Stability Programme of the Slovak Republic for 2024 – 2027

April 2024

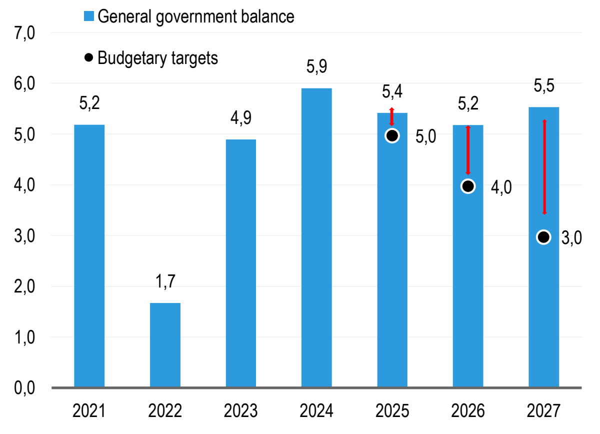
Summary

Slovakia's Stability Programme projects average economic growth slightly above 2% in the coming years, close to its medium-term potential. Real economic growth is expected to reach 2% in 2024, supported by receding inflation and a revival of household purchasing power. Strong real wage growth will lead to increased household consumption, which will be the driving force behind the recovery of domestic demand. The decline in EU funds absorption, due to the end of the third programming period, will be replaced by stronger implementation of Recovery and Resilience Plan projects. Foreign trade will bounce back from its lows and the global economic mood will slowly improve, accelerating Slovak exports. The Slovak economy will also be driven forward from 2026 by higher export capacities in the automotive industry. Real growth will therefore accelerate further to an expected 3.1% in 2025 due to the peak inflow of Recovery and Resilience Plan funds into the economy. In subsequent years, growth will moderate to an average of 2%. Inflation will still rise slightly next year, but should then decline closer to its 2% price growth target. The labor market will be constrained by labor shortages throughout the forecast horizon. The downside risks to the forecast are mainly due to the ongoing Russian invasion, which could again destabilize energy and food prices.

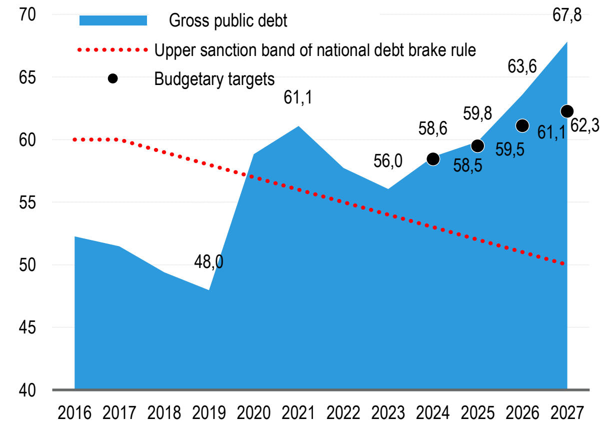
The general government deficit will reach almost 6% of GDP in 2024, following the pandemic crisis, the energy crisis, and the adoption of several permanent measures. After the inflationary shock fully materialized on the expenditure side last year, the deficit increased year-on-year from 1.7% in 2022 to 4.9% of GDP in 2023. The expenditure side grew mainly under the influence of measures aimed at protecting households and businesses from the sharp rise in energy prices. Expenditure growth was also driven by several permanent measures. For example, the double valorization of public sector employee wages, the increase in pensions, expenditure on family policy support, and the jump in healthcare wages. Revenues are also growing more slowly than expenditure this year. The slower revenue growth, even after taking into account the consolidation package, is mainly due to the slower growth of VAT, excise duties, and the decline in temporary revenues from the taxation of excess profits. On the other hand, expenditure is driven by strong growth in defense costs, healthcare, social expenditure, and interest expenditure. However, the deficit should remain below 6% of GDP, in line with the budget plan, also in line with the European Commission's recommendation for 2024.

In line with the commitment to stabilize the unfavorable debt trend from the Manifesto of the Government, the Stability Programme maintains the plan to reduce the general government deficit by approximately 1% of GDP per year. The planned gradual decline of the deficit below 3% of GDP by the end of the election term will ensure an exit from the expected excessive deficit procedure. It will also stabilize the debt trajectory, which would otherwise continue to rise to 70% of GDP. The budget already includes several consolidation measures for next year, such as the withdrawal of measures to mitigate rising energy prices and the planned slowdown in public sector wage growth. The government has also announced its intention to introduce a new tax on sugar-sweetened beverages and to significantly increase taxes on tobacco products. Based on current assumptions, savings of 2.6% of GDP, or €3.9 billion, are needed to reduce the deficit below 3% of GDP by the end of the election term. The proposed targets are also in line with the reformed European fiscal rules, which set a limit on the growth of so-called net expenditure.

General government balance (% of GDP)



Gross debt in % of GDP



Source: MoF SR

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I. MACROECONOMIC ASSUMPTIONS OF THE BUDGET PROPOSAL

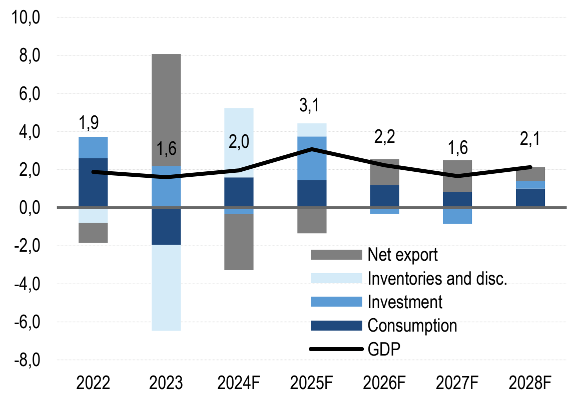
Real GDP growth is expected to reach 2% in 2024, supported by receding inflation and rising consumer purchasing power and domestic consumption. The gradual absorption of EU funds will be replaced by the implementation of Recovery and Resilience Plan (RRP) projects. This will support investment in 2025, foser economic growth to culminate at 3.1%. Subsequently, from 2026 onwards, GDP growth will slow down towards its potential. The automotive industry's higher export capacities will be a major driving force during this period. The labor market continutes to be strong throughout the forecast horizon, but will be constrained by labor shortages. The forecasts risks are mainly on the downside, as the Russian invasion is ongoing, which could again destabilize energy and food prices.

I.1. Macroeconomic forecast[1]

Real GDP will grow by 2% in 2024, driven by receding inflation and a recovery in domestic demand. The recovery will be driven by household consumption, which will be based on strong real wage growth of over 3%. The peak of EU fund absorption in 2023 will be partially replaced in 2024 by the stronger implementation of RRP projects and the purchase of military equipment. Foreign trade will bounce back from its lows and the global economic sentiment will slowly improve throughout the year, supporting Slovak exports. The labor market remains stable, labor shortages will hinder job creation.

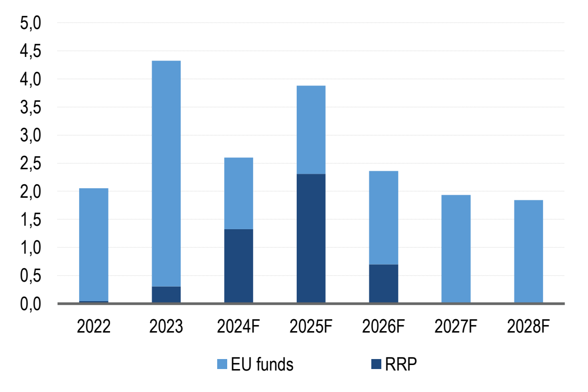
In 2025, economic performance will culminate at 3.1%. For the purposes of the forecast, it is assumed that electricity and gas prices for households will gradually move to market prices, which may lead to a increase in inflation. However, the household's savings rate will be stabilized and real income growth will continue. Household consumption will thus maintain a 2% growth rate. The peak of RRP investment absorption will be reached, providing an additional momentum to the economy, ensuring about half of the projected growth. The external environment will embark on a recovery path and the easing of monetary policy will become more pronounced. Slovak exports will start to accelerate slowly. On the other hand, the necessary fiscal consolidation will dampen economic activity in Slovakia in particular.

