,453	632,162	508,709	412.1		
Structural funds 3rd programming period	0	0	605,636	317,509	-288,127	-47.6		
Cohesion fund 1st programming period	56,036	9,209	0	0	0	-		
Cohesion fund 2nd programming period	248,566	1,604,188	35,751	221,269	185,518	518.9		

Cohesion fund 3rd programming period	0	0	660,005	239,949	-420,056	-63.6
ETC programs 3rd programming period (Certification Body of the MF of the SR)*	0	0	7,003	0	-7,003	-100.0
<b>Structural operations total</b>	<b>751,751</b>	<b>3,656,269</b>	<b>1,431,848</b>	<b>1,410,889</b>	<b>-20,959</b>	<b>-1.5</b>
Foreign transfers total	1,257,505	4,280,041	2,143,158	1,939,785	-203,373	-9.5
Foreign grants from the EU budget	7,586	8,832	0	7,696	7,696	-
<b>Revenues from the EU budget</b>	<b>1,265,091</b>	<b>4,288,873</b>	<b>2,143,158</b>	<b>1,947,481</b>	<b>-195,677</b>	<b>-9.1</b>

Source: Ministry of Finance of the SR

*\*Interreg VA VA-2014-2020, Interreg VA SK-HU 2014-2020 and Interreg VA SK-CZ 2014-2020 are included in the category of European Territorial Cooperation programs, i.e. EUS (Certification Body of the MF of the SR), as in the preparation of the 2016 budget it was assumed that the Slovak Republic will fulfil the role of the certification body in these programs. During 2016, the certification body of the Interreg VA SK-HU 2014-2020 program changed. Upon agreement by the countries, the role of the certification body will be fulfilled by the Republic of Hungary.*

### 3.4.2 State budget expenditures budgeted in relation to revenues from the European Union

In connection with the EU revenues, the state budget specifies the expenditures for the EU funds and the corresponding expenditures on the co-financing costs from the state budget.

#### Expenditures from EU funds

Expenditures from the EU funds for 2016 were budgeted at 2,143,158,000 Euros, i.e. the same as the EU budget. The actual implementation of EU expenditures amounts to 1,753,284,000 Euros.

Contrary to the approved budget of expenditures from the EU funds, which were allocated by the state budget act for 2016 for chapters in which payment units are located, the Agricultural Paying Agency and the Ministry of Labour, Social Affairs and Family of the SR for the Fund for Aid to the Most Deprived, the real absorption of expenditures is also reflected in budget chapters in which projects are implemented at the level of final beneficiaries. On the basis of thereof, negative balances of revenues and expenditures for the EU funds are reflected in some chapters.

The budget of expenditures for EU funds was adjusted in 2016 in connection with the settlement of funds for financial corrections pursuant to Section 15 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration, in connection with the received notifications on the amount of funds to be used in the following years pursuant to Section 8 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and in connection with other commitments pursuant to Section 18 of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration.

After adjustments, the budget reached 1,753,200,000 Euros, while the total spending on EU funds in 2016 was slightly higher, amounting to 1,753,284,000 Euros.

Expenditures for the EU structural funds in 2016 for structural operation of the 2nd programming period is slightly higher than the adjusted budget and amounted to 662,931,000 Euros. The higher absorption of expenditures compared to the adjusted budget was reflected in the chapters of the Ministry of Culture of the SR, the Ministry of Education, Science, Research and Sport of the SR

and the Slovak Academy of Sciences, given that the individual budgetary organizations received funds from the main partners of the projects to the off-budget account pursuant to Section 23(1)(c) of Act No. 523/2004 Coll. on the Budgetary Rules of the Public Administration and on amending and supplementing certain acts as amended.

The actual fulfilment of expenditures for the EU funds in the amount of 1,753,284,000 Euros represents the fulfilment on the level of 100% of the adjusted budget. The EU expenditures from the structural funds and the Cohesion Fund amount to 1,224,630,000 Euros, which represents performance on the level of 69.8% of the achieved expenditures of the EU. The EU expenditures from the agricultural funds and the Cohesion Fund were in the amount of 528,654 Euros, which represents performance on the level of 30.2% of the achieved expenditures of the EU.

