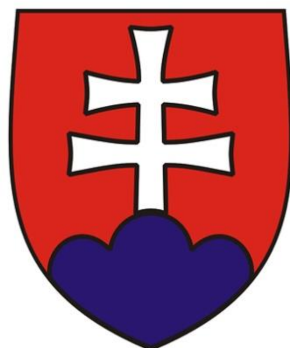


Draft Budgetary Plan
Slovak Republic for 2024

December 2023

Summary

Slovakia's Draft Budgetary Plan envisages a continued economic recovery in the coming years, with an average economic growth rate above 2%. Slovakia's GDP growth will slow further to 1.2% this year, even though EU funds are being drawn down, but household consumption will start to recover next year. At the same time, the absorption of EU funds will replace the Recovery Plan and the economy will strengthen by 2.7%. The Recovery Plan will also pull the economy forward in 2025, marking the peak of the economic cycle. In the following years, growth will return to its potential levels, also under the influence of the necessary consolidation of public finances. Inflation should already fall to 3.2% next year. The labour market is tight as demographic changes push down labour supply. The unemployment rate will gradually fall from 5.9% to 5.4%.

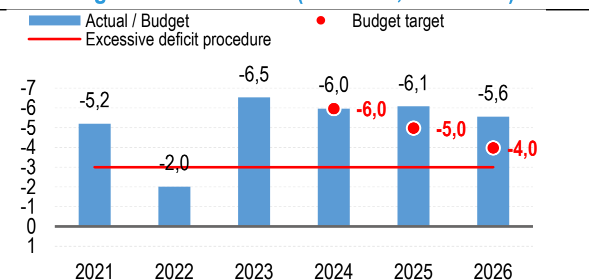
The government is taking over public finances in an unfavourable starting position, as reflected by the increase in the economic deficit this year to 6.5% of GDP, from 2% of GDP last year. Last year's low deficit has not yet fully taken into account the inflationary shock on the expenditure side. It is only this year that this is reflected in higher indexation of pensions and salaries. However, the deficit is also widened by family policy measures such as the increased allowance on childand tax bonus, the extension of free lunches and the introduction of a parental pension. Health care costs have also increased significantly, mainly due to a jump in the adjustment of health workers' wages above inflation. In the context of a deteriorating geopolitical situation, defence spending is rising rapidly as well. A number of uncovered measures, such as the special valorisation of pensions, were adopted in Parliament in the May and June sessions. In the context of lower-than-budgeted energy aid costs, the new government decided at the end of the year to pay an special allowance to all pension recipients.

In the next year, the government will reduce the deficit to below 6% of GDP in line with its manifesto. The year on year decline in the deficit will be mainly due to the reintroduction of a special tax on the banking sector, an increase in taxes on negative externalities, an increase in both health levies and corporate taxation, and a reduction in contributions to the second pension pillar. At the same time, the consolidation package, totalling 1.5% of GDP, creates room for the government's priorities, with a planned deficit reduction of 0.5% of GDP. These include, in particular, a significant increase in the 13th pension, the healthcare budget, assistance to households with rising mortgage interest rates and the creation of a Ministry of Sport and Tourism. Next year, the government will continue to cushion the rise in household energy prices at this year's levels, but at a lower cost given the improved market price situation.

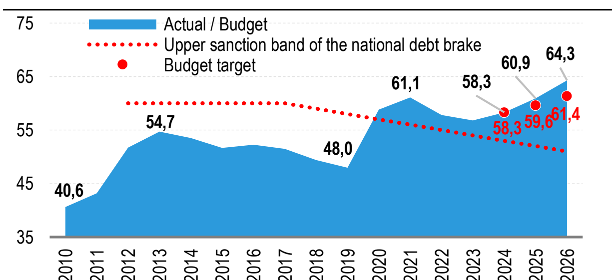
From 2025 onwards, European fiscal rules are likely to require a further reduction of the nominal deficit by 1% of GDP per year. Slovakia is likely to enter the Excessive Deficit Procedure next year, leading to tighter surveillance from the European level. The budgetary targets foresee a reduction of the deficit below the 3% of GDP threshold by the end of the current government mandate. The assumed pace of deficit reduction of around 1 pp. per year would also reflect the currently discussed reform of the Stability and Growth Pact rules. According to this, a position close to a balanced budget should be achieved by the turn of the next decade at the latest. Due to the short period of time since the adoption of the new governemnt's manifesto, a consolidation plan to meet these targets for the full three-year budget period has not yet been presented. However, the government has announced its intention to take further measures towards a more progressive and overall fairer tax system. With the same intention, the government will proceed to an analysis of expenditure across the whole public administration.

In line with the ambition of the government's manifesto, these budgetary targets will stabilise gross debt slightly above the 60% of GDP threshold. Gross debt is still expected to be below 60% of GDP this year, but the high deficit in addition to declining inflation will adversely affect debt dynamics in the years ahead. From next year onwards, debt will rise again closer to 60 % of GDP, and the increase will only be mitigated by a more significant deficit reduction in the years ahead. The preliminary plan to reduce the deficit by 1% of GDP would mean that debt would rise above 60% of GDP in the short term, but by the end of the budgetary horizon it would have already gradually started to stabilise.

General government deficit (ESA2010, % of GDP)



Gross debt in % of GDP



Source: MoF SR

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I. Macroeconomic assumptions of the Draft Budgetary Plan

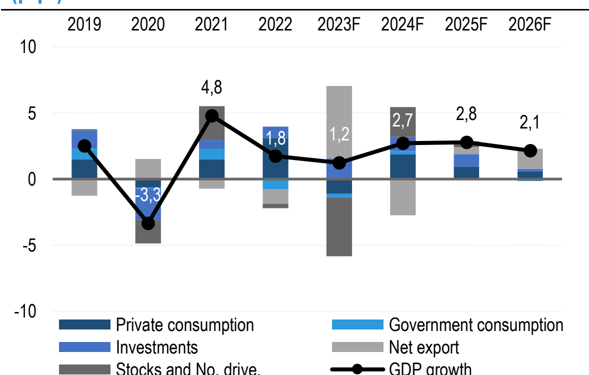
In the ongoing war in Ukraine, price pressures in the global market for agricultural commodities and energy are slowly receding. Despite the price shock and weaker external demand, the Slovak economy will strengthen by 1.2% in 2023 and the unemployment rate will fall slightly. This is due to intensive absorption of EU funds from the previous programming period. In early 2024, the economy will be boosted by an additional stimulus in the form of caps on electricity and gas price for households, which will lead to a decline in inflation dynamics. After two years of negative dynamics the real wage will rise and so will household consumption. GDP growth will accelerate to 2.7% and more than 9 000 jobs will be added to the labour market.

I.1. Macroeconomic forecast[1]

The Slovak economy will strengthen by 1.2% in 2023 due to weaker foreign demand and high prices. As households wait for inflation to recede, consumption remains subdued and will fall by 2% this year, despite the 13th pension's boost of real household incomes towards the end of the year. Weak domestic demand is accelerated by investment activity from EU sources, which peaks at the end of the year. Foreign trade will fall this year because of the recession in Germany and the weaker performance of V3 and other euro area countries. In Germany the energy-intensive sectors are dampening activity, similar to Slovakia. Due to weak domestic demand and frontloading with goods and materials in previous years, the import channel has dried up and investment in Slovakia is mainly drawn from inventories. Thus, despite weaker exports of energy-intensive industries, the contribution of net exports remains positive in 2023. The labour market is coming under pressure due to demographics, but employment is resilient and rising slightly due to the inflow of foreign workers.

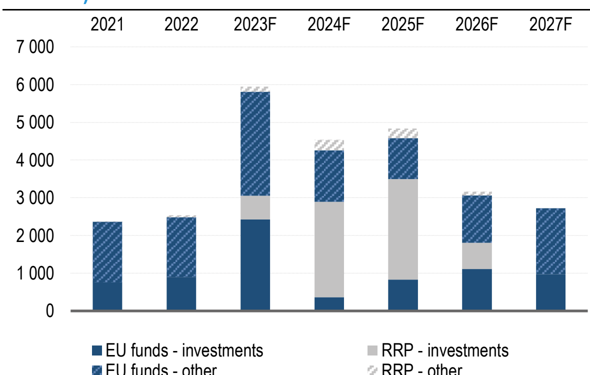
As a result of the new caps on household energy prices, inflation will recede and the growth rate of the Slovak economy will accelerate to 2.7% in 2024. Real income growth will partially make up for two years of lost income and households will stop being restrained in consumption. Consumption will erase the decline from 2023 and the savings rate will stabilise. Investment inflows from the Recovery and Resilience Plan will replace the absorption of EU structural funds. Investment will also remain positive due to the delivery of procured military equipment. Foreign trade will rebound and the mood in the world economy will slowly improve at the beginning of next year, supporting Slovak exports.

FIGURE 1 - Contributions to GDP growth - forecast (p.p.)



Source: MoF SR

FIGURE 2 -Abosrption of EU and RRF funds (EUR million)



Source: MoF SR

From 2025 to 2027, the economy will be affected by the necessary consolidation of public finances. Growth will be limited due to subdued household consumption, which will be pushed down by lower growth in government employee incomes and burdened by higher excise duties on unhealthy goods. Export growth maintained at the

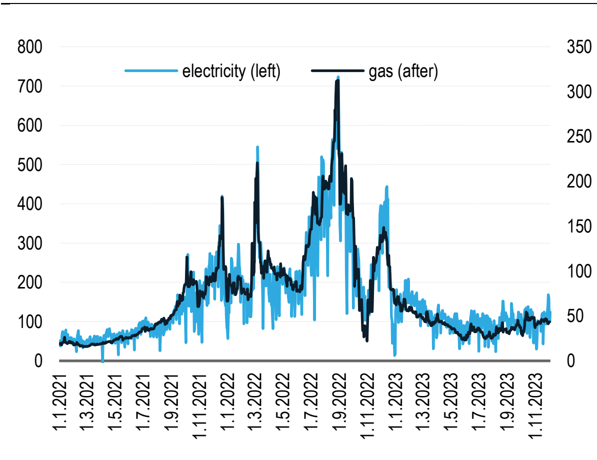
[1] The forecast includes an assumption of a reduction of the structural general government deficit by 0.5% of GDP in 2024-2027.

level of foreign partners will accelerate since the end of 2026 onwards, driven by new export capacity in the automotive industry. These will partly cushion the end of drawdowns from the Recovery and Resilience Plan in 2026 and 2027.

The labour market in 2023 will see a significant slowdown in job creation as a result of the Russian invasion. Employment will grow by 0.3% and around 7 thousand new jobs will be created, compared to 42 thousand in 2022... These will be created in all sectors of the economy, with the exception of industry, with the fastest growth in the construction sector. The labour shortage will continue to be partly dampened by the continued increase in the number of foreign workers in Slovakia, of whom over 100 thousand are already working in Slovakia. The unemployment rate will thus fall to 5.9%, which is close to the historical low of 2019.

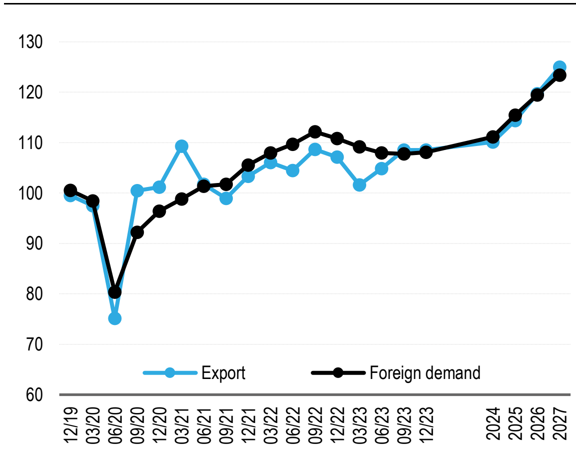
In 2024, employment growth will accelerate slightly to 0.4%. The recovery in economic activity in early 2024, especially household consumption, will subsequently lead to a slight recovery in job creation. The positive impact of the drawdown from the Recovery Plan will be dampened by the necessary consolidation measures of the government. The unemployment rate will reach a new historical low of 5,4 %. Over the rest of the forecast period, unemployment will remain stagnant and jobs will be added at an average annual rate of 0,1 %.

FIGURE 3 - Prices of energy commodities (spot prices, EUR/MWh)



Source: ENTSO-E, EEX

FIGURE 4 - Market share catch-up (constant prices, 2019=100)



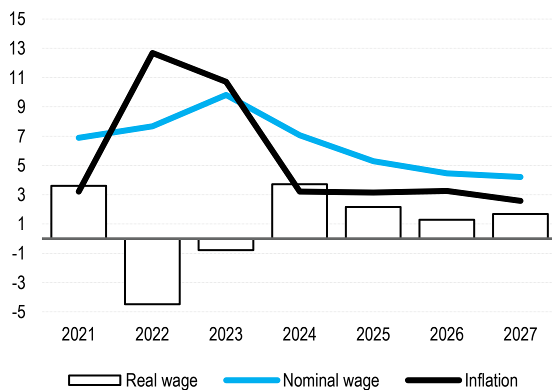
Source: MoF SR

Inflation will reach 10.7% on average in 2023, decelerating to 6% by the end of the year. The slowdown in month-on-month price growth since the spring has resulted in a gradual reduction in the inflation rate from over 15% at the start of the year to an expected 6% at the end of the year. Food prices, which even fell slightly in the summer months, contributed significantly to the slowdown. The overall increase in the price level this year was dampened by measures to ensure lower energy prices. As a result, the increase in electricity, gas and heat prices at the beginning of the year did not reflect energy commodity market development. Imputed rents, reflecting energy and building materials prices, stopped contributing to inflation after two years. The disinflationary trend has also affected prices of goods, while prices of services are decelerating more slowly.

The year 2024 will bring a further slowdown in inflation to 3.2%. The main factor will be developments in regulated energy prices. Gas and electricity prices on the European market are still falling, but because of past capping, a switch to market-based energy prices would still mean a sharp increase for end-users. In 2024, we foresee measures to keep energy prices at 2023 levels. If the current trend continues, the base effect should fade out of the year on year figures for food prices in the spring and for prices of tradable goods in the summer months. Inflation will thus return to levels comparable to the period before the price spikes of the past two years. Wage growth linked to the tight labour market will be reflected in faster growth, especially in prices of services, in the medium term, but the consolidation of public finances will in turn push inflation down.

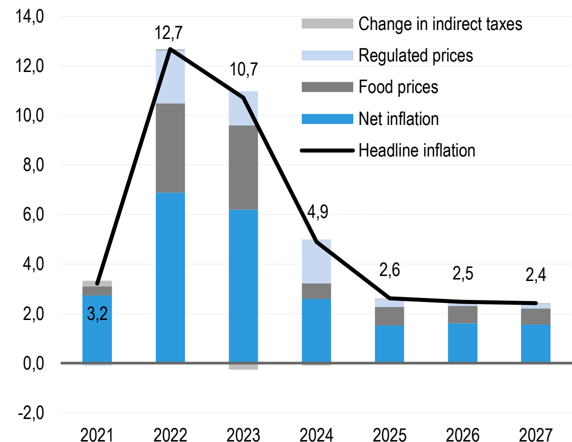
Real wages will return to growth in 2024 after two years. Average nominal wage increases will reach almost 10% in 2023, mainly due to the record upward indexation in the public sector. The acceleration will be felt in almost all sectors except low-skilled services. In 2024, nominal wages will increase by more than 7.0%. From a sectoral perspective, wages will increase faster in every sector except the public sector. Real wages will return to growth in 2024, rising by 3.7%. In the following years, growth should gradually slow to below 2%.