FIGURE 1 – Contributions to GDP growth (pp)



Source: MoF SR

FIGURE 2 – EU funds utilization (in EUR billions)



Source: MoF SR

Economic growth of around 2% is expected in the years 2026 to 2028. The effects of funds abortion from the Recovery and Resilience Plan will gradually fade away. The Slovak economy will be driven by higher export capacities of the automotive industry. With new car models, Slovak manufacturers will gradually penetrate foreign markets and are expected to catch up lost market shares. Fiscal consolidation will dampen government consumption. However, household consumption will remain stable. The aging population will have a negative impact on potential employment, as stronger productive cohorts of the workforce will retire.

The labor market is resilient, with unemployment near its historical minimum, but employment dynamics remains low due to labor shortages. The economy will create around 4,000 new jobs in 2024, which is one third less than last year. Industry and low-skilled services jobs, where employment has not yet reached pre-pandemic levels, will be the hit by the deterioration in domestic and foreign demand. Increased early retirements will continue

[1] The forecast includes the assumption of reducing the structural deficit of public finances by 0.7% of GDP in the years 2024-2028.

to a lesser extent this year. The problem of reducing the labor force in Slovakia is dampened by around 100,000 working foreigners. The unemployment rate will fall to a new low.

TABLE 1 – Forecast of selected indicators of the Slovak economy for 2023 to 2028

No.	Indicator	unit	Actual 2022	Actual 2023	Actual 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
1	GDP, current prices	bn. eur	109,8	122,8	131,4	140,4	147,0	152,7	159,3
2	GDP, constant prices	%	1,9	1,6	2,0	3,1	2,2	1,6	2,1
3	Final consumption of households and NPISH[1]	%	6,1	-3,2	2,3	2,2	1,9	1,7	1,8
4	Final consumption of government	%	-4,5	-0,6	1,9	1,2	0,8	-0,5	0,0
5	Gross fixed capital formation	%	5,7	10,6	-1,6	10,8	-1,4	-3,8	1,8
6	Export of goods and services	%	3,0	-1,4	2,8	3,1	4,5	4,5	3,2
7	Import of goods and services	%	4,3	-7,6	6,3	4,7	3,1	2,9	2,6
8	Output gap (share of pot. output)	%	0,5	-0,3	-0,3	0,7	1,0	0,8	1,2
9	Average montly wage (nominal growth)	%	7,7	9,7	6,3	5,5	4,4	4,0	4,5
10	Consumer inflation (ŠÚSR)	%	12,8	10,5	3,0	4,1	2,3	2,2	2,2
11	Average montly wage (real growth)	%	-4,5	-0,8	3,2	1,4	2,0	1,7	2,2
12	Employment growth, ESA	%	1,8	0,3	0,2	0,7	0,5	0,1	-0,2
13	Unemployment rate, disposable (MPSVaR)	%	6,3	5,3	5,0	4,7	4,5	4,5	4,5
14	Current account balance (share of GDP)	%	-7,3	-2,0	-3,2	-3,9	-3,2	-2,5	-2,2

Source: MoF SR

Employment will accelerate in 2025 along with the economy to 0.7%. The culmination of the absorption of Recovery and Resilience Plan funds will create up to 14,000 new jobs. In the following period, labor market growth will slow down along with the decline in the economically active population. The unemployment rate will fall to 5% by the end of the forecast horizon.

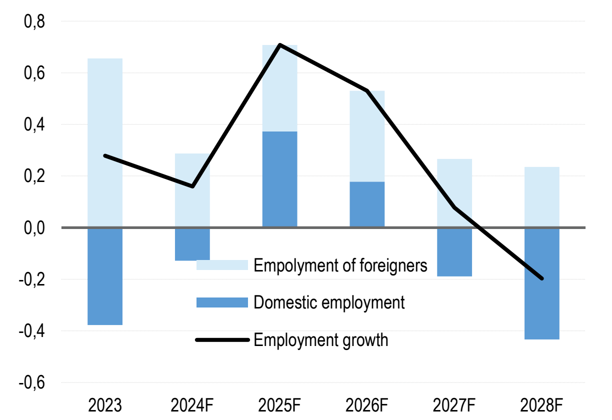
Real wages will increase after two years of decline. Nominal wage growth will slow down year-on-year along with lower productivity growth, inflation and backward indexation. Negotiations in the public sector should reflect the need for consolidation. The private sector should thus outpace the public sector in wage increases in 2024. In the following years, the gap between the growth of average wages in the economy and labor productivity will gradually close. Real wages are expected to increase at an average annual rate of 2% from 2025 onwards.

Inflation will slow down to 3% in 2024, with the negative price shock fading away across the EU. The slow price growth since April last year led to a gradual reduction in year-on-year inflation, which continued in 2024. The slow price growth was supported by the continuation of energy subsidies for households. Food prices, one of the main sources of price growth recently, have stabilized, as have the prices of tradable goods and services.

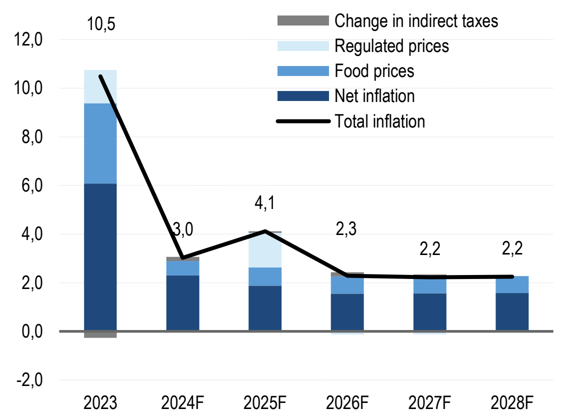
Price growth in 2025 could accelerate slightly if energy prices were to transition to market levels. Since the autumn of last year, we have observed a relatively strong decline in electricity and gas futures prices, which have gradually fallen by about a third compared to October 2023. The expected termination of energy price subsidies could lead to a moderate increase in gas and heating prices. Electricity prices will still remain under memorandum agreeement with the SE next year. The return to market prices will lead to a temporary acceleration of inflation above four percent next year. However, markets expect energy commodity prices to fall in the coming years, so over the medium term we can expect energy prices to dampen inflation. After the dissolution of negative infaltion shock, food and tradable goods prices are expected to return to the rates observed in the years 2017 to 2020. Service prices will rise faster, but overall price growth over the medium term will be dampened by consolidation.

FIGURE 3 – Contributions to employment growth (pp)

FIGURE 4 – Factors contributing to inflation (pp)



Source: MoF SR



Source: MoF SR

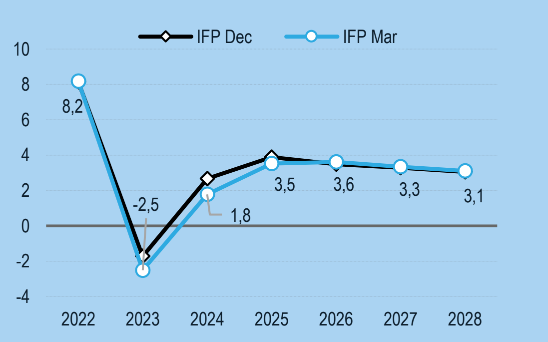
BOX 1 – External Environment Assumptions

The global economy showed signs of slowdown in 2023. High interest rates and the fading inflationary and energy shock had a negative impact on the performance of the main global economies. The situation was particularly unfavorable in Germany, which was the only developed country to experience a contraction of its economy. There was also a significant slowdown in China, while the US economy surprised with its resilience. A negative development was also recorded by our closest trading partners from V4, where performance in the Czech Republic and Hungary declined slightly and the Polish economy stagnated.