Expenditures on EU funds			in thousands of Euros					
			Reality		Budget	Reality	Difference	
			2014	2015	2016	2016	in thousands of Euros	in %
			1	2	3	4	5=4-3	6=4-3
Agricultural funds	2nd	programming period	127,536	238,439	1,800	333	-1,467	-81.5
Agricultural funds	3rd	programming period	378,240	431,864	709,510	528,321	-181,189	-25.5
<b>Agricultural funds total</b>			<b>505,776</b>	<b>670,303</b>	<b>711,310</b>	<b>528,654</b>	<b>-182,656</b>	<b>-25.7</b>
Structural funds	2nd	programming period	975,191	2,111,069	123,453	413,478	290,025	234.9
Structural funds	3rd	programming period	0	9,326	605,636	333,018	-272,618	-45.0
Cohesion fund	2nd	programming period	532,547	1,499,918	35,751	249,454	213,703	597.8
Cohesion fund	3rd	programming period	0	29,750	660,005	228,680	-431,325	-65.4
ETC programs	3rd	programming period (Certification body of the MF of the SR)	0	0	7,003	0	-7,003	-100.0
<b>Structural operations total</b>			<b>1,507,738</b>	<b>3,650,063</b>	<b>1,431,848</b>	<b>1,224,630</b>	<b>-207,218</b>	<b>-14.5</b>
<b>Expenditures on EU funds total</b>			<b>2,013,514</b>	<b>4,320,366</b>	<b>2,143,158</b>	<b>1,753,284</b>	<b>-389,874</b>	<b>-18.2</b>

Source: Ministry of Finance of the SR

### Expenditures on co-financing from the state budget

were budgeted at 399,276,000 Euros, of which EUR 334,281,000 was reserved for co-financing from the state budget in addition to EU funds, funds for co-financing of foreign grants and funds provided under international agreements in the amount of 7,784,000 Euros and funds for co-financing of internal policies in the amount of 7,211,000 Euros. The real fulfilment of expenditures for co-financing from the state budget was in the amount of 277,032,000 Euros, of which EUR

269,321,000 was reserved for co-financing from the state budget in addition to the EU funds, funds for co-financing of foreign grants and funds provided under international agreements in the amount of 6,792,000 Euros and funds for co-financing internal policies in the amount of 919,000 Euros.

▪ **Co-financing from the state budget to EU funds**

For the same reason as with the adjustment of the EU spending, the budget for co-financing from the state budget was adjusted to the amount of 269,312,000 Euros.

The absorption of expenditures for co-financing from the state budget to the EU funds in 2016 for structural operations of the 2nd programming period is slightly higher than the adjusted budget and amounts to 111,549,000 Euros. The higher drawing compared to the adjusted budget was reflected in the chapters of the Ministry of Culture of the SR and the Slovak Academy of Sciences for the same reason as with the EU expenditures.

The actual fulfilment of expenditures for co-financing from the state budget in the amount of 269,312 Euros represents the fulfilment on the level of 100% of the adjusted budget. Expenditures for co-financing from the state budget from the structural funds and the Cohesion Fund amount to 215,626,000 Euros, which represents fulfilment on the level of 80.1% of the achieved expenditures from the co-financing from the state budget. Expenditures for co-financing from the state budget from the agricultural funds amount to 53,695,000 Euros, which represents performance on the level of 19.9% of the achieved expenditures from the co-financing from the state budget.