FIGURE 5 Nominal -vs real wages and inflation (%)



Source: MoF SR

FIGURE 6 - Contributions to inflation (p.p.)



Source: MoF SR

BOX 1 - Assumptions of the external environment

The external environment remained unfavourable at the end of the year. The slowdown in the global economy persists. Despite surprisingly robust growth in the US, performance in the euro area countries as well as in China is lagging behind. In particular, industrially oriented economies are struggling, while services are showing signs of resilience.

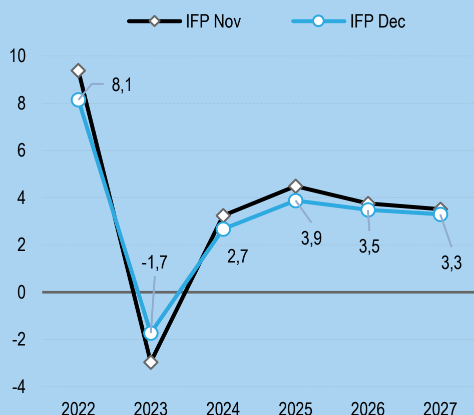
Tight monetary policy is taking its toll. A series of shocks to the eurozone economy and the subsequent struggle with high inflation have contributed to the bloc's weak economic growth this year. This is most noticeable in industrial economies such as Germany or the V3 countries, which, with the exception of Poland, will see a decline in activity this year. The negative development in our main trading partner countries will also have an impact on demand for our domestic industrial products. By contrast, service-oriented countries such as Italy, Spain and France are better able to withstand the slowdown in the global economy, also thanks to a renewed growth in tourism demand. The overall performance will also be negatively affected by the efforts of several countries to consolidate public finances due to rising interest costs.

The gradual easing of monetary policy should provide a positive impetus towards the end of next year. The current tight monetary policy is already largely reflected in declining economic activity, resulting in a process of disinflation. A continuation of this trend will support real wage growth, which will boost private consumption. Lower inflation will also allow a gradual withdrawal from restrictive monetary policy. Financial markets suggest that interest rates are currently at a peak and that a reduction can be expected in the second half of next year. This, together with the fading shocks, will accelerate economic growth in the bloc, especially in 2025.

Receding inflation pleases financial markets. Equity indices perform solidly. The European Eurostoxx 50 stock index has gained almost 19% by the end of November, while the main US S&P 500 index has appreciated by more than 15%. Investors' eyes are mainly on the inflation figures. The surprisingly low results for October triggered a wave of euphoria, which was reflected in a fall in yields on both long and short-dated bonds. The

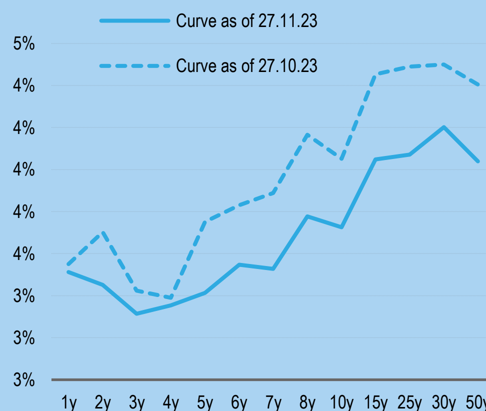
gradual closing of the interest rate differential has also supported the euro against the dollar, which traded on average at USD 1.08 per euro in November.

FIGURE 7 - The easing of monetary policy will support growth in the following years (year-on-year change in weighted indic. foreign demand, %)



Source: MoF SR

FIGURE 8 - Yield curve of Slovak government bonds (% p.a.)



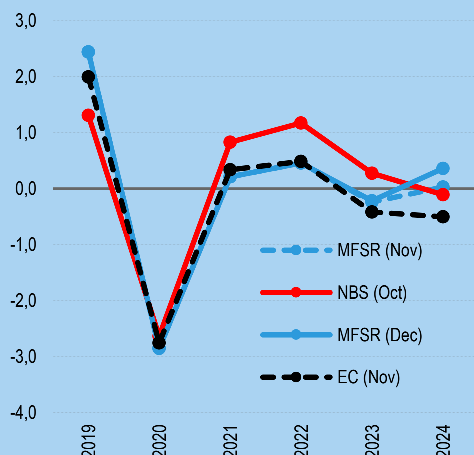
Source: Bloomberg, IFP

BOX 2 - Estimation of the production gap

The war in Ukraine caused a shift away from Russian energy and high prices dampened the growth of the Slovak economy's production potential. From 2023 onwards, the potential GDP dynamics will be pushed up by the investment impulse from the EU funds and later from the Recovery and Resilience Plan, lifting growth above 2.0% from the low level of 1.5% of the post-covid years. Inflation has been dampened by consumer demand, but investment demand is helping the economy get closer to potential, -0.2% of GDP in 2023. The effects of the energy crisis will gradually unwind, and the suppression of inflation by government measures from 2024 onwards will push output above potential towards +0.4%. The estimates using the national methodology of the MoF are above the estimates of the November 2023 EC forecast, as they include the easing of consumer demand after the fixing of consumer energy prices for 2024. The EC forecasts a slightly undercooled economy in both 2023 and 2024. The national methodology of the MoF is used in this paper to estimate the cyclical component needed to calculate the structural balance of the general government finances.

According to the national methodology of the Ministry of Finance of the Slovak Republic, the Slovak economy will be only slightly undercooled in 2023, its performance will be lower by -0.2% compared to potential. In early 2023, household consumption in particular fell deeply, with households reacting to high prices by saving. Inflationary pressures will only ease in 2024. Together with a recovery in exports, the economy will be above its potential. Demand will be supported mainly by investment activity in 2024 and 2025. The withdrawal of the Recovery and Resilience Plan in 2026 and the consolidation of public finances will push the economy back to the balance over the forecast horizon. The pace of potential will be driven mainly by overall productivity and capital accumulation from EU investment. Factor productivity is constrained by low efficiency due to expensive input prices, but will gradually be pushed up by productive investment from the Recovery and Resilience Plan. As a consequence of negative demographic developments, the contribution of potential employment will gradually fall into negative numbers; in the current forecast we expect this negative effect will be compensated by the extension of working days due to abolition of one public holiday 2025 onwards, contributing between 0.1 and 0.2 points to potential growth in 2026.

FIGURE 9 – Output gap (% pot. GDP) – EC, MoF, NBS, OECD and IMF



Source: MoF SR

TABLE 1 - Output gap and factor contributions to potential growth - national methodology

	Prod. Gap (% of pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital	Labour
2019	2.4	2.1	1.0	0.7	0.3
2020	-2.9	1.9	1.2	0.7	0.0
2021	0.2	1.6	1.2	0.5	-0.1
2022	0.5	1.5	0.9	0.6	0.0
2023F	-0.2	1.9	1.1	0.8	0.0
2024F	0.4	2.0	1.0	1.0	0.0
2025F	1.0	2.2	1.0	1.1	0.1
2026F	1.1	2.2	1.0	1.1	0.1

*Total factor productivity

Source : MoF SR

The difference in the estimates of the output gap between the EC and the MoF (national methodology) emerges due different forecast horizons and different assumptions regarding total factor productivity (TFP). While the EC methodology estimates the output gap two years ahead, the MoF's forecast holds four year horizon. The EC methodology is based on trends and filtering of variables, so extending the forecast horizon may result in different estimates of the output gap at shorter horizons even with identical inputs. Another difference is the adjustment of TFP for the impact of the Recovery Plan investments, which we have estimated based on panel data on 34 countries (EU, UK, US, Iceland, Norway, Switzerland, Canada and Japan) over the period 2010 to 2019. A 1 pp increase in the growth rate of investment is associated with a 0.061 pp increase in the growth rate of total factor productivity. We then adjusted the growth in total factor productivity based on the amount of planned investment in each year and the estimated impact on TFP.

In estimating potential output, the MoF also takes into account the development of the output gap, which affects the dynamics of domestic inflation, the trade balance and the labour market. The resulting GDP decomposition is therefore based not only on the estimation of the structural component, but also simultaneously on the estimation of the cyclical component. In the case of the EC methodology, the impact of the aforementioned cyclical component on the economy is not taken into account, which may lead to a less accurate estimation of the output gap.

II. Developments in public finances

Next year, the government plans to reduce the nominal deficit by half a percentage point below 6% of GDP, in line with its manifesto. This draft of general government budget is also in line with the EC recommendation, with a recommended growth in nationally-financed net primary expenditure of 5.7%. However, a further reduction of the headline deficit by 1% of GDP per year will be needed from 2025 onwards. This takes into account the expected consolidation requirement of the European Commission in order to exempt Slovakia from the Excessive Deficit Procedure and also to stabilise debt growth. The pace of deficit reduction of around 1 percentage point per year also reflects the currently discussed reform of the rules of the Stability and Growth Pact. According to this, a position close to a balanced budget should be achieved and debt stabilised by the turn of the next decade at the latest. Additional consolidation measures amounting to almost 1.6% of GDP need to be introduced by 2026 to achieve the set targets. The government has already announced its intention to take further measures towards a more progressive and fairer tax system. To the same end, the government will proceed to a thorough analysis of the expenditure of the entire public administration.

II.1. Recent developments in public finances in 2023

The expected deficit this year is slightly higher than budget projections at 6.5% of GDP, but more than three times higher year on year. Government revenue is growing at 15% year on year, while the expenditure side is up to 26%. The significant growth on both sides is driven by the ongoing inflation shock as well as an increase in the absorption of EU funds. On the expenditure side, inflationary pressures are much more pronounced compared to last year, through high valorisation of both pensions and salaries. In addition, expenditure isbeing pulled upwards mainly by measures taken by the previous government to mitigate the impact of rising energy prices, pro-family measures, social measures, as well as increased spending in the health sector. The one-off payment of a compensation payment of EUR 300 to all pension recipients also adds significantly to the deficit. The nominal deficit this year will rise from 2% last year to 6.5% of GDP, close to post-global financial crisis levels.

FIGURE 10 - Development of the nominal balance in % of GDP

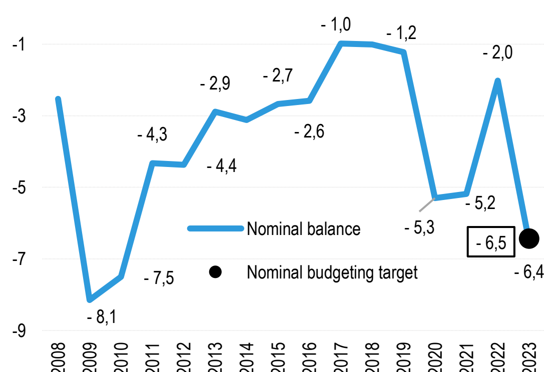
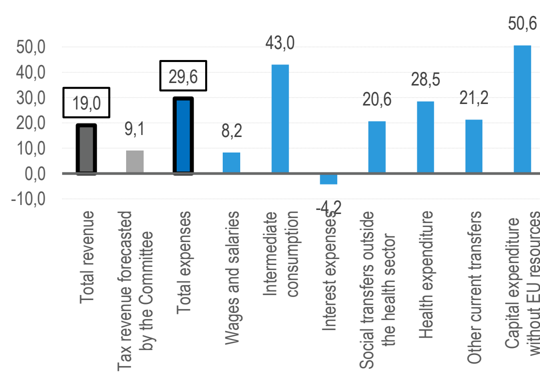


FIGURE 11 - Annual growth of selected items in 2023 (% growth, ESA2010)



Source MoF SR.

The deficit estimate has increased by 0.3% of GDP since the new government took office. Since the Draft Budgetary Plan approved by the caretaker government in October 2023, there has been a significant reduction in expected revenues and expenditure from EU funds and RRP within the general government sector (1.6% of GDP)[2]. After adjusting for EU funds and RRP, expected expenditure in the current year has increased by 0.4% of GDP. The increase in expenditure is driven by an increase in expected compensation for high energy prices of 0.4% of GDP and a one-off benefit paid to pensioners of 0.4% of GDP (see Chapter 4 for more on the measures). Conversely, expectations have been revised towards lower spending on investment and goods and services.

[2] This is not a decrease in the expected uptake of total EU funds, but a change in the allocation to final beneficiaries outside the general government sector.

II.2. Budgetary targets for 2024 to 2026

Next year, the government will reduce the deficit to below 6% of GDP, in line with its manifesto. Thus the nominal deficit is to be reduced by 0.5% of GDP from 6.5% this year. The year on year decline in the deficit will be mainly driven by the taxation of temporary high profits in the banking sector, an increase in tobacco and alcohol excise duty, an increase in both health levies and corporate taxes, and a reduction in the 2nd pension pillar contribution. At the same time, the consolidation package, totalling 1.5% of GDP, creates budgetary space for the government's priorities, with a planned deficit reduction of 0.5% of GDP (see Chapter 4 for more on individual measures).

TABLE 2 - Consolidation effort (ESA 2010, % of GDP)

	2021 S	2022 S	2023 OS	2024 NRVS	2025 NRVS	2026 NRVS
Net lending/borrowing (Non policy change) - target (1)	-5,2	-2,0*	**-6,52**	**-5,97**	**-4,97**	**-3,97**
Cyclic component (2)	0,1	0,3	-0,1	0,2	0,4	0,4
One-off and temporary measures (3)	-3,4	-0,7	-1,8	-0,5	0,0	0,0
of which: the pandemic COVID- 19	-3,0	-0,6	-0,1			
of which: the war in Ukraine		-0,1	-0,1	0,0		
of which: measures to compensate for rising energy prices***		-0,1	-1,6	-0,5		
of which: other	-0,4					
Structural balance according to national methodology (4=1-2-3)**	-1,9	-1,5	**-4,7**	**-5,7**	**-5,5**	**-4,4**
Consolidation efforts according to the national methodology (year on year change 4)		0,6	**-3,3**	**-1,0**	**0,3**	**1,0**
Structural balance according to EC methodology (5=1-2)	-5,3	-2,3	**-6,4**	**-6,2**	**-5,5**	**-4,4**
Consolidation effort according to EC methodology (year on year change 5)		3,2	**-4,2**	**0,3**	**0,8**	**1,0**

** According to Eurostat autumn notification.* *Source MoF SR*
*** This is the balance net of the cyclical component and one-off and temporary measures. It is not identical to the structural balance reported by the European Commission, as the one-off and temporary measures in the national methodology include measures that do not comply with the principles of the EC methodology for determining one-off effects. The compulsory tables show the structural balance based on the EC methodology.*
**** Net of coverage sources, mainly from taxation of super-profits and refinancing from EU sources.*
Note: Numerical discrepancies may occur due to rounding.

BOX 3 - Fiscal Council Recommendation 2024 for Slovakia

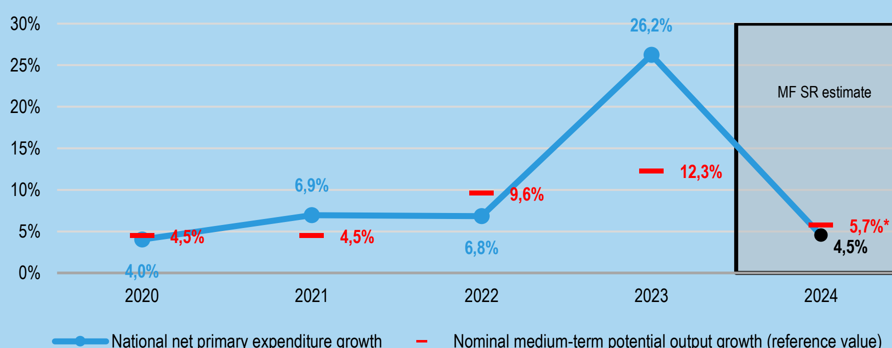
For 2024, fiscal policy is assessed by the European Commission on the basis of the year on year growth in nationally-financed net primary expenditure. In 2023, the European Commission proceeded with fiscal recommendations for 2024 on the basis of an assessment of the evolution of nationally-financed net primary

expenditure[3] . This is the indicator used by the Commission to recommend to Member States that the year on year growth of their national expenditure (taking into account new revenue measures) should not exceed the potential growth of the economy, less the requirement to reduce the structural deficit.