Industry remains a problematic sector, while services support the recovery. European industry was unable to embark on a recovery path throughout the year due to low foreign demand and high interest rates. Heavy and energy-intensive industry is particularly under pressure, which is affecting Germany as well as other strongly industrially oriented countries such as the Czech Republic and Hungary. Despite the fact that leading indicators suggest the onset of a mild recovery in global industry, the unfavorable development in Germany and the entire eurozone continued in the first quarter of this year. On the other hand, the services sector entered the new year with positive dynamics and recorded the first months of growth, suggesting that this year's economic growth could exceed last year's performance.

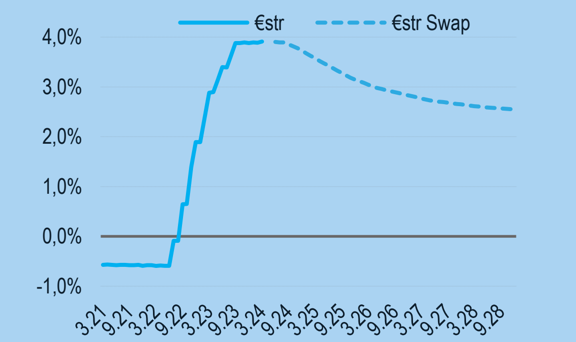
Foreign demand will grow slowly this year. Due to the negative momentum in the beginning of the year and the negative carry-over effect from last year, foreign demand will remain weak. The recovery is expected in the second half of the year, with the ECB expected to cu its interest rates. Lower financing costs and continued global recovery will support growth, especially in the suffering industrial sector. Foreign demand in 2024 will grow mainly due to the solid growth of the V3 region, supported by the rapid pace of monetary policy easing. Over the longer term, we expect a gradual dissipation of shocks in the eurozone and Germany, which will ensure the stabilization of foreign demand in the coming years.

FIGURE 5 – Changes in weighted foreign demand index (yoy, %)



Source: MoF SR

FIGURE 6 – €str curve estimate according to interest rate swaps



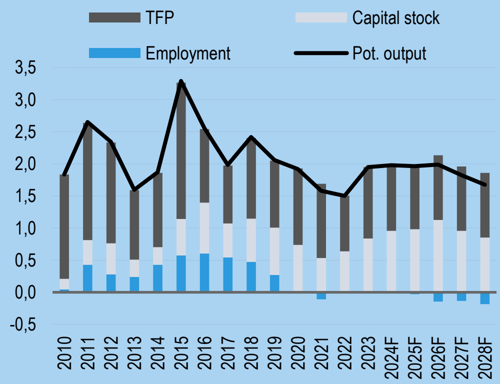
Source: Bloomberg, MoF SR

BOX 2 – Output Gap Estimate

Since 2023, investment impulses from EU funds have pushed up the dynamics of potential GDP. While in 2023 its main source was the EU structural funds, from 2024 onwards, the Recovery and Resilience Plan are helping to keep up the potential growth at 2.0%. The pace of potential output growth will continue to be driven mainly by total factor productivity and capital accumulation. The aging population will have a negative impact on the Slovak economy. The prime age categories will narrow and employment will decrease its dynamics to 1.7% by the end of the forecast horizon.

According to the national methodology of the Ministry of Finance of the Slovak Republic, the Slovak economy will remain 0.3% below its potential. Along with the recovery of domestic consumption and exports, the economy will gradually move above its potential. Demand will be supported mainly by investment activity in 2024 and 2025. On the other hand, the end of the Recovery and Resilience Plan funds absorption in 2026 and ongoing fiscal consolidation will put pressure on closing the output gap. The national methodology of the Ministry of Finance of the Slovak Republic is used in this document for estimation of the cyclical component of the structural balance of public finances.

FIGURE 7 – Contribution of production factors to potential growth (pp) – MoF SR approach



Sorce: MoF SR

TABLE 2 – Contribution of production factors to potential growth (pp) – MoF SR approach

	Output gap (% of pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital stock	Labor
2021	0.2	1.6	**1.2**	**0.5**	**-0.1**
2022	0.5	1.5	**0.9**	**0.6**	**0.0**
2023	-0.2	2.0	**1.1**	**0.8**	**0.0**
2024F	-0.3	2.0	**1.0**	**1.0**	**0.0**
2025F	0.7	2.0	**1.0**	**1.0**	**0.0**
2026F	1.0	2.0	**1.0**	**1.1**	**-0.1**
2027F	0.8	1.8	**1.0**	**1.0**	**-0.1**
2028F	1.2	1.7	**1.0**	**0.9**	**-0.2**

* Total factor productivity

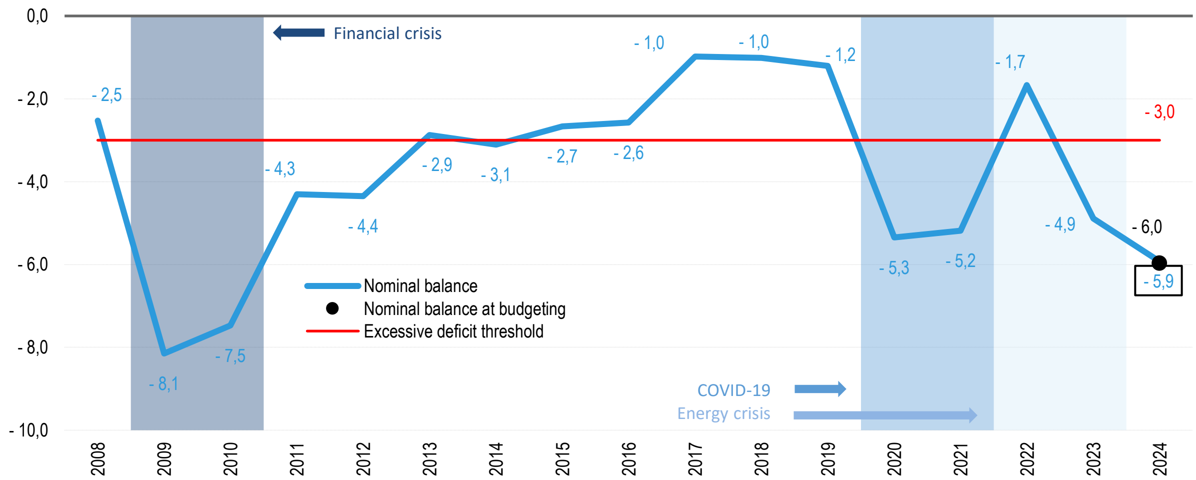
Sorce: MoF SR

II. CURRENT FISCAL POSITION

After the inflationary shock fully materialized on the expenditure side last year, the deficit for 2023 increased year-on-year from 1.7% to 4.9% of GDP. The expenditure side grew mainly under the influence of measures aimed at protecting households and businesses from the sharp rise in energy prices. In addition to energy aid of 2.5% of GDP, other permanent measures also drove expenditure growth in 2023. For example, the double valorization of public sector employee wages, the increase in pensions, support for family policy, and the jump in healthcare wages. This year, revenues are growing at half the pace of expenditures, even after taking into account the consolidation package of 1.3% of GDP. The slower revenue growth is mainly due to the slower growth of VAT, excise duties and the decline in temporary revenues from the taxation of excess profits. On the other hand, the expenditure side is driven mainly by defense spending, healthcare, social expenditure and also by debt service. However, the deficit should remain below 6% of GDP in line with the budget plan this year and compliance with the expenditure rule from the European Commission's recommendation for Slovakia is also expected.

The general government deficit is currently above the historical average. The deficit increased significantly from 1.7% to 4.9% of GDP last year, mainly due to inflationary pressures but also new measures. Despite significant revenue measures, the deficit is growing to close to 6% of GDP this year.