Expenditure on co-financing from the state budget to EU funds	in thousands of Euros					
	Reality		Budget	Reality	Difference	
	2014	2015	2016	2016	in thousands of Euros	in %
	1	2	3	4	5=4-3	6=4-3
Agricultural funds 2nd programming period	29,366	77,933	535	104	-431	-80.6
Agricultural funds 3rd programming period	72,216	26,830	115,384	53,591	-61,793	-53.6
<b>Agricultural funds total</b>	<b>101,582</b>	<b>104,763</b>	<b>115,919</b>	<b>53,695</b>	<b>-62,224</b>	<b>-53.7</b>
Structural funds 2nd programming period	181,673	383,487	20,755	69,654	48,899	235.6
Structural funds 3rd programming period	0	1,852	123,539	67,679	-55,860	-45.2
Cohesion fund 2nd programming period	89,035	252,552	6,419	41,894	35,475	552.7
Cohesion fund 3rd programming period	0	5,250	116,809	36,399	-80,410	-68.8
ETC programs 3rd programming period (Certification body of the MF of the SR)	0	0	840	0	-840	-100.0
<b>Structural operations total</b>	<b>270,708</b>	<b>643,141</b>	<b>268,362</b>	<b>215,626</b>	<b>-52,736</b>	<b>-19.7</b>
<b>Expenditures from the state budget funds</b>	<b>372,290</b>	<b>747,904</b>	<b>384,281</b>	<b>269,321</b>	<b>-114,960</b>	<b>-29.9</b>

Source: Ministry of Finance of the SR

▪ **Co-financing from the state budget to EU foreign grants and to funds provided under international treaties**

In addition to the co-financing costs from the SAR to EU funds, the budget also includes the costs of co-financing from the state budget to the foreign grants (LIFE - the financial instrument for environmental policies - and European Territorial Cooperation Programs), funding provided under



international agreements (the EEA Financial Mechanism and the Norwegian Financial Mechanism) as a means of co-financing the funds for internal affairs area for 2014-2020.

Expenditures on the co-financing of foreign grants from EU funds in 2016 were 5,057,000 Euros. Expenditures on resources provided under international treaties in 2016 were 1,735,000 Euros.

Overview of expenditures on co-financing from the state budget to the EU foreign grants and to the funds provided under international treaties is specified in the following table:

<b>Co-financing from the state budget to EU foreign grants/funds provided under international treaties</b>						<b>in thousands of Euros</b>	
	<b>Reality</b>		<b>Budget</b>	<b>Reality</b>	<b>Difference</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>in thousands of Euros</b>	<b>in %</b>	
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4-3</b>	<b>6=4-3</b>	
Financial instrument for environmental policies LIFE+ (2nd and 3rd programming period)	2,273	2,576	5,414	1,501	-3,913	-72.3	
ETC programs (2nd and 3rd programming period)	4,357	4,720	718	3,556	2,838	395.3	
<b>Co-financing to foreign grants total from EU funds</b>	<b>7,466</b>	<b>8,258</b>	<b>6,132</b>	<b>5,057</b>	<b>-1,075</b>	<b>-17.5</b>	
EEA Financial Mechanism	1,243	1,007	1,039	997	-42	-4.0	
Norwegian Financial Mechanism	1,836	2,832	613	738	125	20.4	
<b>Co-financing to funds provided under international treaties total</b>	<b>3,079</b>	<b>3,839</b>	<b>1,652</b>	<b>1,735</b>	<b>83</b>	<b>5.0</b>	
<b>Total</b>	<b>10,545</b>	<b>12,097</b>	<b>7,784</b>	<b>6,792</b>	<b>-992</b>	<b>-12.7</b>	

Source: Ministry of Finance of the SR

The overall overview of the expenditures on co-financing from the state budget to EU funds, EU foreign grants and funds provided under international treaties, including EU internal policies, is shown in the following table:

<b>Overall overview of co-financing from the state budget, including internal EU policies in thousands of Euros</b>						
	<b>Reality</b>		<b>Budget</b>	<b>Reality</b>	<b>Difference</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>in thousands of Euros</b>	<b>in %</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4-3</b>	<b>6=4-3</b>
Co-financing to EU funds (structural operations, agricultural funds)	372,290	747,904	384,281	269,321	-114,960	-29.9
Co-financing to foreign grants from EU funds (ETC, LIFE +)	7,466	8,258	6,132	5,057	-1,075	-17.5
Co-financing to funds provided under international treaties (EEA, NFM)	3,079	3,839	1,652	1,735	83	5.0
<b>Total</b>	<b>382,835</b>	<b>760,001</b>	<b>392,065</b>	<b>276,113</b>	<b>-115,952</b>	<b>-29.6</b>
EU Internal Policies	1,099	2,236	7,211	919	-6,292	-87.3

<b>Total (including EU internal policies)</b>	<b>383,934</b>	<b>762,237</b>	<b>399,276</b>	<b>277,032</b>	<b>-122,244</b>	<b>-30.6</b>
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Source: Ministry of Finance of the SR

*Fulfilment of revenues from EU funds and absorption of expenditures from the EU funds are specified in table no. 16. The absorption of the expenditures on co-financing from the state budget to EU funds, to EU foreign grants and funds provided under international treaties, excluding EU internal policies, is shown in the following table no. 17:*

### **3.4.3 Funds provided by the SR and used through off-budget accounts**

Part of the EU budget funds provided to the Slovak Republic under the international treaties binding the Slovak Republic are used by the state budgetary organizations **through off-budget accounts:**

Within the framework of the *European Territorial Cooperation* programs, the Slovak Republic received, through the certification body of the Ministry of Finance of the SR, EU contributions of 2,086,000 Euros and from the contributing EU Member States the amount of 1,759,000 Euros to finance the operational programs of INTERACT II OPERATIONAL PROGRAMS 2007 - 2013 and INTERACT III 2014-2020. To finance the programs, the amount of 4,595,000 Euros was used from EU funds and the amount of 811,000 Euros from co-financing from the contributions from EU member states.

From the Financial Mechanism Office in Brussels, the Slovak Republic was allocated funds from *the EEA Financial Mechanism and the Norwegian Financial Mechanism for the 2009-2014* programming period in the amount of 10,808,000 Euros. The program administrators were transferred funds in the amount of 10,808,000 Euros. In 2016, the Slovak Republic was provided, in terms of the *financial envelope*, the funds for the payment of travel expenses related to the participation of representatives of the Slovak Republic at meetings of committees and working groups of the EU Council in the amount of 429,000 Euros, funds for the financial envelope, including funds from previous years, were used from the off-budget account of the Ministry of Finance of the Slovak Republic in the amount of 730,000 Euros to cover the eligible expenditures of the staff of the central government authorities and other eligible institutions.

### **3.4.4 Summary of the absorption of liabilities of the programming periods following the accession of the Slovak Republic to the EU**

Within the 1st programming period 2004-2006, the structural funds and the Cohesion Fund programs were implemented by specific programming documents. Total absorption as at 31 December 2016 for the programs of the structural funds reached 1,164,053,000 Euros, representing 99.6% of the 2004-2006 commitment and 405,035,000 Euros, which represents a 100% commitment. From the perspective of absorption and implementation of the state budget, the given programming period is considered to be concluded.

Under the 2nd programming period 2007 - 2013, as at 31 December 2015 the eligible period ended for the implementation of the expenditures at the level of the beneficiaries. In 2016 there was additional absorption of funds and the based on final documentation being submitted as at 31

March 2017 the EC will start to conclude this programming period. Out of the total commitment of the 2nd programming period 2007-2013 within the framework of 14 operational programs, the Slovak Republic absorbed the amount of 11,330,990,000 Euros as at 31 December 2016, which represents the absorption of 97.5% of the commitment; the final absorption will be known after the conclusion of the period. Under the 3rd programming period 2014-2020, of the total commitment of 11 operational programs<sup>15</sup> the Slovak Republic absorbed the amount of 556,582,000 Euros as at 31 December 2016, which is at the level of 4.0% of the commitment.

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<sup>15</sup>General information on operational programs within the 3rd programming period is available at <http://www.partnerskadohoda.gov.sk/> .