According to the calculations of the MoF, the draft budget for 2024 meets the EC's recommendation not to exceed the annual growth rate of adjusted national expenditure of 5.7%. In summer 2023, the European Commission recommended Slovakia to maintain the annual growth rate of adjusted public expenditure at 5.7% for 2024. According to the MoF's estimate, the current budget foresees growth of the expenditure indicator at 4.5% for 2024, below the level recommended by the European Commission.

Despite meeting the expenditure recommendation, the structural deficit will fall only slightly in 2024 and will increase according to the national methodology. The expenditure rule with a growth allowance of 5.7%, corresponding to a reduction of 0.7% of GDP in the structural deficit, does not apply to interest costs. However, these are increasing significantly year on year. The EC rule also allows the initial estimate of higher inflation from this spring to be taken into account in expenditure growth. At the same time, real income growth is assumed to be as fast as the growth potential of the economy. In 2024, however, revenues grow at a slower pace, also due to lower inflation than the spring estimate. As a result of these factors, the structural deficit declines by only 0,3 pp year on year in the final result. In the national methodology, where energy-assistance measures are recorded as one-off effects, the nominal deficit target of 6 % of GDP corresponds to a significant increase in the structural deficit (see **TABLE 2**).

FIGURE 12 – Growth rate of primary expenditure without EU resources (adjusted for income measures)**



** EC Recommendation for Slovakia for 2024.*
*** The expenditure aggregate represents total government expenditure net of interest costs, cyclical unemployment expenditure, EU funds (including the Recovery Plan) and discretionary revenue measures.* *Source MoF SR.*

From 2025 onwards, European fiscal rules are likely to require a further reduction of the headline deficit by 1% of GDP per year. Slovakia is likely to enter the Excessive Deficit Procedure next year, leading to tighter surveillance from the European level. The budgetary targets foresee a reduction of the deficit below 3% of GDP by the end of the mandate. Such targets take into account the expected consolidation requirement of the European Commission for Slovakia to exit the Excessive Deficit Procedure**.** The pace of deficit reduction of around 1 percentage point per year also reflects the currently discussed reform of the rules of the Stability and Growth Pact. According to the latter, a position close to a balanced budget should be achieved by the turn of the next decade at the latest. At the same time, this pace will stabilise the evolution of debt below 60% of GDP, which is also a requirement of the new rules (see **BOX 4**).

[3] The indicator was introduced by the EC in 2020. It represents total government expenditure net of interest costs, cyclical unemployment expenditure, European Structural Funds and Recovery Plan resources, one-off measures according to the EC methodology and discretionary revenue measures of the government.

BOX 4 - Reform of EU fiscal rules

From 2024, the new framework of EU rules should bring a greater focus on debt sustainability also in the longer term. Member states are currently seeking agreement on the final form of the new rules of the Stability and Growth Pact, which should enter into force in 2024. The focus of surveillance should be on stabilising debt developments as well as keeping the deficit below 3% of GDP. The reform should also bring a greater focus on alleviating future budgetary pressures, which in the case of Slovakia is an ageing population. Both deficit and debt should be reduced to such a level that they do not subsequently rise above 3% and 60% of GDP respectively in a 10-year scenario without policy change, or, for highly indebted countries, debt declines satisfactorily towards 60% of GDP.

Under the new rules, Slovakia should consolidate at a pace of around 1% of GDP over seven consecutive years. Preliminary simulations suggest that Slovakia will be required to actively consolidate its primary structural deficit at a pace of around 1% of GDP per year (FIGURE 13). This is due to a projected deficit of over 6% of GDP in 2024, which will need to be cleared over the 7-year plan. This is because in the next 10 years after the plan, in the no-policy-change scenario, the headline deficit must not exceed the 3% of GDP reference and the debt must not exceed 60% of GDP (with a sufficient buffer to take account of adverse macroeconomic developments).[4] . A balanced budget position would prepare Slovakia for an ageing population that will worsen the government balance by an additional 2% of GDP over the 10 years after the end of the plan.

FIGURE 13 - Targeted development of the structural deficit of the Slovak Republic according to the new EU rules (% of GDP)

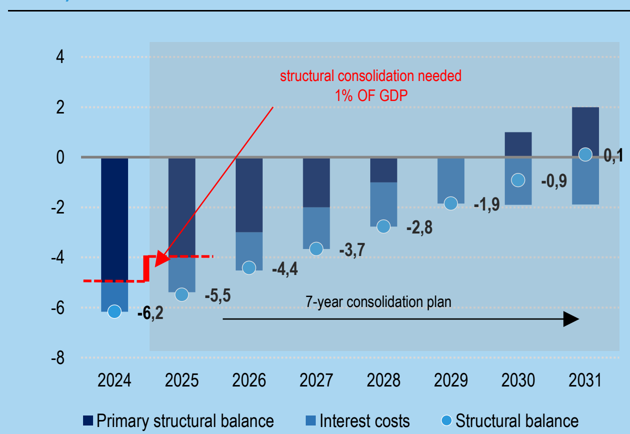
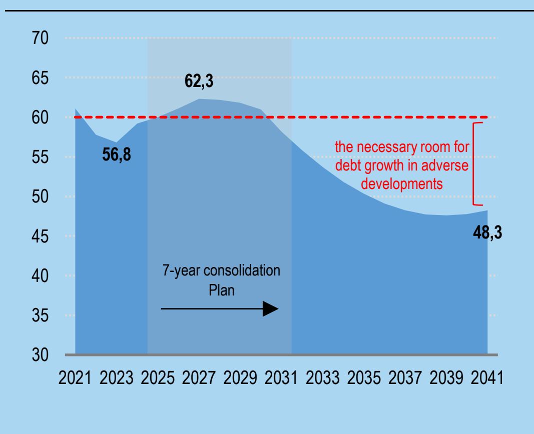


FIGURE 14 - Targeted development of Slovakia's gross debt based on new EU rules (% of GDP)



Note: The gross debt target reflects a consolidation of the primary structural balance of 1% of GDP per year over 7 years. *Source MoF SR.*

In order to achieve the specified deficit reduction in the following years, additional consolidation measures amounting to almost 1.6% of GDP need to be presented by 2026. Although the consolidation measures are sufficient to achieve the target in 2024, due to the short time period since the adoption of the government manifesto, no consolidation plan has yet been presented to meet the targets for 2025 and 2026. For 2025 and 2026, the deficit of the currently set budget is higher by 1.1% and 1.6% of GDP, respectively, compared to the expected requirements of the European fiscal rules. This means that additional measures amounting to EUR 2.3 billion are needed until 2026 to achieve the targets. However, the government has announced its intention to take further measures towards a more progressive and fairer tax system. To the same end, the government will proceed to a thorough analysis of the expenditure of the entire public administration.

[4] In the baseline 4-year consolidation plan, the requirement for an annual reduction in the primary structural balance would be around 1.6% of GDP. In the longer 7-year plan, conditional on reforms and investment, the requirement is reduced to around 1% of GDP per year.

TABLE 3 - Expenditure and Revenue Balance in ESA 2010 (% of GDP)

		S	OS	NRVS		
	ESA code	**2022**	**2023**	**2024**	**2025**	**2026**
Total revenue	**TR**	**40,2**	**41,5**	**40,7**	**40,1**	**39,3**
Taxes on production and imports	D.2	12,3	12,0	11,7	11,2	10,9
Current taxes on income, wealth	D.5	7,7	7,9	7,9	7,8	7,8
Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0
Social security contributions	D.61	14,9	15,2	15,8	15,8	15,8
Property income	D.4R	0,7	0,6	0,9	0,7	0,6
Other*		4,6	5,8	4,4	4,5	4,2
Total expenditure	**TE**	**42,3**	**48,0**	**46,7**	**46,2**	**44,9**
Compensations for employees	D.1P	10,6	10,3	10,7	10,6	10,5
Intermediate consumption	P.2	6,0	6,6	6,2	5,8	5,6
Subsidies	D.3P	1,1	2,8	1,5	0,8	0,8
Interest costs	D.41P	1,0	0,9	1,4	1,6	1,7
Total social transfers	D.6P,D632	17,9	20,1	20,4	20,1	20,0
of which: Unemployment benefits		0,2	0,2	0,2	0,2	0,2
Gross fixed capital generation	P.51G	3,0	4,7	3,4	3,8	2,8
Capital transfers	D.9P	0,6	0,4	0,7	0,6	0,4
Other**		2,0	2,3	2,6	3,0	3,2
Unspecified measures				**0,0**	**1,1**	**1,6**
General Government Balance	**B.9**	**-2,0**	**-6,5**	**-6,0**	**-5,0**	**-4,0**
Balance without unspecified measures				**-6,0**	**-6,1**	**-5,6**

Note: * P.11+P.12+P131+D.39rec+D.7rec+D.9rec (other than D.91rec)
** D.29p+D.5p+D.7p+P.5M+NP

III. Government debt and long-term sustainability of public finances

Gross debt will still fall slightly below 57% of GDP in the current year, mainly due to high inflation and the use of liquid government assets. However, from 2024 onwards, it will be on an upward trend, which can only be significantly mitigated by a more vital consolidation of public finances in line with the government's budgetary targets. The primary source of rising debt would be around 6 % of GDP deficits in the current draft budget, which would no longer be compensated even by nominal economic growth and the drawdown on the liquid financial reserve. Continued deficit consolidation of 1 pp. in 2025 and 2026 would slow debt growth, while a deficit reduction further below 3% of GDP over the budget horizon could stabilise debt. Conversely, debt would already reach 100% of GDP without action in about 10 years. The unfavourable state of public finances in the form of high risk is also confirmed by the long-term sustainability indicator. Without fiscal action, the risk cannot be reduced by 2026; a more significant decline into the medium-risk band would require a redoubling of consolidation efforts.

III.1. Government gross debt

Gross debt is expected to fall slightly below 57% of GDP this year, driven by high inflation and the use of the liquidity buffer. During the pandemic, gross debt rose by more than 10 bps and only started to decline last year amid high inflation. This translates into high nominal growth and reduces debt through the denominator effect of GDP. Despite the expected general government deficit (6.5% of GDP), debt is expected to fall this year. This will be ensured by a still further increase in the price level this year. An additional factor behind the decline in debt should be a stronger use of liquid financial assets accumulated in previous years.

FIGURE 15 - Projection of gross and net budget debt on the horizon of the general government (% of GDP)

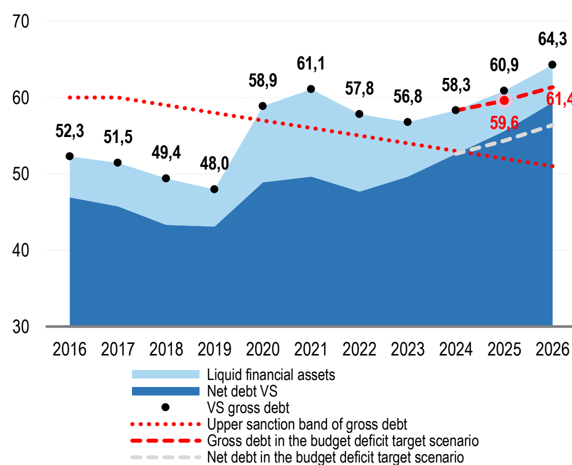
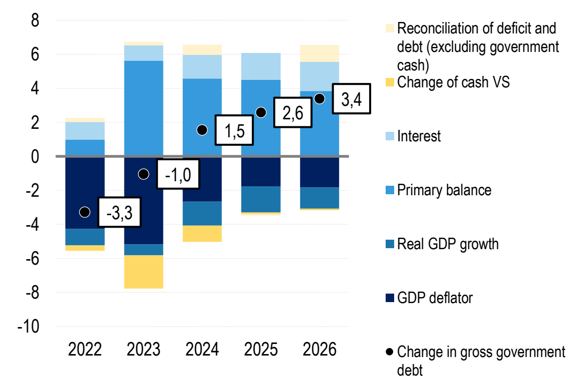


FIGURE 16 - Decomposition of gross debt of GG (% of GDP)



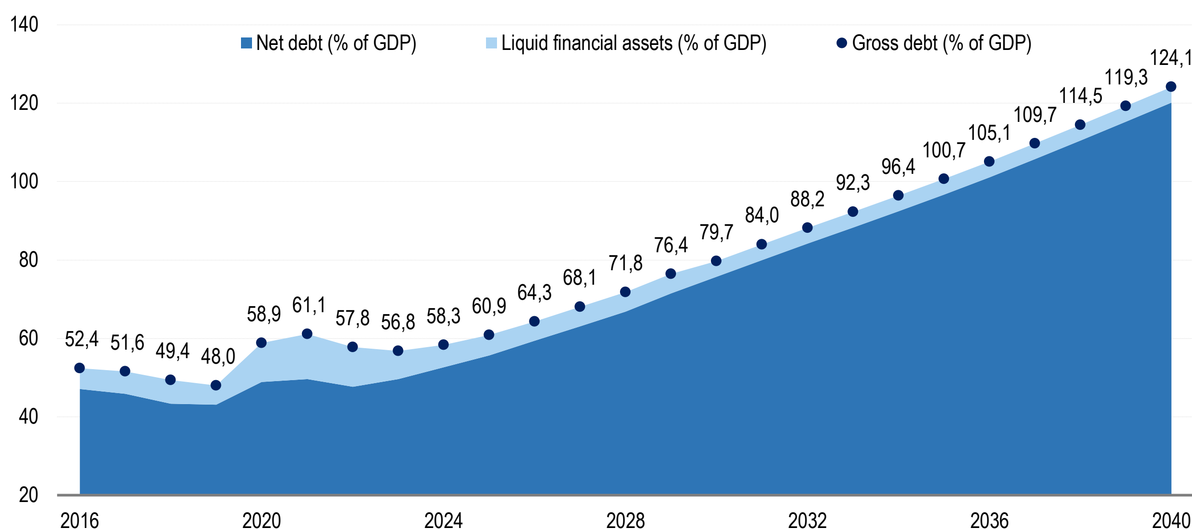
Note: The debt forecast is based on deficit targets for 2024-2026 of 6.0%, 5.0% and 4.0% of GDP. To achieve them, additional measures are assumed to be taken at a share of 50% for the general government and 50% for other general government entities. The sanction bands are based on the currently applicable constitutional law on fiscal responsibility. Source MoF SR.

Debt will start to rise more sharply from next year, but this can be reversed by more significant consolidation of public finances. The primary source of rising debt until 2026 is the deficits in the current draft general government budget, at around 6% of GDP, which are not declining also because of the substantial increase in interest costs. With inflation gradually receding, debt will be on an upward trajectory next year. The government's budgetary targets, which foresee a further decline in the deficit by 1 percentage point per year from 2025 onwards, would slow down the debt growth and stabilise it gradually.