FIGURE 8 – Development of the nominal balance in % of GDP



Source: MoF SR

II.1. General Government Balance in 2023

Tax and social security revenues grew by as much as 10% last year, but this was not enough to offset the sharper rise in expenditures. Due to high inflation, nominal macroeconomic indicators affecting tax collection also grew. Wages in the economy grew year-on-year by almost 10%, household consumption by 7.5% and nominal GDP by more than 11%. One-off factors affecting VAT revenue (household energy aid and payments from one tax subject under an individually set payment schedule) also contributed to the high revenue growth. The growth in tax revenues was slightly dampened by the decline in the effective tax rate due to the slower growth in tax collection compared to economic growth. This is most evident in corporate tax and withholding tax. The reduction of the VAT rate to 10% in the gastronomy and sports sector had a negative impact on revenue growth. The revenue from the Solidarity Contribution from activities in the oil, gas, coal and refinery industries also decreased year-on-year. Despite the negative factors, however, most taxes recorded year-on-year growth. VAT revenue grew by over 16%, labor market taxes by 9%, and corporate tax by almost 9%.

FIGURE 9 – Contributions of taxes to y-o-y growth of tax and contributions revenue (2023, ESA2010, pp)

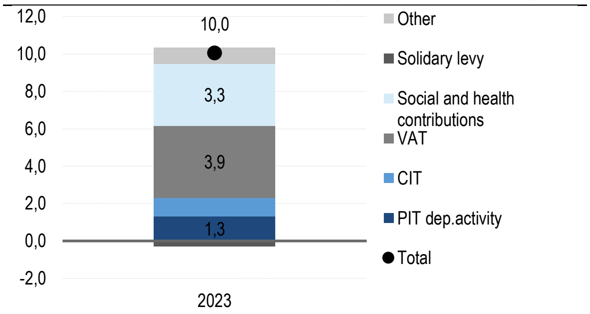
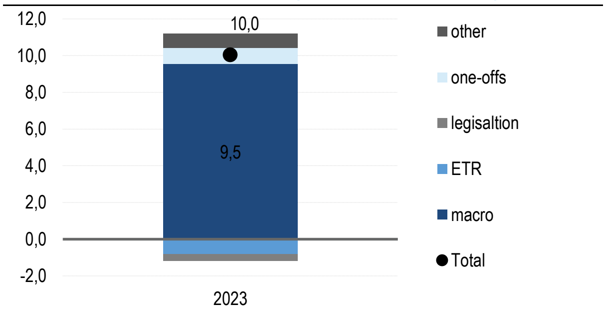


FIGURE 10 – Impact of factors to y-o-y growth of tax and contributions revenue (2023, ESA2010, pp)



Source: MoF SR

Selected non-tax revenues grew only slightly year-on-year. Revenues from the sale of emission allowances in 2023 grew due to rising emission allowance prices on the exchange and also due to an increase in the volume of traded allowances. Revenues from the gambling levy continued the growing trend from previous years and were also strengthened by a legislative measure to increase the gambling levy. The revenue from electronic tolls and the sale of highway passes also continued to grow. Their growth was also helped by an increase in the prices of highway passes. On the other hand, revenues from dividends from state-owned enterprises decreased year-on-year, mainly due to the SPP Group, which did not pay any dividends in 2023[2].

The expenditure side of the budget grew more significantly than the revenue side, mainly due to wage expenses, which grew by 16%. The main factor in the growth of compensations was the valorization of wages, which affected mainly teachers, but also other public sector employees. Teachers' wages were increased first by 10% in January and then by 12% in September. Other public sector employees experienced a double valorization to a lesser extent - a 7% wage increase in January and a further 10% in September. The increase in the number of public sector employees also contributed slightly to the growth of the wage bill[3].

On the other hand, costs of goods and services grew below the level of inflation. Energy costs, which rose by tens of percent year-on-year, recorded a high increase[4]. However, this increase was partially offset by a significant decrease in COVID-19 expenditures (only 0.1% of GDP last year). The growth of intermediate consumption was also dampened by lower purchases of consumer goods and a reduction in transport costs[5].

Subsidies increased almost 2.5-fold year-on-year. The high growth was caused mainly by energy aid for businesses and households, which amounted to as much as 2.5% of GDP. Compared to the inflation aid in 2022 of 0.4% of GDP, this represented a more than fivefold increase (see **BOX 3**).

BOX 3 – Government measures to reduce the impact of energy prices

Compensation for the rising energy costs of households reached 1.6% of GDP last year. For 2023, the government capped the year-on-year growth of gas prices for households at 15% and the growth of heat prices by an average of 20%. The difference between the maximum growth and the regulated price, which is set by the Regulatory Office for Network Industries (ÚRSO), was covered from the state budget. In the case of gas price compensation, the costs were at the level of 1.0% of GDP, or 0.3% in the case of heat. Gas and heat prices for households in 2024 remain at the level of the previous year. Thanks to an agreement with Slovenské elektrárne, the government does not have to compensate for the power component of electricity, which remains at the 2022

[2] In 2023, the SPP Group paid dividends to the state budget in the amount of 220 million euros, which were, however, accrued to 2022.
[3] Employment in the public sector increased by 0.6% year-on-year, representing an increase of approximately 2.5 thousand employees. Employment grew the most in local governments and state healthcare facilities.
[4] The state budget reimbursed municipalities for increased energy costs in schools that are not under the original competence of municipalities, i.e. primary and secondary schools. At the same time, the same support scheme applied to municipalities as to unregulated businesses. The government reimbursed municipalities for 80% of the costs above the set ceiling of 199 euros per MWh for electricity and 99 euros per MWh for gas, respectively. The state budget also had additional costs with the increased energy prices paid by state administration entities. The main beneficiaries were state-owned enterprises under the Ministry of Transport (ŽSSK and ŽSR), as well as the Ministry of Interior and the Ministry of Justice.
[5] These are expenses related to transport costs in the EKRK classification under category 630.

level in both 2023 and 2024. Costs for public finances arise from the compensation of rising systemic and distribution charges (0.2% of GDP), as the government guarantees to keep the total price of electricity at the 2022 level. In addition, a change in legislation in 2022 created a new category of regulated customers, so-called "selected vulnerable customers", which includes house boilers, social service facilities, rental and social housing. Compensation for all energy for this group of customers is up to 0.1% of GDP.

Schemes to support businesses compensating for high energy prices reached 1.0% of GDP last year. The government compensated businesses for 80% of the energy costs above the set ceiling throughout the past year. In the case of the power component of electricity, the ceiling was set at 199 euros without VAT per MWh, the ceiling for gas supply was set at 99 euros without VAT per MWh. The costs of the scheme represent 0.2% of GDP. Small businesses with an annual consumption of 30 MWh of electricity and 100 MWh of gas per year, falling under regulated prices, had even more favorable conditions. The government compensated for 100% of the energy costs above the set ceiling (0.2% of GDP). The ceiling is the same as for unregulated companies at 199 euros per MWh for electricity and 99 euros per MWh for gas, respectively. The schemes were extended to 2024, but due to the positive development of energy prices, significantly lower budget costs are expected this year. In the course of the past year, the government approved, as in the case of households, compensation for rising systemic and distribution charges for electricity (0.6% of GDP), which is also valid in the current year.

The costs of energy measures were partly offset last year by temporary revenues from the taxation of excess profits and EU funds (1.2% of GDP). In response to high energy prices, the European Union adopted a regulation on a solidarity contribution from excess profits of companies arising from the energy crisis[6]. In Slovakia, this contribution was set at 55% of excess profits generated in 2022, or 70% for 2023 and 2024. Revenue last year was at the level of 0.3% of GDP. At the national level, in accordance with the EU regulation, a cap on revenues from electricity generation was also introduced. The profits of companies that sell electricity above the set price are taxed at a 90% rate (up to 0.1% of GDP). In addition to the EU regulation, a levy was established for the state-owned enterprise Vodohospodárska výstavba (0.1% of GDP). This measure is also aimed at taxing excess profits from electricity sales. Another source of funds to cover the costs associated with rising energy prices is the reallocation of unspent EU funds from the III. programming period, estimated at 0.8% of GDP.

TABLE 3 – Measures taken by the government to fight the energy crisis with impact on the budget

	Measure	2023	2024 Estimated full year	Drawdown 1Q 2024
	Expenditure measures total	**-3116**	**-800**	**-437**
Companie	Capping electricity and gas prices for unregulated businesses	-283	-	-3
	Capping electricity and gas prices for regulated businesses	-237	-	-
	Capping the prices of distribution and system charges for electricity for businesses	-676	-	-
Housholds	Capping gas prices for households	-1237	-	-310
	Capping the prices of gas distribution and system fees	-	-	-10
	Capping heat prices for households	-371	-	-112
	Capping electricity prices for households (distribution and system fees)	-238	-	-
	Support of selected vulnerable customers (gas + electricity)	-76	-	-1
Source for :	Reimbursement of scheme costs from unused EU funds	937	-	-
	Temporary income from the EU regulation on excessive profits	329	129	-
	Price ceilings for electricity producers	30	5	-
	Temporary income from a special levy for Water management construction	152	83	-
	Total (net effect on the balance)	**-2032**	**-583**	

Source: MoF SR a MoE SR

Note: The values for 2023 represent disbursed cash assistance without net refunds (approximately EUR 79 million). Cash disbursements are supplemented by funds disbursed at the end of March 2024 related to schemes in effect in 2023 (values for 2023 are therefore accrued).

Measures with no direct impact on public finances were also implemented. Households are guaranteed stable electricity prices from 2022 thanks to an agreement with Slovenské elektrárne, a. s. The price cap for

[6] The solidarity contribution applies to companies in the oil, gas and coal processing industries, where such activities must account for at least 75% of their turnover.

electricity for households in 2023 and 2024 is set at the price level of 2022, i.e. approximately 61 euros per MWh for the power component without VAT.

Interest expenditure of general Government increased by a quarter year-on-year in the previous year. In 2023, the state's need for financing through bond issuance doubled year-on-year, which mainly reflected the need to cover the high deficit affected by inflation-driven expenditures and energy aid. The increase in interest rates by 1.4 pp compared to 2022 was also a significant factor that led to the growth of interest expenditure. However, part of them was offset by interest on the liquidity resources of public administration entities in the State Treasury. These brought a revenue of almost 0.1% of GDP last year.

Social expenditures also grew by more than a quarter, mainly due to the strong valorization of pensions, increased support for families and the introduction of the parental bonus. The expenditures of the Social Insurance Agency in 2023 were mainly affected by the growth of pensions (22%), which was the result of the January valorization of benefits and the subsequent additional valorization in July in response to inflation. The increase in expenditures was also caused by legislative changes: the parental pension allowing employed children to contribute to their parents' old-age pension according to the amount of their salary[7], the extension of the entitlement to early retirement pension after 40 years of work[8], the increase in the child allowance (from 40 euros to 60 euros/month) and the child tax credit[9], the valorization of the parental allowance and increased cash benefits for the care of people with severe disabilities who are also recipients of pension benefits[10] (together 0.9% of GDP). The increase was also brought about by a one-off €300 allowance for pensioners (0.4% of GDP).

Double-digit expenditure growth also occurred in healthcare and was primarily driven by a sharp increase in the wages of healthcare workers. This increase for doctors, nurses and other healthcare workers was carried out through an adjustment of the coefficients of their basic wage in relation to the average wage in the economy. A significant factor was also the remuneration of healthcare personnel introduced by automatic salary valorization based on the number of years worked (together 0.3% of GDP), which affected mainly more experienced workers. In connection with inflation, wage valorization in hospitals and high energy prices, financial resources for the outpatient sector were also increased by 0.2% of GDP. The increase in expenditure was also contributed to by the drug reform of 2022, the implementation of which increases healthcare expenditure in several years (0.1% of GDP).

Other current transfers also recorded significant year-on-year growth. This growth was caused by the reintroduction of free lunches in the last year of kindergartens and primary schools (0.1% of GDP). The growth of transfers was also slightly contributed to by housing allowances for refugees from Ukraine. On the other hand, it was slightly dampened by the end of the temporary short-time work schemes that were in place during the pandemic.

Capital expenditures without EU funds and Recovery Plan funds increased by 17% year-on-year. In 2023, transport projects dominated among investment projects. Major projects in the transport sector were underway, such as the construction of the Lietavská Lúčka - Višňové - Dubná Skala motorway and expressways (e.g. Kriváň - Mýtna). The establishment of a strategic industrial park near Košice also contributed to the growth of investment expenditures.

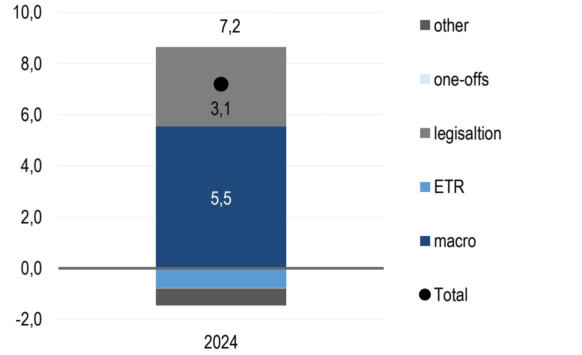
II.2. Current Developments in Public Finances

Tax and social security revenues are growing this year mainly thanks to the consolidation package, without which however, growth is significantly slower than the development of the economy and expenditures. The

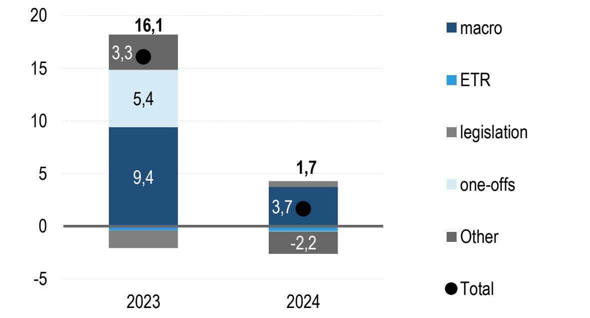
[7] In the amount of 1.5% of the gross salary for each parent, up to a maximum of 1.2 times the average wage from two years ago.
[8] The entitlement to early retirement pension (PSD) standardly arises 2 years before reaching the retirement age. In this case, the pension is reduced by 0.5% for every 30 days started. For those with 40 years of work, the reduction is only 0.3% for every 30 days started. In accordance with this measure, pensions previously granted that meet the condition of 40 years of work will be recalculated by the end of 2025, and these persons will also be paid supplements for the missed period.
[9] The child tax credit increased for children up to 18 years of age to 140 euros (for children up to 15 years of age it was originally 70 euros after July 2022 and for children between 15 and 18 years of age 50 euros), for children over 18 years of age it increased from the original 40 euros to the current 50 euros.
[10] From January 2023, these benefits reach 75% of the level of benefits for recipients in productive age, 100% will be reached from July 2024.

growth of revenues is mainly caused by the government's measures for 1.3% of GDP[11]. On the other hand, the growth of taxes is slowing down the revenue from income tax from dependent employment, where the higher inflation is reflected with a delay through the growth of the non-taxable item on the tax. The low growth of VAT is affected by several, one-off factors from 2023, which will not be repeated to such an extent in 2024 (**FIGURE 12**)[12]. The growth is also dampened by the decrease in the solidarity contribution from activities in the oil, gas, coal and refinery industries and other smaller taxes[13], as well as the year-on-year weaker effective tax rate (EDS).