Without further consolidation, by contrast, debt would reach 100% of GDP in just ten years and increase by a further 30 pp by 2040. Debt dynamics in the longer term are mainly influenced by the onset of age-related costs. Without the necessary consolidation and further reforms, the general government deficit would have risen

continuously, reaching almost 10% of GDP over two decades. The gradually declining real growth of the economy below 2% per year would not be able to cushion the impact of the rising deficit, including interest costs.

FIGURE 17 - Long-term projection of public debt in No-policy change scenario (% of GDP)



Note: The long-term forecast assumes a no-policy-change scenario with an impact of ageing on the general government structural balance of 0.2% of GDP per year until 2040. The assumption of nominal GDP growth in the long term is taken from the 2021 AWG Population Aging Report.

Source: MoF SR, EC

III.2. Sustainability of public finances

Public finances will remain at high risk of long-term sustainability even if the budgetary targets are met. In the budget scenario, long-term sustainability would remain broadly unchanged until 2026. The increase in the structural deficit by 2026 will affect the calculation of the long-term sustainability indicator to a lesser extent, as it is strongly influenced by the increase in interest payments, while the calculation of the sustainability indicator is based on the primary structural balance, which does not take them into account. Meeting the budgetary targets would improve long-term sustainability by 1.6 pp. by 2026, but even in this scenario, the sustainability risks would not be reduced to the medium range. Achieving this would require a permanent reduction in government expenditure or an additional 1.6 pp. increase in government revenue.

TABLE 4 - Breakdown of the long-term sustainability indicator S2 as of 2026 (% of GDP)

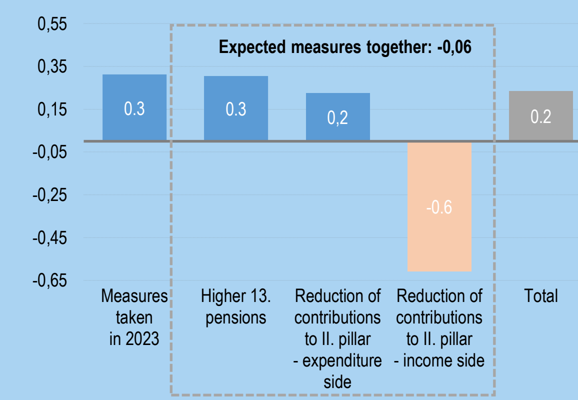
	2023	GGB 2024-2026	Budgetary objectives
Total value	**9.2 (high risk)**	**9.2 (high risk)**	**7.6 (high risk)**
thereof:			
Initial budgetary position of the structural balance and debt	4.1	4.8	3.2
thereof the primary structural balance (-):	*-3.8*	*-4.2*	*-2.6*
Pension expenditure	2.2	1.6	1.6
Healthcare	1.2	1.2	1.2
Long-term care	1.2	1.1	1.1
Expenditure on education	0.2	0.1	0.1
Other	0.2	0.5	0.5

Source: MoF SR

BOX 5 - Measures in the pension system

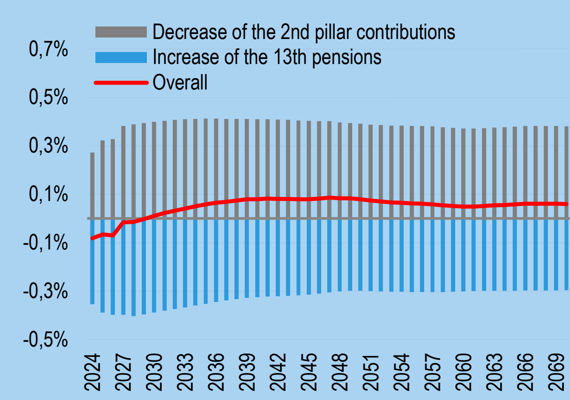
Compared to last year's budget, a number of measures have been taken in the course of 2023 that cumulatively worsen long-term sustainability by 0.23 p.p. of GDP. The most significant negative impact at 0.2% of GDP is the unfreezing of the minimum pension, which has been re-linked to the minimum subsistence level from 2023 onwards, at a higher level than before the freeze[5]. To a lesser extent, the change in the way the decline in earning capacity is assessed, which translates into higher spending on disability pensions[6], and the changes to widow's and widower's pensions, which resulted in an extension of the duration of entitlement to a widow's pension from one to two years, while expanding the group of people with a permanent entitlement to a widow's pension[7], have also worsened sustainability. An extraordinary indexation mechanism was introduced and activated in 2023, but given its one-off nature, this measure has a negligible impact on long-term sustainability[8].

FIGURE 18 - Impact of planned legislative changes on the long-term sustainability indicator S2 (% of GDP)



Source: MoF SR

FIGURE 19 - Impact of planned measures on the balance of the pension system (% of GDP)



Sourc: MoF SR.

Towards the end of 2023, the government introduced new measures in the pension system increase long-term pension system expenditures, but their negative impact on sustainability is offset on the revenue side. The transformation of the 13th pension[9] from a state social benefit to a pension benefit equal to the average pension in the applicable category will lead to a permanent increase in expenditure on the payment of the 13th pension and a deterioration of sustainability by 0.3 p.p. of GDP. In early December, the government also approved a reduction in the contribution rate to the 2nd pension scheme. The measure will affect both the expenditure and revenue sides of the pension system, with the initial positive impact stemming from higher revenues of the Social Insurance Agency, as a smaller share of the contributions will be transferred to pension management companies (outside the public finances). Conversely, the negative impact on public finances will be deffered, with progressively smaller cuts in pensions leading to increased expenditures for the Social Insurance Agency. However, the overall positive contribution of the measure to long-term sustainability is largely due to the fact that the additional cost associated with the first pillar pension payments will only materialize after 2070. This means that part of the long-term costs associated with the measure are not taken into account in the methodology for calculating the long-term sustainability indicator S2.

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[5] The basic value of the minimum pension to which a beneficiary is entitled after 30 qualifying years of pensionable career has been increased from 136% of the minimum subsistence level (the level in force before the minimum pension freeze) to 145% of the minimum subsistence level. At the same time, the gradual increments of the minimum pension according to the number of qualifying years of pension insurance has also been adjusted.

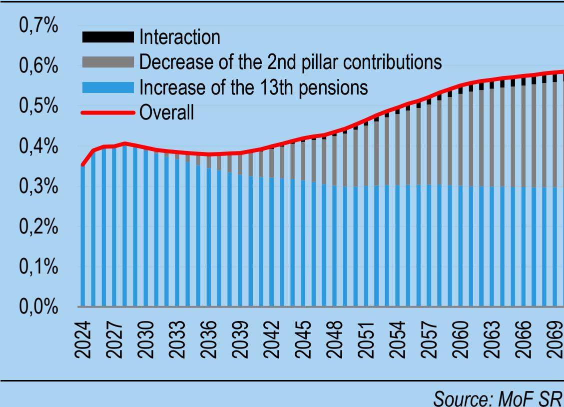
[6] Entitlement to an invalidity pension and the amount of the invalidity pension are based on the extent of the impairment in the ability to engage in gainful employment relative to a healthy individual, and the specific degrees of impairment are specified for each type of disability in Annex 4 of Act No 461/2003 Coll. Effective from August 1, 2023, these degrees were revised, and an increase in the number of individuals eligible for invalidity pensions is anticipated and that the amount of existing invalidity pensions will also rise.

[7] Widows over 57 years of age who have raised one child.

[8] In conjunction with the introduction of extraordinary indexation, the reference period for the calculation of indexation has been extended from 6 to 9 months, with an near-neutral impact on long-term sustainability.

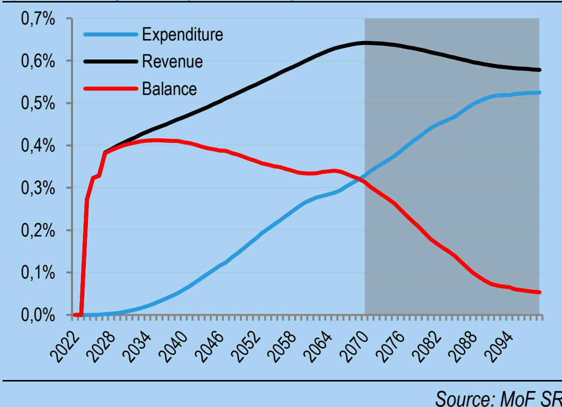
[9] https://www.slov-lex.sk/legislativne-procesy/SK/LP/2023/707. The 13th pension will be calculated based on the average monthly amount of each type of pension benefit received in the previous calendar year, with a minimum of €300. The pension amount will be determined based on the type of pension benefit the pensioner is entitled to in December. If the pensioner receives multiple pension benefits, the highest amount will be paid.

FIGURE 20 - Impact of planned measures on pension system expenditure (% of GDP)



Source: MoF SR

FIGURE 21 - The impact of the rate reduction in II. pillar for income, expenditure and balance of the pension system (% of GDP)[10]



Source: MoF SR

The assessment of the impact of the planned measures on long-term sustainability also depends on the methodology employed. In the case of the proposed measures, this concerns in particular the impact of the reduction in contributions to the second pillar, which will have a different outcome in the European Commission's methodology. This is because, unlike the domestic methodology, the EC methodology does not include projections of the revenue side of the pension system and the revenue increase will only be reflected in the first year through an improvement in the primary structural balance. For a more comprehensive explanation of the methodological differences between the domestic and the EC methodology, please refer to the Stability Programme for 2023-2026[11] .

[10] The quantification of the evolution of the pension system is based on the European Commission's macroeconomic assumptions, which only extends to the year 2070. For the purpose of showing developments beyond that horizon, these values have been interpolated into the future. The graph is therefore rather indicative, but the conclusions drawn from it are consistent with the future evolution of the impact of the reduction in Pillar II rates.

[11] Stability Programme of the Slovak Republic for the years 2023 to 2026, BOX 6.

IV. Description of measures of the current government

The new government has announced a major consolidation package of 1.5% of GDP. Among the biggest measures on the revenue side are the taxation of temporary high profits in the banking sector, an increase in taxes on negative externalities, an increase in both health levies and corporate taxes, and a reduction in contributions to the 2nd pension pillar. At the same time, the consolidation package creates budgetary space for the government's priorities, with a planned deficit reduction of 0.5% of GDP. These include, in particular, a significant increase in the 13th pension, an increase in the health budget, assistance to households with rising mortgage interest rates, and the creation of a Ministry for Sport and Tourism. At the same time, the government will continue to dampen the rise in energy prices for households next year at this year's levels, but with a lower budgetary cost, given the improved market price situation.

IV.1. Measures included in the budget

Revenue measures

Consolidation measures in direct taxation

The reintroduction of the minimum corporate tax will increase public revenue by 0.1% of GDP. The government will proceed with the reintroduction of the minimum corporate tax, also known as the tax licence. This will have to be paid by the taxpayer regardless of the amount of profit or loss in a given year. The amount of the minimum tax will be graduated depending on the amount of the company's turnover, ranging from EUR 340 to EUR 3 840. The measure is aimed at mitigating the shortcomings of the tax system in the form of the lack of tax control by the financial administration. In the past, since the announcement of the minimum tax, mainly inactive companies with no employees, which did not generate any revenue before its introduction, have disappeared. **At the same time, the maximum revenue threshold for taxpayers for whom the reduced tax rate of 15% applies will be adjusted to a level of EUR 60 thousand**.

Legal entities will also be subject to the so-called compensatory tax from next year. This compensatory tax is based on the European drive to introduce a minimum corporate tax of 15%. In Slovakia, although the basic corporate tax is 21%, various tax expenditures or tax holidays reduce the effective tax rate. In some cases, especially for large companies, the effective tax rate thus falls significantly. Legal persons whose effective tax rate falls below 15% will also be subject to this compensatory tax. In practice, this measure will mainly affect large multinational corporations.

Reducing the second pillar contributions to 4% will create room for the government to partially cover the 13th pension at 0.3% of GDP. Second pillar contributions were increased by a quarter of a percentage point each year until 2022, when they reached 5.5%. However, the government decided to reduce the second pillar contributions to 4% without future increases. The contributions that were originally intended to go into second pillar will be collected by the Social Insurance Institution, thus partially covering the increased expenditure on the 13th pension increase.

From next year, the government will increase the health levy paid by employers by 1 pp In order to raise more money for the health system, the government has decided to increase the health levy paid by employers. They will rise by 1 percentage point to 11% of gross wages. Likewise, the reduced, half-rate paid for the severely disabled will be increased by 0.5 percentage points. At the same time, the levies paid by self-employed workers will be increased by 1 percentage point to 15%. The gross wages of employees or their contribution burden will not be affected. The total labour costs of both employers and tradesmen will increase. The measure will increase public revenue by 0.3% of GDP.

Consolidation measures in indirect taxes

The government will increase excise duty on alcohol by an additional 6% from next year. The government will proceed with a further increase in excise duty on alcohol from 1 January 2024, following the recent increase in April this year. The basic rate of excise duty will thus increase from the current EUR 1 404 per hectolitre of 100%

alcohol to EUR 1 490.40 per hectolitre of 100% alcohol, and the reduced rate to EUR 745.20 per hectolitre of alcohol.

The scope of the reduced VAT rate for catering and restaurant services will be narrowed. From 1 April 2023, a permanent reduction in the VAT rate to 10% has been introduced for a number of services, including restaurants and canteens, including alcoholic beverages served therein. However, the new government will again increase VAT to 20% from the beginning of 2024 on alcohol served in restaurants and catering establishments[12]. The measure is intended to remove the preferential treatment of sales of alcoholic beverages in restaurants and thus remove inconsistencies in taxation.

Excise duty rates on tobacco products will increase in 2024 and 2026. The average final consumer price of a pack of cigarettes will increase by 40 cents in both years. The effective taxation of smokeless tobacco products will continue to converge towards the effective taxation of cigarettes. The rate on tobacco will increase more significantly due to its under-taxation relative to cigarettes. Cigars and cigarillos will not be taxed at the higher rate until 2026.

Other consolidation measures in tax revenue

Extra taxation of the banking sector will be reintroduced from next year, which will increase public revenues by 0.3% of GDP. The government has agreed to extend the special levy on business in regulated sectors to all entities licensed by the NBS. In addition, a special levy rate of 30% of profits is introduced for banks. The bank levy is introduced to additionally tax excessive profits made by banks in an environment of rising and increased interest rates. The special rate for banks will gradually decrease each year to a level of 15% in 2027. From 2028 onwards, the special rate for banks will no longer apply. However, banks will continue to be subject to the standard rate of the special levy.

The government has decided to extend the solidarity contribution from oil refining activities for 2024. In response to high energy prices, the European Union has adopted a regulation concerning the solidarity contribution from companies' excess profits resulting from the energy crisis[13]. In Slovakia, this contribution has been set at 55% and 70% of the super-profits generated in 2022 and 2023 respectively. The new government has also extended it for 2024 at 70% of the super-profits generated compared to the average profits between 2018 and 2021.

The taxation of capital income of individuals will partially revert to the status quo in 2022. The government will proceed with the abolition of exemptions and tax benefits for unregulated securities, units and proceeds from the sale of cryptocurrencies from next year. However, these exemptions were only enacted during 2023. The goal of repealing the recently enacted exemptions is to remove unsystematic tax exemptions and not encourage speculative trades in volatile assets. The differences in taxation and exemptions that were originally intended to be in place from the beginning of 2024 for regulated and unregulated CPs, units and cryptocurrencies created an opaque and complicated system.

Dividend tax will also increase to 10% from next year. The current dividend withholding tax rate is 7%. Higher income earners in particular benefit from this low level of taxation on capital income. This undermines both horizontal and vertical tax fairness. With a modest increase in the rate, taxation can still be expected to be competitive. Experience in France shows that it sometimes even leads to higher investment activity. The measure is being introduced to reduce the gap between the taxation of labour and capital, as labour is currently taxed at much higher rates.