FIGURE 11 – Impact of factors to y-o-y growth of tax and contributions revenue (2024, ESA2010, pp)



GRAF 12 – Impact of factors to y-o-y growth of VAT (2024, ESA2010, pp)



Source: MoF SR

On the other hand, expenditures continue to grow strongly this year, starting with expenditures on compensation exceeding inflation growth. The largest share of the growth in expenditures on wages and social contributions of employees in the public administration is due to last year's wage valorization from September, which will be reflected in two-thirds only this year. More significant contributions are also made by measures in the field of education[14], science and research[15], as well as increased health contributions paid by employers by 1 pp (together 0.3% of GDP). However, the growth of wage expenditures is slightly dampened by the inclusion in the consolidation package of the binding of personal expenditures of the central state administration to the level of 5%[16].

Costs of goods and services are growing by almost a fifth year-on-year. The dominant item is defense expenditures, another part of which is budgeted for capital expenditures. More significant is also the impact of funds allocated to the new Ministry of Tourism and Sport (0.1% of GDP). At the same time, this item also budgets for expenditures that will actually be reported in other items[17]. The growth in costs is slightly compensated by lower energy prices on the exchanges, which will be reflected in lower energy costs. The growth of intermediate consumption expenditures is also dampened by lower planned expenditures on consumer goods, tools and accessories, as well as transport and travel expenses of employees.

Subsidies are falling by half this year compared to the previous year. The decline in costs is due to the lower need for energy assistance for households and businesses. Expenditures on energy assistance are decreasing year-on-year from 2.5% of GDP to 0.6% of GDP (**BOX 3**). On the other hand, the decline is slowed down by

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[11] These include the introduction of the so-called bank tax, the introduction of a minimum tax for legal entities, the increase in the rate of health contributions paid by employers by 1 pp, the increase in excise duty rates on tobacco products and the reduction of contributions to the II. pillar. The increase in real estate and specific service tax rates has a positive impact on local government revenues.
[12] VAT revenues for 2023 were positively affected by the deferred tax payment of a selected entity. Similarly, the impact of energy aid to households on VAT will decrease by more than 50% year-on-year.
[13] A decline in revenues from the taxation of excess profits of power plants is also expected. Revenues will also lose concession fees, which were abolished on 30.6.2023.
[14] Wage growth as a result of the amendment to the School Act effective from May 2023. The amendment also includes measures such as increasing the number of social workers and supervisors in schools, making the position of teaching assistant more attractive, or introducing introductory years. In addition, a measure was adopted this year to reduce regional differences between teachers through allowances.
[15] Performance contracts for public universities are being introduced this year. The measures include diversification of their specialization and related subsidies from the state budget, increased support for students, support for career development and others. A new strategy for science, research and innovation is also being launched this year.
[16] The consolidation package for 2024 includes binding expenditures in the central state administration to the level of 5% of personal expenditures. However, it is up to the chapters of the state budget to decide on which items to bind expenditures.
[17] In addition to expenditures that belong here in terms of substance, budgetary chapters also budget for expenditures on the intermediate consumption item, which they transfer to other items during the year by budgetary measures.

agricultural subsidies, which have increased by half year-on-year. This is mainly due to late payments to farmers from last year, which are to be paid this year.

Interest expenditure are also growing in current year, by a third compared to 2023. The main source of the expected increase in debt servicing costs is the full impact of the ECB's interest rate hike on the sale of government bonds that cover current financing needs. Interest expenditure are thus growing due to the replacement of maturing, cheaper debt with new debt at higher rates, including the need to cover the expected budget deficit of €6.6 billion in the current year.

Social benefits expenditures are also growing significantly, by 9%. A key factor in the growth is, once again this year, the strong valorization of pensions caused by last year's inflation growth. The measure allowing retirement after 40 years of work also has a significant impact on the increase in expenditures. The increase in the 13th pensions to the level of the average pension also has an impact[18]. The growth of social benefits expenditures is also caused by some smaller measures.[19]

Healthcare expenditures are growing by almost a fifth year-on-year. Healthcare workers' salaries are growing by almost 8% this year[20]. Healthcare expenditures will also be driven by a 1% increase in employers' health contributions, which will be used to co-finance healthcare facilities beyond the statutory growth in personal costs and inflation. The gradual increase in the impact of the introduction of innovative drugs from 2022 is also pushing up healthcare expenditures (0.1% of GDP).[21]

Capital expenditures excluding EU funds and the Recovery Plan are growing by 13%. The construction of the Kriváň - Mýtna section of the R2 expressway and the D1 Hubová - Ivachnová section of the motorway is planned. Operating and maintenance costs for railway infrastructure are growing by 0.2% of GDP. Significantly more will be spent on defense this year, mainly due to the delivery of a significant volume of defense equipment, which represents a year-on-year increase in capital expenditures of 0.6% of GDP. The first F-16 aircraft and 8x8 armored vehicles are expected to be delivered in 2024 according to current forecasts.

[18] The year-on-year growth in expenditures from this measure, after taking into account the one-off allowance of €300, is caused by the non-reduction of the 13th pension for recipients with higher pensions. As a result, a lower 13th pension was paid last year to pensioners with low pensions.
[19] These include the accepted change in the classification of the type of disability for the payment of disability pensions, pro-family measures such as a new allowance for parents whose children were not admitted to kindergarten, as well as assistance with mortgage repayments, changes in the housing allowance in material need or the extension of personal assistance in schools.
[20] Wages in healthcare are indexed to wage growth in the economy two years ago (i.e. currently from 2022).
[21] The process of adopting a new innovative drug, which is usually expensive, can take up to two years and requires applications, controls and subsequent negotiations. Thanks to the continuity of the process, old drugs are gradually being replaced by newer ones, which covers some of the expenditures, however, the increased impact on the growth of healthcare expenditures will continue in the coming years.

III. BUDGETARY TARGETS

The government maintains its current plan of reducing the nominal deficit by 1% of GDP annually in the Stability Programme. Such a deficit reduction will ensure that the deficit will decrease below 3% of GDP at the end of the election term and thus also means exiting the expected excessive deficit procedure. At the same time, it will stabilize the growing debt trend. The Stability Programme already includes several consolidation measures for 2025, such as not paying out any energy aid and curbing the growth of public sector wages. The government has already announced its intention to introduce a new tax on sugar-sweetened beverages and to tax tobacco products more heavily. By the end of the electoral term, savings of 2.6% of GDP in total are needed based on current budget knowledge.

The government plans to reduce the nominal deficit by 1 pp in the next three years, which is key to achieving the goal of stabilizing rising debt by the end of the election term. Stopping increase in debt is necessary to build fiscal space for the expected costs associated with population aging and for future shocks from risks that Slovakia may face. On the other hand, without government intervention, debt would attack the 70% of GDP by the end of the election term (more in the chapter on debt and sustainability of public finances). To stabilize debt, it is necessary to reduce the budget deficit to 3% of GDP, i.e. to meet the current target from the draft budget. From the point of view of consolidation efforts measured as a total reduction of the structural deficit by the end of the election term, it would be a total consolidation effort of between 2 and 3 pp of GDP. The budget targets set in this way will stabilize debt already at the end of the current election term. At the same time, they will set a downward trend in debt-to-GDP ratios after this period. They are also in line with the new European fiscal rules, based on the so-called expenditure rule (**BOX 4**).

In the next year, the government will, in accordance with its commitment, reduce the nominal deficit to below 5% of GDP. Budget development will be adversely affected by the decline in tax and non-tax revenues to GDP, as well as rising interest costs and defense spending, which increases the need for consolidation measures. However, the currently set budget already includes some measures that will compensate for this unfavorable development. These include, in particular, the planned curbing of wage growth in the public sector and the cessation of energy aid payments from next year.[22] Similarly, for this purpose, the introduction of taxation of sugary drinks as well as tobacco products has been announced so far, which are not yet included in the Stability Programme budget (more on individual measures below). Further measures will be presented gradually so that they are known by the time the final draft budget for 2025 to 2027 is prepared.