The fee for maintaining emergency oil stocks will also be increased. The remuneration for emergency stockholding services currently amounts to EUR 29.65 per 1 000 l or 1 000 kg. The Petroleum and Petroleum Products Emergency Stocks Agency will increase the waste charge for its services by 1 cent to a total of 4 cents per litre/kilogram.

[12] Thus, it is about abolishing the 10% exemption and taxing it again at the basic VAT rate of 20%.
[13] The solidarity contribution applies to firms in the oil, gas and coal processing sectors, where such activities must account for at least 75% of their turnover.

In order to increase economic activity, the government decided to abolish the commemorative day of the Constitution of the Slovak Republic as a day of rest. Slovakia has the highest number of public holidays in the European Union. There are 15 public holidays in Slovakia, except for those that regularly fall on Sundays[14]. Reducing the number of public holidays will help to increase the number of hours worked. This will in turn translate into slightly higher wages and, consequently, through taxes and levies, higher revenues for the public administration. The full potential of the measure will only be realised in 2025, as the day falls on a Sunday in 2024. Constitution Day will continue to be a day of commemoration but will no longer be a day of rest.

Consolidation measures in non-tax revenue

The levy on profits from the Vodohospodárska výstavba will also be extended. Increased energy prices have caused a significant increase in the profits of the Vodohospodárska výstavba, which is the state-owned company that manages hydroelectric power plants. As a state-owned enterprise, the Vodohospodárska výstavba may be subject to a special levy on after-tax profits under the Law on State-Owned Enterprises. It is possible to determine directly through the State Budget Act what part of the profit is to be paid by the Vodohospodárska výstavba.

The government also decided to increase administrative and court fees. Part of the administrative and court fees have not been indexed since 2009[15] . However, the state's operational costs such as salaries and IT systems for the fee-related agenda are continuously increasing. The increase in the fees collected by inflation since 2009 means that their prices have increased by about half. The measure will be introduced from the second quarter of 2024.

Expendetirue measures

Consolidation on expenditure measures

The government will proceed to reduce spending of individual budget chapters in the state administration by 5% in the volume of personal spending. Since 2011, the number of staff in the central government has risen by around a fifth, despite efforts to increase automation through information technology. At the same time, expenditure on goods and, in particular, services in the state budget has also increased significantly in recent years. Therefore, from 2024 onwards, the Government will proceed to reduce expenditure for budgetary and contributory organisations of the central government.[16]

The government will not valorise wages in the state administration in 2024, and plans to significantly dampen growth below the private sector in the following years. Due to wage indexation, from 1 January 2023 by 7%, and then from 1 September 2023 by a further 10%[17], wages in the public administration will grow faster than in the private sector. Therefore, even without additional indexation, full-year public administration wages in 2024 will be 6% higher than in 2023. For 2025 and 2026, the government plans to dampen the growth in compensation spending well below the expected level of private sector wage growth.

The government will reduce the funding of RTVS, the contribution from the state budget will be reduced by 0.05% of GDP. From July 2023, the concession fees paid to RTVS have been abolished. At the same time, from 2024, the financing of RTVS was secured through the right to a state budget contribution of 0.17% of GDP from two years ago. The new government maintains the abolished licence fees. It will also reduce the state budget contribution to 0.12% of GDP two years ago. The set amount of the contribution is based on the actual expenditure of previous periods.

From 2024, support for reducing the end price of electricity for businesses will be abolished. This support was in response to the high prices of the Tariff for System Operation. However, it has lost its relevance from 2022

[14] Portugal, Spain, Sweden and Croatia have 14.
[15] These are mainly administrative fees pursuant to Act No. 145/1995 Coll. and fixed court fees pursuant to Act No. 71/1992 Coll.
[16] Exempted from the obligation to pay compensation expenses are teaching and professional staff, constitutional officials, judges and prosecutors, regional education employees, health care employees, employees of centres for children and families and specialised institutions, professional parents, employees of public higher education institutions, judicial and legal waiters of the prosecutor's office, administrative capacities, employees in foreign countries, employees of the RRP, employees of the delegated performance of the state administration to municipalities and Local government (municipalities and higher territorial units).
[17] In the case of teaching and professional staff and university teachers, this was 10% and 12% respectively from January 2023 and September 2023.

onwards as Tariff for System Operation levels have fallen significantly due to the introduction of a multi-band tariff for energy intensive businesses. As no further compensation is needed and the subsidy is not a way to combat the energy crisis due to its widespread nature, the subsidy will be abolished as of 2024.

Social priorities

The exceptional allowance for pensioners will increase spending by 0.4% of GDP later this year. In December 2023, a one-off allowance will be paid to citizens who qualify for the 13th pension. This allowance will amount to EUR 300 and will be paid to approximately 1.46 million pensioners.

The permanent doubling of the 13th pension to the level of the average retirement pension will increase public spending by 0.4% of GDP from next year. Currently, the 13th pension is paid between €50 and €300, depending on the level of the pension in the following way: the higher the standard pension, the lower the 13th pension. From 2024, it is to be paid at the amount of the average monthly amount of the recipient's pension for the previous calendar year. The amount of the 13th pension will therefore vary depending on the type of pension received, but will be a minimum of EUR 300. For old-age pensioners in 2024, this amounts to EUR 606.

The government has moved to compensate for increased mortgage repayments through the increased loan repayment allowance and the tax bonus. Rising interest rates have caused mortgage borrowers' repayments to rise. In response to these rising repayments, the Government has created a contribution mechanism which will be available to claim in 2024[18]. This will operate on the same basis as the tax bonus on mortgages where interest rates have already risen this year[19]. The maximum amount of both the allowance and the tax bonus is to be EUR 150 per month, which equates to EUR 1,800 per year. The state will subsidise three-quarters of the increase in the monthly repayment. It can be used by people with a monthly gross income of up to 1.6 times the average wage (up to around EUR 2,100). From 2024, the government will also increase the tax bonus on mortgages for people up to 35 years of age. The maximum amount of the bonus will rise from EUR 400 to EUR 1,200, while the maximum income threshold for people who can claim it will also rise - from 1.3 to 1.6 times the average wage in the economy. The measure also abolishes the threshold for claiming the 50 thousand euro bonus on a mortgage loan.

Other priority spending measures

The government will use the increased health levies to increase health financing by 0.2% of GDP. The additional spending from the increased health levies is to be used to finance health facilities in the public administration above and beyond the increase in personnel costs and inflation. With this increase, the expenditure of health facilities will be fully covered by the public health insurance budget.[20]

The government has increased the provision for compensatory measures related to energy price increases with a net impact of 0.1% of GDP. The original provision created by the previous government for 2024 of 0.5% of GDP was intended to help with rising energy prices primarily for low-income households. The announced assistance for all household groups and for small businesses will require an additional 0.4% of GDP in 2024, bringing the total assistance to 1% of GDP or EUR 1.25 billion. At the same time, part of the compensation for higher energy prices is expected to be refinanced by EU funds to the tune of 0.3% of GDP. Part of it will also be covered by taxing the profits of companies that have made significant profits from expensive energy. The net impact of the energy aid on the general government's economy, even after taking into account the revenues from the taxation of super-profits in the energy sector, will be 0.4% of GDP next year, compared to 1.6% of GDP last year (see **Box 6**).

[18] The impact clause of the legislative amendment shows that the allowance is to be paid only in 2024. For the time being, only expenditure on staff to evaluate applications for the allowance is allocated for the years 2025 to 2026.
[19] The increase in mortgage borrowers' payments for 2023 will be made in the form of a tax bonus, but from 2024 it will be paid in the form of a welfare payment.
[20] This additional funding is also reflected in the draft budget for public sector health facilities.

BOX 6 - Government measures to reduce the impact of energy prices

The cost of compensating for high energy prices will be less than half next year compared to this year. This year, total support is expected to amount to 2.4% of GDP**. Next year**, due to the fall in energy prices on world markets, total compensation will require 1.0% of GDP. However, these costs should be partly refinanced from EU sources. At the same time, some firms making high profits due to high energy prices have been additionally taxed, which also reduces the net impact of the compensation measures on the general government deficit. In the coming year, compensation will be concentrated mainly on households. They will pay (including distribution charges and VAT) an average of EUR 200 per MWh of electricity and EUR 60 per MWh of gas, respectively, and around EUR 150 per MWh of district heating heat. The energy prices set for small businesses will fall: by 10% for electricity and by 20% for gas. Distribution charges for these small businesses remain unchanged year on year. As market prices are currently significantly lower, no compensation for medium and large enterprises is foreseen in the budget, although the subsidy for energy prices above the price ceilings of EUR 99 per MWh for gas and EUR 199 per MWh for electricity will remain in force for medium and large enterprises in 2024.

TABLE 5 - Measures taken by the government to combat the energy crisis with budget impact (in EUR millions)

	Measure	2023	2024*
Businesses	Implementation of price ceilings on electricity and gas prices for unregulated businesses	-320	
	Implementation of price ceilings on electricity and gas prices for regulated businesses	-198	-100
	Implementation of price ceilings on distribution and system charges for electricity for businesses	-407	
Households	Implementation of price ceilings on gas prices for households	-1192	-750
	Implementation of price ceilings on heat prices for households	-334	-200
	Implementation of price ceilings on electricity prices for households (distribution and system fees)	-376	-170
	Support of selected vulnerable customers (gas + electricity)	-69	-30
	Settlement of aid for the 4th quarter at the beginning of next year	121	
Sources of coverage	Reimbursement of scheme costs from unused EU funds	500	450
	Temporary income from the EU regulation regarding excessive profits	283	180
	Implementation of price ceilings for electricity producers	23	1
	Temporary income from a special levy for the state enterprise Water-management Construction	150	80
	Total	**-1819**	**-539**

* Listed expenses from the announced package in the amount of 1.25 billion. euros for individual schemes are currently based on the assumptions of the Slovak Ministry of Finance

Source MoF SR.

At the same time, measures have been taken without any direct impact on public finances. Households are assured of stable electricity prices from this year onwards by the agreement with Slovenske elektrárne, a. s. The capping of electricity prices for households in 2023 and 2024 is at the level of 2022 prices, i.e. approximately EUR 61 per MWh of the power component, excluding VAT. In 2025, according to the agreement, the power component is to increase to EUR 67 per megawatt-hour, or EUR 79 in subsequent years.

A government decision will create a new Ministry of Sport and Tourism from 2024. Among other priorities, the new government has chosen the development of domestic tourism and sport as its goal. To further develop these areas, a new ministry will also be set up from the new year with a remit in sport and tourism. Competence will be transferred to this new ministry, in particular from the Ministry of Education, Science and Research, which currently also covers the sports agenda, and from the Ministry of Transport, which covers the tourism agenda.

TABLE 6 - Quantification of income and expenditure measures (impact on the budget in ESA2010, in EUR millions)

	ESA2010	2023	2024	2025	2026
Summary of revenue measures		**-**	**1 748**	**1 767**	**1 875**
Consolidating measures within direct taxes (economic activity)		**-**	**887**	**988**	**1 040**
Reduction of levies to the second pension pillar to 4%	D.61	-	363	460	495
Increase in medical levies for emplyers by 1%	D.61	-	357	378	395
Introduction of the minimum corporate income tax	D.5	-	118	102	101
Compesatory tax on the enterprise tax	D.5	-	49	49	49
Consolidating measures within indirect taxes (consumption)		**-**	**153**	**203**	**314**
Increase in excise duty rates on tobacco products	D.2	-	107	153	263
Cancellation of the reduced VAT rate on alcohol in catering services	D.2	-	27	29	30
Increase of excise duty on alcohol by 6%	D.2	-	18	21	21
Other consolidating measures within tax and levy income		**-**	**591**	**486**	**449**
Expansion of the special levy on business in regulated industries*	D.2	-	336	282	239
Extension of the solidarity contribution in the oil processing industry in 2024	D.2	-	180	0	0
Adjustment of taxation of capital income of natural persons	D.5	-	25	31	32
A 1-cent increase in the fee for maintaining emergency oil reserves	D.2	-	33	33	33
Cancellation of one Day of Rest	D.2/D.6/D.61	-	12	130	130
Increasing the withholding tax rate on dividends to 10%	D.5	-	5	10	15
Consolidating measures within non-tax income		**-**	**117**	**90**	**72**
Increased levy from the profit of the Water Management Construction (Vodohospodárska výstavba)	D.4r	-	80	40	20
Valorization of administrative and court fees	P.11	-	38	50	52
Summary of expenditure measures		**439**	**840**	**583**	**580**
Consolidating measures in area of expenditures		**-**	**-221**	**-420**	**-522**
Reduction of personal expenses in central governement by 5%	D.1/P.2/P.51g	-	-71	-71	-71
Damping of wage valorization in public administration from 2024	D.1	-	-56	-249	-347
Reduction of expenses of Radio and Televiosion of Slovakia	P.2	-	-55	-60	-64
Cancellation of support for reduction of the final price of electricity for businesses	D.3	-	-40	-40	-40
Social measures with priority		**439**	**601**	**624**	**710**
Special payment of 13th pensions	D.6	439	-	-	-
Doubling of the 13th pension from 2024	D.6	-	513	609	682
Compensation for the increase in mortgage payments	D.6	-	88	15	29
Expansionary measures in area of expenditures		**-**	**461**	**378**	**392**
Increased spending on healthcare (unspecified)	D.632	-	261	278	292
The net effect of the increase in the reserve for measures regarding the growth of energy prices**	P.2	-	100	-	-
Creation of the new Ministry of Tourism and Sports of the Slovak Republic	D.1/P.2	-	100	100	100

* So-called bank tax
** EUR 100 million beyond the already created reserve in the amount of EUR 700 mil. (it is assumed that EUR 450 million will be reimbursed from EU funds and, in rough terms, the costs would therefore be EUR 1.25 billion)

Source MoF SR.

IV.2. Measures not yet implemented

The government also plans to introduce additional personal income tax rates to increase the progressivity of taxation. From 2025, the government plans to introduce 3rd and 4th personal income tax rates, which is expected to increase public revenues by EUR 78 million. A 3rd rate of 30% is to apply to annual personal income above EUR 80 000. Annual income above EUR 100 000 is to be taxed at the highest 4th rate of 35%. This measure will affect approximately 10 000 of the highest earners. The additional resources are intended to increase the budgets of municipalities and local authorities to which the personal income tax belongs.

The government is preparing moves to introduce a tax on sugar-sweetened beverages as early as the end of next year. The introduction of excise duty on sweetened beverages, i.e. soft drinks containing sugar and artificial

sweeteners, is expected in the last quarter of 2024. Following the OECD and EC model, the level of grams of sugars per 100 ml of beverage is to be taxed. A litre of sweetened beverages is to be taxed at 20 cents, syrups at EUR 1.2 per litre. The expected full-year revenue from the tax in 2025 is EUR 95 million. The taxation of sweetened beverages is a tool used in many countries to reduce obesity and other diet-related non-communicable diseases.

The government also plans to introduce an annual settlement of social contributions with effect from 2026. The measure is to change the application of the maximum assessment base from a monthly to an annual basis and to introduce an annual settlement. Employees are now to pay contributions within the year up to a point until they reach the maximum annual assessment base, which is to replace the current maximum monthly assessment. Subsequently, after the end of the year, an annual social levy settlement is to take place, following the model of the health levy. The expected revenue from the change is EUR 104 million. The measure is to be introduced in order to prevent tax optimisation through the accumulation and payment of high remuneration in one month.[21]

In addition to these measures, the government is considering other measures, the setting of which has yet to be specified. The government is also preparing measures that would affect sole traders showing signs of employment. The reintroduction of inheritance and gift taxes is also under consideration. Legal persons could be affected by the envisaged changes concerning progressive taxation of profits. Changes in taxation are also provisionally planned for owners of multiple properties. Changes to the payment of the tax bonus are also being considered with a view to a more targeted social system.