TABLE 4 – Consolidation effort (ESA2010, % of GDP)

	2022	2023	2024 E	2025 PS	2026 PS	2027 PS
Net lending/borrowing (Non policy change) - target (1)	-1,7*	-4,9*	-5,9	-5,0	-4,0 (0,0)**	-3,0 (0,0)**
Cyklic component (2)	0,2	-0,1	-0,1	0,3	0,4	0,3
One-off and temporary measures (3)	-0,6	-1,5	-0,5	0,0	0,0	0,0
Structural balance according to national methodology (4=1-2-3)*	-1,3	-3,3	**-5,3**	**-5,3**	**-4,3**	**-3,3**
Consolidation efforts according to the national methodology (year on year change 4)		-2,0	-2,0	**0,0**	**0,9**	**1,1**
Structural balance according to EC methodology (5=1-2)	-1,9	-4,8	**-5,8**	**-5,3**	**-4,3**	**-3,3**
Consolidation effort according to EC methodology (year on year change 5)		-2,9	-1,0	**0,6**	**0,9**	**1,1**
p. m. current draft budget settings				*-5,5*	*-5,2*	*-5,5*
p. m. necessary measures to achieve the targets ****				*0,5*	*1,2*	*2,6*

** According to Eurostat spring notification.* *Source: MoF SR*
*** In 2025, the escape clause from the debt brake sanction regulated in the Fiscal Responsibility Act will expire. The debt brake sanction would require the submission of a budget proposal for 2026, which will be balanced, or in surplus.*
**** 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.*
Note: Numerical discrepancies may occur due to rounding.
***** estimate is preliminary and may change until the finalization of the budget proposal.*

[22] The currently drafted budget also includes several smaller measures on the expenditure side, such as reducing the transfer to the State Housing Development Fund, canceling subsidies from the Ministry of Construction and Regional Development of the Slovak Republic for the renovation and construction of the housing stock, canceling the subsidization of night trains, reducing expenditures intended for land consolidation projects, reducing the expenditures of the Slovakia Travel company (together 0.1% of GDP).

In order to achieve the planned deficit reduction by the end of the election term, additional consolidation measures in the amount of almost 2.6% of GDP will need to be presented. This means that additional measures of EUR 3.9 billion are needed to achieve the targets by the end of the election term. In addition to the already announced new tax on sugar-sweetened beveragesand a further increase in tobacco tax, the government has announced its intention to adopt other measures aimed at a more progressive and fairer tax system. With the same goal in mind, the government will conduct thorough analyzes of the expenditures of the entire public administration, for example in the employment of the central state administration.

TABLE 5 – Expenditure and revenue balance in ESA2010 methodology (% of GDP)

			E		PS	
	2022	2023	2024	2025	2026	2027
1.Revenue total	**40,6**	**43,0**	**41,0**	**40,5**	**39,7**	**39,0**
Tax revenue	20,1	20,1	19,6	19,3	18,8	18,5
Social contributions	14,9	15,4	15,6	15,5	15,7	15,8
Non-tax revenue (P.11+P.12)	3,3	3,8	3,5	3,2	3,0	2,9
Grants and transfers (D.7R)	2,3	3,8	2,3	2,4	2,2	1,8
- of which EU funds	1,3	2,9	1,6	1,7	1,6	1,1
2. Total expenditures	**42,3**	**47,9**	**46,9**	**45,9**	**44,9**	**44,5**
Current expenditure	38,5	42,9	42,4	41,3	41,5	41,4
Compensation of employees	10,6	11,0	10,8	10,5	10,4	10,3
Intermediate Consumption	5,9	5,6	6,2	5,7	5,7	5,5
Subsidies	1,1	3,3	1,5	0,9	0,8	0,8
Interest	1,0	1,2	1,4	1,6	1,6	1,9
Total Social Transfers	17,9	19,7	20,3	20,6	20,6	20,6
- Social benefits other than in kind	14,5	16,3	16,6	16,8	16,9	16,7
- Social transfers in kind (healthcare facilities)	3,4	3,4	3,8	3,8	3,8	3,9
Other current transfers	1,8	2,0	2,0	1,9	2,2	2,2
Capital expenditures	3,8	5,0	4,6	4,7	3,4	3,1
Capital Investment	3,1	4,9	3,8	4,1	3,0	2,7
- Gross fixed capital formation	3,1	4,7	3,7	4,0	2,9	2,6
Capital transfers	0,7	0,2	0,8	0,6	0,4	0,4
3. Targeted general government balance	**-1,7**	**-4,9**	**-5,9**	**-5,0**	**-4,0**	**-3,0**
4. Budgeted balance				**-5,4**	**-5,2**	**-5,5**

Source: MoF SR

BOX 4 – Expenditure Rule as the Sole Instrument of the New EU Fiscal Rules

The central element of the reformed EU fiscal rules will be the expenditure rule, which is to ensure the reduction of the deficit and consequently also of debt using that part of the budget that is directly under government control. The expenditure rule, expressed in the metric of net expenditure[23], is also applied for the current year 2024 and is based on the recommendation of the EU Council for Slovakia. In the new framework of EU rules, it will serve as the sole operational instrument, but unlike the previous form of the rules, its calculation will be linked to a more complex analysis of debt sustainability. Through the targeted deficit and debt[24], it will be translated into an allowed year-on-year growth of net expenditure over a longer period, which will have to be observed. Any expenditure deviations will also be cumulated and subsequently corrected. On the other hand, any deviations in revenues or expenditures outside the net expenditure limit will not tighten or loosen the pre-set expenditure plan.

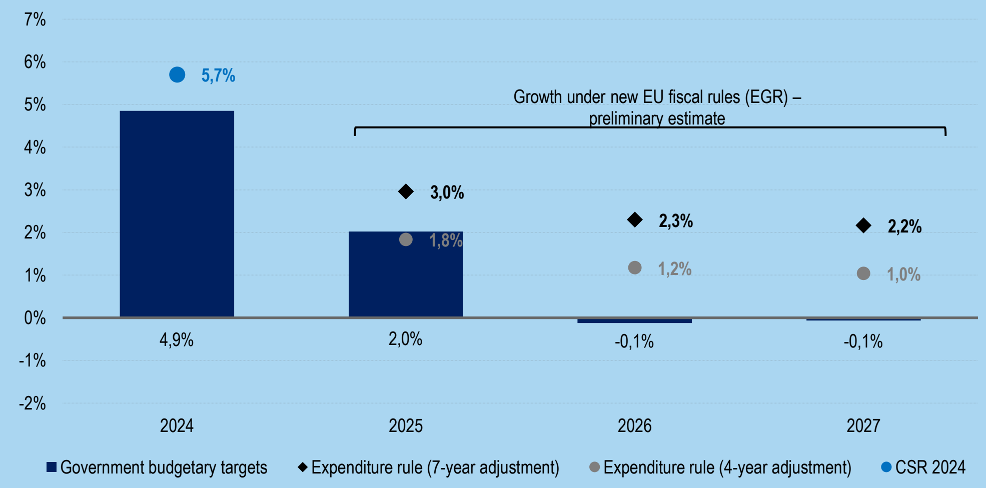
[23] Net expenditure corresponds to total general Government expenditure net of interest costs, cyclical unemployment expenditure, European structural funds and Recovery Plan resources, resources for co-financing EU projects, one-off measures in the sense of EC methodology and discretionary revenue measures of the Government.

[24] In view of the unchanged founding Treaties defining the deficit and debt criterion at 3% and 60% of GDP, these reference limits remain part of the new framework of rules.