[21] Once the maximum monthly levy ceiling has been exceeded, no further levies are currently payable on income above this threshold.

V. Linking the budgetary plan to the objectives of the Growth and Jobs Strategy and specific recommendations of the Council of EU

The reform efforts of the Slovak Government in key structural areas will continue to focus on the successful implementation of the RRP in the coming years. From the perspective of reducing investment debt and supporting regional development, it will be important to ensure efficient absorption of European funds under the Programme Slovakia. In terms of improving the performance of the education system, it will be important to support compulsory pre-primary education, the gradual introduction of curriculum and textbook reform, and further support for the inclusion of children with special educational needs. Simplification and speeding up of processes in residence and labour legislation will continue to increase workforce availability. In the area of social policies, support for deprived people will be modernised and a new concept of a subsistence minimum will be introduced. The increase in overall investment in science, research and innovation will be accompanied by measures to improve governance in this area, including the consolidation of competences. Support for digitisation will focus on improving the quality and use of the state's electronic services, including for dealing with specific life situations. The business environment will be positively affected by reducing administrative burdens, improving the predictability of the legislative environment and digitising insolvency processes. Healthcare reform will continue with the implementation of the hospital network optimisation, the gradual centralisation of the management of state hospitals, and the streamlining of the emergency medical services. Measures from the RRP aim at increasing energy efficiency, simplifying and speeding up permitting procedures, improving the resilience of the electricity grid, and promoting low-emission transport in the new REPowerEU chapter.

V.1. Top priorities in structural policies

The Slovak Government will continue implementing RRP and will make every effort to successfully submit the remaining payment requests. Thus, the main priorities in the particular structural areas include many of the measures contained in the RRP and their purpose will remain unchanged in terms of implementation. If necessary, the possibility of reassessing certain objectives in the RRP that have more risks and drawbacks than benefits in their specific implementation may be explored in cooperation with the European Commission.

Strengthening pre-primary education will increase the enrolment of children in kindergartens and improve the inclusiveness of the education system. After the adoption of legislative changes related to the implementation of compulsory pre-primary education and the introduction of a legal entitlement to a place in kindergarten, the focus will be on the missing kindergarten capacities. The adoption of other inclusive measures, such as the spatial debarring of schools or the introduction of a unified desegregation monitoring system, aims at changing the approach to children with special educational needs. The implementation of the curriculum reform in primary education will also continue, accompanied by changes in the training and professional development of teachers and specialists, textbook reform and mentoring support for the implementation of the new curriculum in the newly established regional centres. Investments in the modernising and developing research, education and accommodation infrastructure of universities should increase the attractiveness of Slovak higher education.

To address workforce availability, the simplification and acceleration of processes in residence and labour legislation will continue. As part of investments aimed at attracting and retaining talent, functional one-stop shops providing comprehensive services to facilitate settlement in Slovakia will be established. In line with the Manifesto of the Government of the Slovak Republic (Manifesto), a new act on lifelong learning will be adopted to create the conditions for a modern, practical and effective lifelong learning system. It will also include the introduction of individual learning accounts. In the area of social policies, the Manifesto says that a new concept of a subsistence minimum will be introduced so that the amount of the subsistence minimum actually corresponds to the minimum expenditure for basic living needs. In this context, it will also review which instruments and parameters will be linked to the subsistence minimum. The Government will also modernise the financing of support for deprived people, enabling them to make effective choices about the forms of services that will bring them the best social and employment opportunities. Housing policy will, among other things, focus on identifying surplus state properties suitable for construction or conversion into rental housing.

In order to increase the innovation performance of the Slovak economy, the Slovak Government will take ensure the consistent implementation of the National Strategy for Research, Development and Innovation 2030. Trans-ministerial coordination of research, development and innovation (R&D&I) will be professionalised, accompanied by the creation of an inter-ministerial budget programme and the consolidation of the competences of ministries, existing agencies and institutions responsible for policy-making and support for R&D&I. Increased investment in R&D from European sources will provide a significant boost to the research ecosystem. Investments will focus mainly on involving domestic firms and researchers into the European Research Area, private-public cooperation, excellent science as well as research and innovation in the green and digital transformation. Steps to promote digitisation will be directed towards improving the quality and use of the state's electronic services, including the handling of specific life situations, developing cyber security, supporting the expansion of broadband connectivity or streamlining the procurement of state IT through the introduction of a central platform.

The business environment will be positively affected by the reduction of the administrative burdens, improved predictability of the legislative environment and the digitalisation of insolvency processes. A further set of measures leading to administrative savings will be taken within the scope of the RRP milestone. The Slovak Government's manifesto also aims to substantially increase the stability of the legislative environment by limiting the use of the shortened legislative procedure and avoiding circumvention of the discussion with the social partners. The insolvency framework reform will lead to the launch of a single digitised insolvency process through the establishment of a new public administration information system. The introduction of a modern IT system will also reduce administrative barriers to business, allowing businesses and courts to carry out activities related to the commercial register fully electronically. Building shared service centres, which respond to the fragmentation of local government and act as common centres serving several municipalities on a micro-regional basis, will contribute to improving the performance and strengthening the administrative capacity of local public administration.

In the area of regional development and support for infrastructure investments, changes will be adopted to enhance the accessibility of EU funds through the Slovakia Programme. For example, the Slovak Government committed in the Manifesto to consider the possibility of significantly simplifying public procurement processes or creating a fund for pre-project preparation. At the same time, the government will create conditions for increasing the amount of investments from EU funds decided by local and regional self-government.

A significant part of the reform efforts in the health sector has focused on the successful implementation of hospital network optimisation. The Slovak government will also continue to gradually centralise the management of state hospitals, streamline emergency medical services and support the opening of new general practices in underserved regions. The approved strategy for general outpatient care will be gradually implemented, while a reform of specialised outpatient care will be prepared. The DRG system will be put into sharp operation, including a transparent and incentive-based reimbursement mechanism for hospitals that takes into account the financial burden of hospitalisation. Particular attention will be paid to reforming mental health care, improving access to mental health care, supporting the training of mental health staff, while modernising screening and diagnostic methods and treatments. In long-term and palliative care, particular emphasis will be placed on quality, accessibility and coordination of services, including improved supervision of service delivery.

Diversification of energy sources, diversification away from Russian fossil fuels and energy savings are the main objectives of the reforms and investments introduced by the new REPowerEU chapter in the approved update of the RRF. These objectives will be achieved, for example, by increasing energy efficiency, simplifying and speeding up permitting procedures or investing in the resilience of the electricity grid to accelerate the transition to renewable energy sources. The chapter also includes measures to help combat energy poverty, promote low- and zero-emission transport and accelerate the retraining of the workforce in green and related digital skills. Further support for the decarbonisation of Slovak industry will contribute to the reduction of greenhouse gas emissions. Landscape planning reform will improve the protection of existing landscape structures, which make an important contribution to mitigation and adaptation to climate change. The revitalisation of watercourses will also contribute to mitigating the impacts of climate change, ensuring water retention in the landscape and its gradual release.

ANNEX

Annex 1 - Comparison with the Stability Programme

The draft budgetary plan expects a similar performance of the economy in 2024 compared to the Stability Programme, which is reflected in most indicators. The February 2023 macroeconomic forecast, on which the Stability Programme for 2023-2026 was based, projected real GDP growth of 1,3 % in 2023 and 1,8 % in 2024. The latest forecast from the December 2023 special meeting of the Macroeconomic Forecasting Committee raises the dynamics in 2024, while roughly maintaining the estimate for 2023. The stronger performance of the economy reflects lower inflation due to the introduction of price caps on household energy, which will translate into easing household consumption and rising real wages. The economy will overheat more, creating room for consolidation of public finances by 2027. The labour market will grow moderately.

TABLE 7 - Forecast of selected indicators of the Slovak economy

	Indicator		Stability programme				Draft budgetary plan			
			2023	2024	2025	2026	2023	2024	2025	2026
1	GDP, current prices	billion euro	119.7..	128.4..	137.2..	143.4..	119.7..	128.4..	137.2..	143.4..
2	GDP, constant prices	%	1.3..	1.8..	2.7..	1.9..	1.3..	1.8..	2.7..	1.9..
3	Final consumption of households and NPISH	%	0.7..	1.1..	1.5..	1.3..	0.7..	1.1..	1.5..	1.3..
4	Final consumption of general government	%	2.3..	1.4..	0.5..	1.0..	2.3..	1.4..	0.5..	1.0..
5	Gross fixed capital formation	%	14.6..	1.2..	1.3..	-3.3..	14.6..	1.2..	1.3..	-3.3..
6	Export of goods and services	%	1.3..	6.9..	6.6..	5.4..	1.3..	6.9..	6.6..	5.4..
7	Import of goods and services	%	4.2..	6.2..	5.2..	3.8..	4.2..	6.2..	5.2..	3.8..
8	Output gap (share of potential output)	%	-1.2..	-1.2..	-0.1..	0.5..	-1.2..	-1.2..	-0.1..	0.5..
9	Average monthly wage (nominal growth)	%	10.4..	8.1..	6.3..	4.2..	10.4..	8.1..	6.3..	4.2..
10	Average employment growth (LFS)	%	0.1..	0.5..	0.6..	0.4..	0.1..	0.5..	0.6..	0.4..
11	Average employment growth (ESA 2010)	%	0.5..	0.5..	0.6..	0.4..	0.5..	0.5..	0.6..	0.4..
12	Average unemployment rate (LFS)	%	5.8..	5.4..	5.2..	5.2..	5.8..	5.4..	5.2..	5.2..
13	Average unemployment rate (registered)	%	5.9..	5.5..	5.3..	5.3..	5.9..	5.5..	5.3..	5.3..
14	Harmonized index of consumer prices (HICP)	%	9.7..	5.5..	4.3..	2.2..	9.7..	5.5..	4.3..	2.2..
15	Current account balance (share of GDP)	%	-5.5..	-5.0..	-4.6..	-4.0..	-5.5..	-5.0..	-4.6..	-4.0..

Source: MoF SR

TABLE 8 - Comparison of budgetary targets with the Stability Programme

	ESA code	2022 S	2023 OS	2024 NRVS	2025 NRVS	2026 NRVS
		% OF GDP	% OF GDP	% OF GDP	% OF GDP	% OF GDP
General government target balances	**B,9**					
Stability programme (1)		-2,02	-6,30	-3,90	-3,20	-2,20
Draft budgetary plan (2)		-2,02	-6,52	-5,97	-4,97	-3,97
Difference (2-1)		**0,00**	**-0,22**	**-2,07**	**-1,77**	**-1,77**

OS - Expected reality
NRVS - Draft general government budget

Source: MoF SR

Annex 2 - Assessment of forecasts by the Macroeconomic and Fiscal Forecast Committees

The draft budgetary plan for 2024-2026 is based on the December 2023 macroeconomic and fiscal projections for the 2024-2026 horizon. The macroeconomic scenario as well as the projected tax revenues are subject to ongoing discussion, approval and scrutiny by the professional community through committees composed of national experts from the public and private sectors. Both the deadlines for the publication of the forecasts and the principles for the operation of the committees are enshrined in the Law on Budgetary Responsibility.

The December 2023 macroeconomic forecast of the Ministry of Finance of the Slovak Republic (MoF SR) is slightly higher than the median of the other members of the Macroeconomic Forecast Comittee with regard to the impact on budget revenues for 2024. This impact is expressed as a weighted average of the individual relevant bases for budget revenue, using the shares of individual taxes in total budget revenue as weights. The MoF expects higher employment and nominal consumption. Lower inflation will also lead to higher real average wages and consumption. Thus, both nominal and real GDP are higher than the median forecast of the other committee members. The forecast of the MoF was assessed as realistic by the majority of the Committee members present (RRZ, NBS, SLSP, Tatrabanka, Infostat, SAV, ČSOB, VÚB), while Unicredit described the forecast as optimistic.

TABLE 9 - Assessment of the December forecast of the MoF in the Macroeconomic Forecast Comittee

Member of the Committee	Characteristics of the forecast
RRZ, NBS, SLSP, Tatrabanka, Infostat, ČSOB, VÚB	realistic
Unicredit	Optimistic

Source: Macroeconomic Forecast Comittee

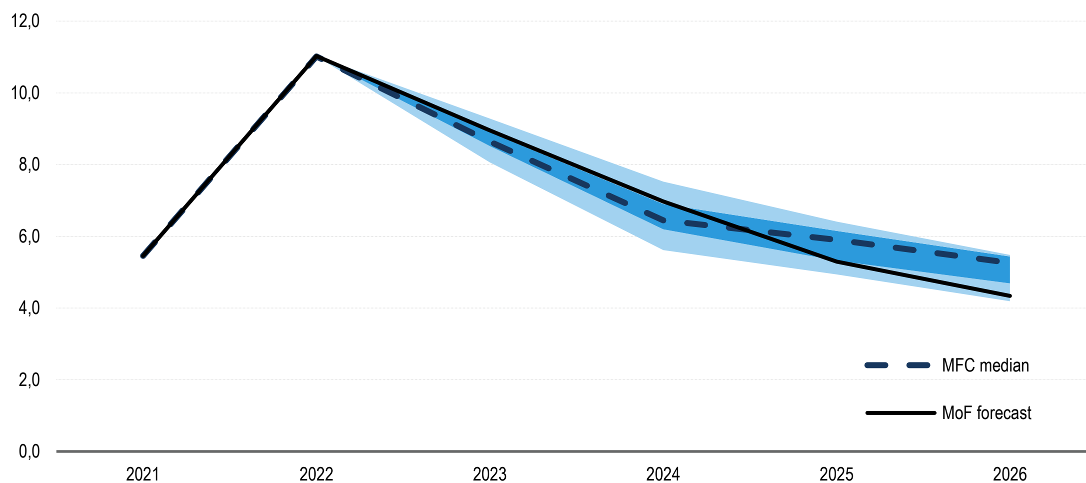
TABLE 10 - Average forecast of Committee members* (excluding the MoF) and MoF forecast

	2022	2023		2024		2025		2026	
in %, unless otherwise specified		Committee	MF SR	Committee	MF SR	Committee	MF SR	Committee	MF SR
Gross domestic product; real growth	1,8	1,1	1,2	2,0	2,7	2,6	2,8	2,5	2,1
Gross domestic product at current prices; billion euro**	109,6	121,4	121,9	129,4	131,3	137,3	139,2	144,0	146,6
Household final consumption; real growth	5,5	-2,3	-1,9	1,7	3,3	2,3	1,7	2,1	1,0
Household final consumption; nominal growth	18,4	8,6	8,9	6,2	7,1	5,5	5,0	4,7	4,4
Average monthly wages; real growth	7,7	-1,0	-0,8	2,4	3,7	2,4	2,2	2,4	1,3
Average monthly wages; nominal growth	-4,5	9,6	9,8	7,2	7,1	6,0	5,3	5,2	4,5
Employment growth (statutory reporting)	1,7	0,2	0,2	0,2	0,4	0,3	0,5	0,3	0,1
Consumer price index; average growth; CPI	12,7	10,7	10,7	4,8	3,2	3,2	3,1	2,5	3,1

** Macroeconomic forecast committee*
*** Committee members' GDP forecast in current prices was based on unrevised values*

Source: Macroeconomic forecast committee

FIGURE 1 - Comparison of[22] macroeconomic baseline projections for budget revenues with committee members



Source: MoF SR

BOX 7 - Independent Committees for the Estimation of Macroeconomic Developments and the Estimation of Tax Revenue Developments

The Macroeconomic Forecast Committee and the Fiscal Forecast Committee are established in accordance with Constitutional Act 493/2011 Coll. on Budget Responsibility as an advisory body to the Minister of Finance. The aim of the Committees is to achieve greater transparency, objectivity and quality of macroeconomic and tax forecasts. According to the Constitutional Act, the committees produce forecasts at least twice a year, by 15 February and 30 June of the current financial year. However, as has been long-established practice, for the purposes of the budgetary process, they also normally produce forecasts by the end of September. In exceptional cases, a meeting of the Committee may be convened by the Chairman of the Committee, by the Minister for Finance or by a majority of the members of the Committee.

In addition to the Ministry of Finance, representatives of institutions independent of the government (NBS, SAV, Infostat and private banks) **are members of the committees**. The members of the Macroeconomic Forecasting Committee rate the Ministry of Finance's macroeconomic forecast as *conservative, optimistic* or *realistic*. The members of the Tax Forecast Committee rate the Ministry of Finance's tax forecast by sending in their forecast; their rating is calculated automatically on the basis of the deviation. The **Treasury Department's forecast is accepted as the Committee's forecast if a supermajority of the members rate it as *conservative* or *realistic*.** If the forecast does not receive such a rating, the Ministry of Finance is obliged to revise the forecast and resubmit it to the Committee for consideration. The process is repeated until the Treasury forecast is accepted as the Committee's forecast.

During 2021, the Tax Forecasting Committee was expanded to include forecasts of selected non-tax revenues and expenditures, which are influenced in no small part by the evolution of the economy. Taking into account economic developments and assessing other specific assumptions in the forecasts through a committee of public and private sector experts means transparently consulted estimates and a more accurate budget. In March and September 2021, the forecasts were expanded to include non-tax revenues of around EUR 1.1 billion and expenditure of around EUR 7-8 billion. On the revenue side, these include revenues from the sale of emission permits, toll and motorway sticker revenues, gambling levy and dividends from state-owned enterprises. On the expenditure side, unemployment benefits, sickness benefits and old-age pensions were added.

[22] Macroeconomic bases for budget revenues (weighting of indicators depends on the share of individual taxes in total tax and levy revenues); Wage base (employment + nominal wages) - 51.1%, Nominal private consumption - 25.7%, Real private consumption - 6.6%, Nominal GDP growth - 9.9%, Real GDP growth - 6.7%.

Tax Forecasting Committee

At the meeting of the Tax Forecast Committee on 07 December 2023, the MoF presented its updated medium-term tax revenue forecast for 2023 to 2026. The MoF's medium-term forecast of tax revenue and social contributions was described as **realistic** by all members of the Committee.

TABLE 11 - Assessment of the MoF forecast in the Tax Forecast Committee

Member of the Committee	Characteristics of the forecast
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank, VÚB	realistic

Source: Committee for Tax Forecasts

Annex 3 - Forecast of gross general government debt by cash flow

Nominal debt developments will be mainly influenced by the need to cover the government's cash deficits over the budget horizon. The use of funds accumulated in the State Treasury (ST) is also foreseen throughout the budget horizon. The borrowing activity of other public entities will contribute to the growth of the general government debt, with the largest impact for Eximbank and ZSSK. The new environment of higher interest rates through the bond discount factor will also have an impact on debt growth. Indeed, the current higher interest rates, with low sovereign bond coupons, increase the required issue discounts, which means that the sovereign has to borrow more than it actually raises to finance itself.

TABLE 12 - Cash effects on the change in nominal gross debt by deficits of the current draft budget (in EUR million)

	2020	2021	2022	2023 OS	2024 N	2025 N	2026 N
A. Government gross debt (as at 1.1.)	**45 306**	**54 993**	**61 237**	**63 378**	**69 201**	**76 586**	**84 776**
B. Total year on year change in gross government debt	**9 687**	**6 244**	**2 141**	**5 823**	**7 385**	**8 190**	**9 468**
- cash deficit of the SR	7 758	7 014	4 525	7 809	7 561	7 354	8 988
- SP funds used to finance the cash deficit of the SR	1 767	-2 365	-954	-2 305	-1 088	122	-473
- indebtedness of other general government entities	49	-153	117	62	229	144	170
of which: ŽSR + ŽSSK	26	-140	-62	24	66	67	100
of which: Municipal transport undertakings	10	-6	44	26	13	10	3
of which: Self-government (municipalities and local authorities)	-3	18	149	-3	42	33	32
of which: Eximbanka	51	-2	14	5	100	50	50
- emission discount	28	18	542	454	699	623	817
- discount at maturity	-16	-2	-11	-49	-15	-53	-33
- others	101	1 732*	-2 078*	-147	0	0	0
C. Government gross debt (as at 31.12.)	**54 993**	**61 237**	**63 378**	**69 201**	**76 586**	**84 776**	**94 244**
in % of GDP	**58,9**	**61,1**	**57,8**	**56,8**	**58,3**	**60,9**	**64,3**
D. Change in gross debt compared to the Stability Programme (p.p.)	**0,0**	**0,0**	**0,0**	**-1,9**	**-1,0**	**1,1**	**1,2**
of which: contribution of forecast change nom. GDP	0,0	0,0	0,0	-1,1	-1,3	-0,9	-1,4
contribution of the change in the forecast for nominal debt	0,0	0,0	0,0	-0,8	0,3	1,9	2,6
p.m. contribution of the SR to the ESM	*0*	*134*	*0*	*0*	*0*	*0*	*0*

*Note: * including sources from entities outside the general government sector. Positive items increase general government debt at 31.12. of the respective year, negative items decrease debt. OS - expected reality at year-end; N - draft general government budget.* *Source.*

TABLE 13 - Cash effects on the change in nominal gross debt by government deficit targets (EUR million)

	2020	2021	2022	2023 OS	2024 N	2025 N	2026 N
A. Government gross debt (as at 1.1.)	**45 306**	**54 993**	**61 237**	**63 378**	**69 201**	**76 586**	**82 976**
B. Total year on year change in gross government debt	**9 687**	**6 244**	**2 141**	**5 823**	**7 385**	**6 390**	**6 968**
- cash deficit of the SR	7 758	7 014	4 525	7 809	7 616	6 652	7 851
- SP funds used to finance the cash deficit of the SR	1 767	-2 365	-954	-2 305	-1 144	-868	-1 836
- indebtedness of other general government entities	49	-153	117	62	229	144	170
of which: ŽSR + ŽSSK	26	-140	-62	24	66	67	100
of which: Municipal transport undertakings	10	-6	44	26	13	10	3
of which: Self-government (municipalities and local authorities)	-3	18	149	-3	42	33	32
of which: Eximbanka	51	-2	14	5	100	50	50
- emission discount	28	18	542	454	699	515	817
- discount at maturity	-16	-2	-11	-49	-15	-53	-33
- others	101	1 732*	-2 078*	-147	0	0	0
C. Government gross debt (as at 31.12.)	**54 993**	**61 237**	**63 378**	**69 201**	**76 586**	**82 976**	**89 944**
in % of GDP	**58,9**	**61,1**	**57,8**	**56,8**	**58,3**	**59,6**	**61,4**
D. Change in gross debt compared to the Stability Programme (p.p.)	**0,0**	**0,0**	**0,0**	**-1,9**	**-1,0**	**-0,2**	**-1,7**
of which: contribution of forecast change nom. GDP	0,0	0,0	0,0	-1,1	-1,3	-0,9	-1,4
contribution of the change in the forecast for nominal debt	0,0	0,0	0,0	-0,8	0,3	0,6	-0,3

The forecast assumes cash deficits of the SR, with the nominal deficit targets of 5% of GDP in 2025 and 4% of GDP in 2026 being met. To achieve them, additional measures are assumed to be taken at a share of 50 % in the state budget and 50 % for other general government entities.
Source: MoF SR

Annex 4 - One-off and temporary measures

The draft budgetary plan of the SR for 2024 foresees the following one-off and temporary measures for the horizon 2022-2026 according to the national methodology.[23]

TABLE 14 - List of one-off and temporary measures

(ESA 2010, EUR million)	2022	2023	2024	2025	2026
Net impact of the government's measures to combat pandemic COVID-19 (reduced by reimbursement from EU funds)	-698	-155	-	-	-
Net impact of war-induced expenditure in Ukraine (net of EU reimbursements)	-153	-81	-	-	-
One-off support for people endangered of inflation	-112	-	-	-	-
Payment of 14th pensions	-208	-	-	-	-
Subsidies for social services	-20	-	-	-	-
Net impact of support schemes related to high energy prices (net of reimbursement from EU funds)	-127	-2275	-800	-	-
Temporary income from the EU regulation regarding excessive profits	412	283	180	-	-
Implementation of price ceilings for electricity producers	-	23	1	-	-
Total	**-906**	**-2205**	**-619**	**0**	**0**

Source: MoF SR

[23] However, these measures are not classified as one-offs according to the EC methodology. Therefore, the mandatory tables show a zero value for one-off measures.

Annex 5 - Discretionary measures (DRM and DEM)

The EC methodology defines discretionary revenue measures as measures of a legislative nature[24] with an impact on government revenue. Their evaluation is carried out using the so-called additional impacts (marginal changes) of these measures. A distinction is made between permanent and one-off measures. A permanent measure is recorded with an impact in the first year (at the time of entry into force) and no impact in the other years. In other words, the change in the impact of the measure in subsequent years due to macroeconomic developments is not taken into account. If there are differential impacts due to a postponement of the measure, only a marginal change is recorded.[25] For one-off revenue measures, an impact in one year and a shortfall of the same amount in the following year is recorded, i.e. the total impact of the measure in two consecutive years is zero.

TABLE 15 - Discretionary revenue measure - incremental impact (in EUR millions, ESA2010)

Description	2022	2023	2024	2025	2026
Change of VAT collection efficiency	-209	0	0	0	0
Measures related to tobacco products in years 2021 - 2026	76	53	107	45	110
Gradual growth of the contribution to the second pension pillar, its temporary freeze and decrease to 4% from 2024	-90	0	363	0	0
Reform of the second pension pillar	0	-10	-23	0	0
Changes of tax rates of Property taxes	2	34	0	0	0
Deffered of social insurance in 2020 and 2021	27	4	-1	-5	0
Temporary exemption of respirators FFP2 and FFP3 from VAT	10	0	0	0	0
Abolition of the VAT exemption for shipments up to 22 euros from third countries	12	0	0	0	0
Changes in R&D tax incentives	15	-15	0	0	0
Implementation of accounting standard IFRS 17 for insurance companies	0	23	0	0	0
Introduction of a seasonal contribution-deductible item for social contributions	0	-11	0	0	0
Temporary revenue from the EU Excess Profits Regulation	412	-129	-103	-180	0
Temporary revenue from the special levy for "Vodohospodárska výstavba"	0	150	-70	-40	-20
Price caps for electricity producers	0	23	-22	-1	0
Abolition of "RTVS" licence fees	0	-35	-41	0	0
Reduced VAT on catering, sports venues, ski lifts, indoor and outdoor sports and fitness facilities and subsequent exclusion of alcoholic beverages from catering services	0	-205	27	0	0
Increase in excise duty on alcohol by 30% in 2023 and a subsequent increase by 10% in 2024	0	34	59	0	0
Increase in gambling levy	0	20	0	0	0
Increase in the price of motorway vignettes	0	21	0	0	0
Minimum health levy premiums	0	20	0	0	0
Prohibition of landfilling of municipal waste without pre-treatment	0	0	0	-15	0
Increased waste tax	0	36	0	0	0
Modification of the motor vehicle registration fee	0	-13	-14	0	0
Waiver of employer's social contributions for employees in the food industry	0	-24	24	0	0
Expansion of the special levy on business in regulated industries (bank tax)	0	0	336	-54	-43
Valorization of administrative and court fees	0	0	38	13	0
A 1-cent increase in the fee for maintaining emergency oil reserves	0	0	33	0	0
Cancellation of one Day of Rest	0	0	12	118	0
Introduction of the minimum corporate income tax	0	0	118	0	0
Compesatory tax on the enterpirse tax	0	0	49	0	0
Increase in medical levies for emplyers by 1%	0	0	357	0	0
Total	**254**	**-23**	**1248**	**-119**	**47**

Source MoF SR.

Note: In the case of measures related to the COVID-19 pandemic, the effects of measures taken at the beginning of the pandemic are fading. As these were one-off measures, they initially had a negative impact on revenues in incremental terms and a positive impact in 2021 and partially in 2022. Note 2: (+) improves the VS balance, (-) worsens the VS balance

TABLE 16 - Discretionary expenditure measure - incremental impact (in EUR millions, ESA2010)

Description	2022	2023	2024	2025	2026
Slowdown in growth of retirement age	2	16	-18	-2	0
Minimum pensions freeze (2021), unfreezing in 2023	-18	0	0	0	0
Early retirement for persons who raised children (born in 1957-1965)	31	-48	1	-7	-14
Introduction of a new pregnancy allowance and pregnancy scholarship	15	0	0	0	0

[24] The same rules apply to expenditure measures, except that not all of them need to be of a legislative nature, as public spending is not all determined by law.

[25] An illustrative example to explain DRM may be a legislative measure with an estimated impact of 200. The measure was introduced in the middle of the year, so its total impact in that year is 100. In the following year, the impact increases to the full amount of 200, but only the difference between the two impacts, i.e. 100, is marginally recorded. Cumulatively, the total impact is 200, it is just spread over two years.

COVID expenditure	-2 263	-541	-155	0	0
Introduction of permanent kurzarbeit scheme	22	-14	0	0	0
Establishment of SLOVAKIA TRAVEL agency	16	0	0	0	0
Increase in defence expenditure to 2% from 2023	0	0	328	0	0
Time mismatch of deliveries (accrual) of military equipment	34	353	73	731	-1 003
Increase in reimbursement of long-term care by the Social Insurance Institution (ZP)	11	14	0	0	0
Expenditure caused by the war in Ukraine	153	-72	-81	0	0
Amendments to the I. pillar (pensions)	0	293	84	0	-84
Parental bonus to retired police officers and soldiers	0	13	0	0	0
Increased child allowance	24	373	0	0	0
Doubling of tax credit for parents with children below 15 years of age	73	0	0	0	0
Increase of the tax bonus to €100 and temporarily to €140	0	550	0	-241	0
100 EUR transfer to families (one-time increase of child allowance)	23	-23	0	0	0
100 EUR transfer to citizens in material need (one-time transfer)	83	-83	0	0	0
Increased transfer from HIC to social service facilities	20	-20	0	0	0
14th pension (one-time transfer)	208	-208	0	0	0
Total compensation for rising energy prices	128	2 147	-1 475	-800	0
Approved wage increase in the healthcare sector	25	398	-25	0	-39
Additional financing of the outpatient sector	0	190	0	0	0
Stabilisation allowance for social services workers	0	60	-60	0	0
Judicial reform and administrative courts	0	25	-14	0	0
Law on construction, spatial planning and the establishment of a central construction authority	0	65	5	0	0
Measures to introduce free lunches	0	100	107	0	0
Costs associated with the Valaliky industrial park	58	57	94	-30	-64
Change in assessment of disability pensions	0	4	39	0	0
Extraordinary valorization of pensions from July 2023	0	524	-524	0	0
Abolition of the reduction of the pensioner's care allowance	0	20	41	21	0
Accelerated valorization of the parental allowance	0	35	-35	0	0
Parental allowance for those parents whose children are not admitted to kindergarten	0	22	114	0	0
Provision of health care	0	35	0	0	0
Amendment to the Education Act (right to admission to kindergarten and right to special support)	0	0	116	116	50
Performance contracts for universities and colleges	0	0	47	20	20
Increase in spending on R&D	0	0	49	131	134
Special payment of 13th pensions	0	439	-439	0	0
Reduction of personal expenses in central governement by 5%	0	0	-71	0	0
Damping of wage valorization in public administration from 2024	0	0	-56	-193	-98
Cancellation of support for reduction of the final price of electricity for businesses	0	0	-40	0	0
Compensation for the increase in mortgage payments	0	0	88	-73	0
Doubling of the 13th pension from 2024	0	0	513	0	0
Creation of the new Ministry of Tourism and Sports of the Slovak Republic	0	0	100	0	0
Increased spending on healthcare (unspecified)	0	0	261	0	0
Total	**-1 355**	**4 724**	**-932**	**-326**	**-1 099**

Source MoF SR.

Note: In the case of measures related to the COVID-19 pandemic, the effects of measures taken at the beginning of the pandemic are fading. As these were one-off measures, they first increased spending in incremental terms (deteriorating the balance) and then their effect gradually decreased (improving the effect on the balance) Note 2: (+) improves the VS balance, (-) worsens the VS balance

Annex 7 - Required tables

Table 0a - Basic assumptions

	2022	2023	2024
Short-term interest rate (annual average) [1]	0,3	3,4	3,7
Long-term interest rate (annual average) [2]	2,1	3,7	3,8
USD/EUR exchange rate (average)	1,1	1,1	1,1
Nominal effective exchange rate (% change)	0,6	1,0	-0,6
World GDP growth excluding the EU			
GDP growth EA	3,9	0,5	1,0
GDP growth of major trading partners	3,6	0,1	1,5
World import growth at constant prices excluding EU			
Oil price (Brent, EUR/barrel)	94,0	75,7	73,4

Source: MoF SR

[1] 3-month Euribor

[2] 10-year government bond of the Slovak Republic

Table 0b - Main assumptions

	2022	2023	2024
1. External environment			
Oil price (€)	94,0	75,7	73,4
German Bonds - Spreads	0,9	1,2	1,2
2. Fiscal policy			
Net lending/borrowing by general government (% of GDP)	-2,0	-6,5	-6,0
GG gross debt	57,8	56,8	58,3
3. Monetary policy, financial sector			
Interest rates:			
Euribor 3M (average)	0,3	3,4	3,7
Deposits	0,1	0,7	1,0
Loans			
SR 10-year government bond yield (average)	2,1	3,7	3,8
Deposits (billion euro)	71,4	76,0	80,0
Loans (billion euro)			
NPL			
4. Demographic trends			
Working-age population development (growth)	3633,5	3642,9	3623,6
Total dependency ratio	53,1	54,2	55,1

Source: MoF SR

Table 1a - Macroeconomic overview

	ESA code	2022 Reality	2022 growth rate	2023 growth rate	2024 growth rate
1. Real GDP	B1*g	92419,3	1,8	1,2	2,7
of which					
1.1 Projected impact of aggregate budgetary measures on economic growth	-	-	-	-	-
2. Potential GDP	-	91995,5	1,5	1,9	2,0
Contributions:					
- labor	-	-	0,0	0,0	0,0
- capital	-	-	0,6	0,8	1,0
- total factor productivity	-	-	0,9	1,1	1,0
3. Nominal GDP	B1*g	109645,2	9,4	11,2	7,7
Components of real GDP					
3. Final consumption of households and NPISH	P.3	53636,3	5,5	-1,9	3,3
4. Final consumption of general government	P.3	15943,5	-4,2	-1,5	1,3
5. Gross fixed capital formation	P.51g	18728,5	4,5	7,7	5,1

6. Change in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2588,5	2,8	-1,6	0,6
7. Exports of products and services	P.6	90246,3	3,0	-0,7	4,0
8. Imports of products and services	P.7	88712,2	4,2	-6,4	7,4
Contributions to real GDP growth					
9. Total domestic demand	-	-	3,2	0,2	3,2
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	-0,2	-4,8	2,5
11. Balance of foreign trade in goods and services	B.11	-	-1,1	5,5	-2,7

Source: MoF SR

Table 1b - Price development

	ESA code	**2022**	**2022**	**2023**	**2024**
		Reality	growth rate	growth rate	growth rate
1. GDP deflator	-	118,6	7,5	9,8	4,9
2. Private consumption deflator	-	125,7	12,2	11,1	3,6
3. HICP [1]	-	125,1	12,1	11,1	3,2
4. Public consumption deflator	-	141,9	11,5	13,0	4,6
5. Investment deflator	-	117,6	9,5	9,2	3,1
6. Export deflator for goods and services	-	120,7	14,6	5,3	0,0
7. Import deflator for goods and services	-	129,5	19,3	5,7	-0,5

Source: MoF SR

[1] Index in 2015 = 100

Table 1c - Labour market indicators

	ESA code	**2022**	**2022**	**2023**	**2024**
		Reality	growth rate	growth rate	growth rate
1. Employees (thousands of persons) [1]	-	2 427,3	1,8	0,3	0,4
2. Hours worked (million) [2]	-	3 937,2	4,3	0,7	0,1
3. Unemployment rate (%) [3]	-	6,1	6,1	5,9	5,4
4. Labour productivity per person (EUR) [4]	-	44 317,9	0,2	0,9	2,3
5. Labour productivity per hour (EUR) [5]	-	23,5	-2,4	0,5	2,6
6. Compensation of employees (EUR million)	D.1	46 667,4	7,6	9,4	7,4
7. Compensation per employee (EUR)	-	22 378,4	6,0	9,0	7,1

Source: MoF SR

[1] Total employment by national accounts, domestic concept
[2] According to the definition of national accounts
[3] Eurostat harmonised rate (levels)
[4] Real GDP per person employed
[5] Real GDP per hour worked

Table 1d - Sectoral balance (

	ESA code	**2022**	**2023**	**2024**
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	-7,3	-2,7	-3,9
of which:				
- Balance on goods and services		-5,2	0,9	-1,6
- Balance of primary incomes and transfers		-1,4	-2,5	-1,7
- Capital account		-0,7	-1,1	-0,6
2. Net lending/borrowing by the private sector	B.9	-5,3	3,8	2,1
3. Net lending/borrowing by general government	EDP B.9	-2,0	-6,5	-6,0
4. Statistical difference		0,0	0,0	0,0

Source: MoF SR

Table 2a - Evolution of general government budgets

	ESA code	2023 % OF GDP	2024 % OF GDP
Net lending (EDP B.9) of general government subsectors			
1. Public administration	S.13	-6,5	-6,0
2. Central government	S.1311	-6,6	-5,9
3. Regional state administration	S.1312		
4. Local government	S.1313	0,0	-0,3
5. Social security funds	S.1314	0,1	0,2
6. Interest costs	D.41	0,9	1,4
7. Primary balance of the GG		-5,6	-4,6
8. One-time and temporary effects:		0,0	0,0
8.a. on the revenue side		0,0	0,0
8.b on the expenditure side		0,0	0,0
9. Real GDP growth (%)		1,2	2,7
10. Potential GDP growth (%)		1,9	2,0
Contributions:			
- work		0,0	0,0
- capital		0,8	1,0
- total factor productivity		1,1	1,0
11. Output gap (% of potential GDP)		-0,2	0,5
12. Cyclical component (% of potential GDP)		-0,1	0,2
13. Cyclically-adjusted balance (1-12) (% of potential GDP)		-6,4	-6,2
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)		-5,5	-4,8
15. Structural balance (13-8) (% of potential GDP)		-6,4	-6,2

[1] TR-TE= B.9.

Source: MoF SR

[2] The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).
[3] A positive sign represents a positive impact of the one-off measure on the general government balance

Table 2b - Evolution of general government debt (% of GDP)

	ESA code	2023	2024
1. Gross debt		56,8	58,3
2. Change in gross debt		-1,0	1,5
Contributions to the change in gross debt			
3. Primary balance		5,6	4,6
4. Interest costs	D.41	0,9	1,4
5. Reconciling debt and deficit		-1,7	-0,3
of which:			
- Differences between cash and accrual		0,0	-0,1
- Net increase in financial assets		-2,0	-0,9
of which: revenue from privatisation		0,0	0,0
- Valuation effects and other		0,2	0,7
p.m. Implicit interest rate		1,7	2,6
Other relevant factors			
6. Liquid financial assets		7,1	5,7
7. Net financial debt (1-6)		49,6	52,6
8. Debt repayments (existing bonds) since the end of the previous year		3,7	3,8
9. Share of debt denominated in foreign currency (% of GDP)		0,6	0,4
10. Average maturity*		9,0	8,9

*Note: * Maturity of government debt as at 31.12.*

Source: MoF SR

Table 2c - Contingent liabilities (% of GDP)

	2022	2023
Public guarantees	11,7	
of which: related to EFSF and ESM	7,7	6,9
of which: linked to international institutions	1,3	
of which: linked to COVID-19 guarantees	2,5	2,2
of which: linked to financial institutions with State participation	0,2	

Source: MoF SR

Table 3 - General government expenditure and revenue balance under the no-policy-change scenario (breakdown by component)

Public administration (S13)	ESA code	2023 OS % OF GDP	2024 NPC % OF GDP
1. Total revenue	**TR**	**41,5**	**38,7**
of which			
1.1. Taxes on production and imports	D.2	12,0	11,4
1.2 Current taxes on pensions, property, etc.	D.5	7,9	7,3
1.3 Taxes on capital	D.91	-	-
1.4 Social security contributions	D.61	15,2	15,2
1.5 Property pensions	D.4	0,6	0,4
1.6 Other[1]		5,8	4,4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		35,1	33,9
2. Total expenditure	**TE**	**48,0**	**45,3**
of which			
2.1 Staff remuneration	D.1	10,3	10,6
2.2. Intermediate consumption	P.2	6,6	6,3
2.3. Total social transfers	D.62, D.632	20,1	19,8
of which: unemployment benefits		0,2	0,2
2.4. Interest costs	D.41	0,9	1,4
2.5 Subsidies	D.3	2,8	0,9
2.6. Gross fixed capital formation	P.51g	4,7	3,4
2.7 Capital transfers	D.9	0,4	0,6
2.8. Other[2]		2,3	2,6

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (except D.91r) *Source.*
[2] D.29p + D.4p (except D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.
2023 = continuous monitoring

Table 4a - Balance of government expenditure and revenue targets

Public administration (S13)	ESA code	2023 % OF GDP	2024 % OF GDP
1. Total revenue	**TR**	**41,5**	**40,7**
of which			
1.1. Taxes on production and imports	D.2	12,0	11,7
1.2 Current taxes on pensions, property, etc.	D.5	7,9	7,9
1.3 Taxes on capital	D.91	-	-
1.4 Social security contributions	D.61	15,2	15,8
1.5 Property pensions	D.4	0,6	0,9
1.6 Other1		5,8	4,4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		35,1	35,4
2. Total expenditure	**TE**	**48,0**	**46,7**
of which			
2.1 Staff remuneration	D.1	10,3	10,7
2.2. Intermediate consumption	P.2	6,6	6,2
2.3. Total social transfers	D.62, D.632	20,1	20,4
of which: unemployment benefits		0,2	0,2
2.4. Interest costs	D.41	0,9	1,4
2.5 Subsidies	D.3	2,8	1,5
2.6. Gross fixed capital formation	P.51g	4,7	3,4
2.7 Capital transfers	D.9	0,4	0,7
2.8. Other2		2,3	2,6

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (except D.91r) *Source: MoF SR*
[2] D.29p + D.4p (except D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.
Note: 2023 = continuous monitoring

Table 4b - Expenditure excluded from the expenditure aggregate

	2022 million euro	2022 % OF GDP	2023 % OF GDP	2024 % OF GDP
1. Expenditure on EU programmes fully covered by revenue from EU funds	1 218	1,1	2,6	1,1
1.a. of which investments fully covered by EU funds	679	0,6	1,5	0,7
2. Non-government expenditure on unemployment benefits (cyclical component)	16,2	0,01	0,02	0,02
3. Change in revenue due to measures (impact of discretionary revenue measures)	254	0,23	-0,02	0,95
4. Automatic change in revenue due to application of legislation	0	0	0	0

Source: MoF SR

Table 4c.i) - Total public expenditure on education, health and employment

	2023		2024	
	% OF GDP	% CV	% OF GDP	% CV
Education	4,6	9,6	4,4	9,5
Healthcare	6,6	13,8	6,8	14,6
Employment	0,1	0,1	0,0	0,1

Note: CV - Total general government expenditure. *Source.*

Table 4.c.ii) - General government expenditure by COFOG classification

Features	COFOG code	2023		2024	
		% OF GDP	% CV	% OF GDP	% CV
1. General public services	1	4,5	9,4	6,6	14,1
2. Defence	2	1,6	3,3	2,1	4,5
3. Public order and security	3	2,4	5,0	2,2	4,8
4. Economic area	4	8,5	17,6	5,2	11,2
5. Environmental protection	5	1,0	2,0	0,8	1,8
6. Housing and amenities	6	0,7	1,4	0,6	1,4
7. Health	7	6,6	13,8	6,8	14,6
8. Recreation, culture and religion	8	1,1	2,3	1,0	2,2
9. Education	9	4,6	9,6	4,4	9,5
10. Social security	10	17,1	35,6	16,9	36,2
Total expenditure	**TE**	**48,0**	**100,0**	**46,7**	**100,0**

Note: The methodology for recording expenditure by functional classification may vary from country to country. This may cause different data to appear under the same heading in different countries (e.g. taxed and untaxed pensions). The COFOG classification also does not take into account expenditure implemented through the tax system (e.g. tax bonuses). CV - Total general government expenditure. *Source: MoF SR*

Table 9(a) - RRF grant income and allocation

	ESA	2021 (% OF GDP)	2022 (% OF GDP)	2023 (% OF GDP)	2024 (% OF GDP)	2025 (% OF GDP)	2026 (% OF GDP)
1. RRF grants included in the projections		**0,0**	**0,0**	**0,3**	**0,9**	**0,8**	**0,4**
2. EU grants paid to the RRF		**0,8**	**0,4**	**0,6**	**1,6**	**0,6**	**0,8**
Expenditure financed by RRF grants							
3.Total current expenditure		**0,0**	**0,0**	**0,1**	**0,3**	**0,2**	**0,1**
Of which:							
- Employee remuneration	D.1	0,0	0,0	0,0	0,0	0,0	0,0
- Intermediate consumption	P.2	0,0	0,0	0,0	0,0	0,0	0,0
- Social benefits	D.62+D.632			0,0	0,0	0,0	0,0
- Interest costs	D.41						
- Subsidies	D.3			0,0	0,1	0,1	0,1

- Current transfers	D.7	0,0	0,0	0,0	0,0	0,0	0,0
4. Total capital expenditure		**0,0**	**0,0**	**0,2**	**0,6**	**0,6**	**0,3**
of which:							
- Gross fixed capital formation	P.51g			0,2	0,3	0,4	0,2
- Capital transfers	D.9			0,0	0,3	0,2	0,1
Other expenditure financed by the grant							
5. Reduction in tax revenue							
6. Other expenditure with an impact on revenue							
7. Financial transactions							

Source: MoF SR