According to the expected development in 2024, Slovakia will meet the limit on net expenditure growth recommended by the EU Council for this year. The EU Council recommended Slovakia[25] for 2024 a maximum net expenditure growth of 5.7% (CSR2024). In the currently expected budget for this year, adjusted general Government expenditures are growing year-on-year by 4.9%. According to the Ministry of Finance of the Slovak Republic, Slovakia will thus meet the Council's recommendation[26]. This is despite a year-on-year increase in the Government deficit by 1 pp. The reason is that the recommendation formulated in the spring of 2023 was based on the expected higher inflation allowing for higher expenditure growth, while the subsequent downward adjustment of inflation is no longer taken into account in the allowed growth and allows net expenditure to grow by the original 5.7%. Revenues in 2024 are also growing more slowly than standard without a consolidation package, below the pace of economic growth. The last reason is also that interest costs, outside the expenditure limit, are also growing strongly.

The Ministry of Finance of the Slovak Republic states that the government's goals of reducing the deficit at a rate of 1 pp per year correspond to the indicative recommendation for net expenditure growth from 2025 onwards as well. At the beginning of 2024, the European Commission sent Member States indicative reference trajectories for net expenditure growth[27], which should be applied from 2025 in the multiannual national fiscal-structural plans (MFPs)[28] being prepared. Achieving the government's deficit targets would preliminarily meet the indicatively allowed pace of net expenditure growth over the horizon of the Stability Programme. This would be achieved by 2027 if the consolidation pace is slower and spread over 7 years (which is allowed if more fundamental reforms are implemented), but also with shorter consolidation already over 4 years[29]. A slight buffer above the set limits is also important in case of deviations in the economic outlook (e.g. inflation), which under the new rules do not automatically lead to recalculation of expenditure limits.

FIGURE 13 – Growth of net nationally-financed primary expenditure (%)



Note: Council Recommendation for 2024 based on net primary expenditure including co-financing of EU programmes. EGR adjusted for co-financing in accordance with approved legislation.
Source: MoF SR, EC

[25] Recommendation available here: https://economy-finance.ec.europa.eu/system/files/2024-01/C_2024_343_1_EN_ACT_part1_v3.pdf.
[26] When comparing the year-on-year growth of nationally financed net primary expenditure, there are negative risks arising from the methodology used to compile the actual data (year 2023) and the current expected actual data (year 2024), which may distort the level of expenditure in individual years.
[27] The reference trajectory represents such maximum allowed year-on-year growth rates of net expenditure to ensure, over the horizon of the fiscal-structural plan, a reduction in the public finance deficit to a level that, after the end of the plan, over 10 years assuming no change in policies, will ensure a credible trend of declining debt towards 60% of GDP (or maintaining it below this limit) and maintaining the deficit below 3% of GDP.
[28] Medium-term national fiscal-structural plan (MFP) is a new element of the EU fiscal framework reform. Its aim is to present the government's commitment to the country's fiscal strategy and planned reforms and investments over a horizon of 4 to 7 years. The plan will include a trajectory of allowed adjusted expenditure growth, which will be sent to countries by the EC in 2024. Once approved by the EC and the Council of the EU, the plan will be binding for the budget process throughout the 4 to 7-year horizon.
[29] The decision to extend the fiscal-structural plan from 4 to 7 years and to mitigate the consolidation trajectory will depend on the fulfilment of the milestones of the Recovery Plan, reforms and investments, with which Slovakia wants to respond to EU challenges in the areas of green and digital transformation, social inclusion, energy security and defence capacities in the coming years. It is also a condition that the average level of national investments from the Recovery Plan period is maintained by the end of the 7-year plan.

Announced revenue measures (not yet incorporated into the Stability Programme)

The government has announced the introduction of a new excise tax on sweetened non-alcoholic beverages. The new tax is to be effective from the beginning of 2025. It will apply to beverages with added sugar or artificial sweeteners[30] at a rate of 15 or 30 cents per liter. Public revenues will thus increase by 0.1% of GDP (85 million in 2025 to 118 million in 2027). The aim of the measure is to consolidate public finances and the government does not automatically expect it to lead to a reduction in the incidence of obesity or other diet-related diseases.

An excise tax on non-tobacco products will also be introduced and the tax on tobacco products will be increased. From the beginning of 2025, e-cigarettes, nicotine pouches and other nicotine-containing products will be taxed. The level of taxation will be at the EU average (rates for 2025): EUR 0.20 per ml for e-cigarette refills, EUR 0.05 per g for other nicotine products. In 2027, they are expected to increase to EUR 0.30 per ml for e-cigarette refills and EUR 0.20 per g for other nicotine products. Taxing these products will ensure a level playing field in the tobacco market. The tax calendar for tobacco products will continue from 2026. Rates are planned to be increased in 2026 and 2028 so that the price of a pack of cigarettes will increase by 40 cents in both years. The measure will bring in EUR 15 million in 2025 and EUR 174 million in 2027.

[30] The tax will apply to non-alcoholic beverages with added sugar or sweeteners - including sweetened dairy beverages, powdered or liquid concentrates.

IV. GROSS DEBT AND LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

Without active consolidation in the coming years, it will not be possible to stabilize the gross public debt. The current budget setting with deficits above 5% of GDP would increase debt to almost 70% of GDP by 2027 and to 100% of GDP in the next decade. On the other hand, the government's goals of reducing deficit spending to below 3% of GDP by the end of the current electionl term will mitigate the dynamics of debt growth and stabilize it above 60% of GDP by the end of 2027. Even the long-term sustainability indicators in the high-risk zone show that the consolidation of public finances will have to continue in the next election term as well. Ongoing consolidation after 2027 would reinforce the trend of debt development on a downward trajectory towards lower sanction bands.

IV.1. Gross Public Debt

According to the current general Government budget setting, gross debt would continue to grow in the coming years and reach almost 70% of GDP in 2027. The public debt-to-GDP ratio declined to 56% last year[31]. Although debt has decreased year-on-year by 1.7 pp, mainly due to high inflation and greater use of accumulated financial assets from previous years, it remains in the highest sanction band of the debt brake.[32] However, the dynamics will already reverse this year and debt will start to grow again. The main source of negative development is the expected deficit close to 6% of GDP and less than half the impact of inflation on debt through the denominator effect compared to the previous year. Debt growth would continue next year, with the expected real economic growth of over 3% partially mitigating the dynamics. From 2026 onwards, the slowing pace of nominal GDP growth caused by declining inflation would no longer be able to compensate for annual deficits of more than 5% of GDP, including rising interest costs reaching almost 2% of GDP towards the end of the forecast. According to the current budget setting, debt would thus grow to the 70% of GDP threshold within three years.

The debt will stabilize only by gradually reducing the deficit to below 3% of GDP by 2027 in line with the Government's budgetary targets. As the consolidation of public finances will be gradual, the unfavorable debt development will also turn around gradually. However, reducing the deficit will ensure that debt will only grow moderately above 60% of GDP in the short term. After the deficit falls below 3% of GDP, debt growth will stop and favorable conditions will be created for its reduction towards lower debt brake sanction bands.

FIGURE 14 – Projection of gross and net debt (% of GDP)

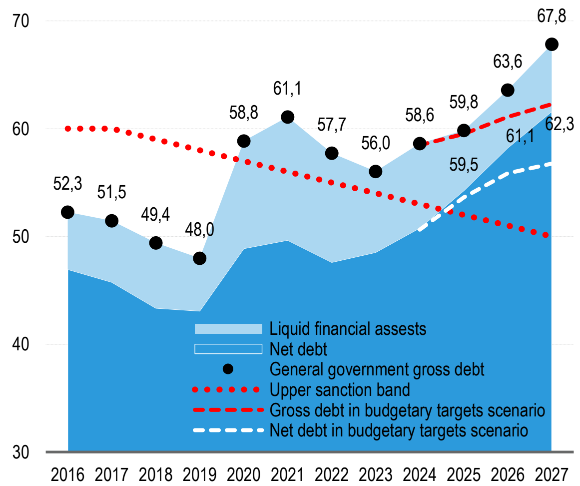
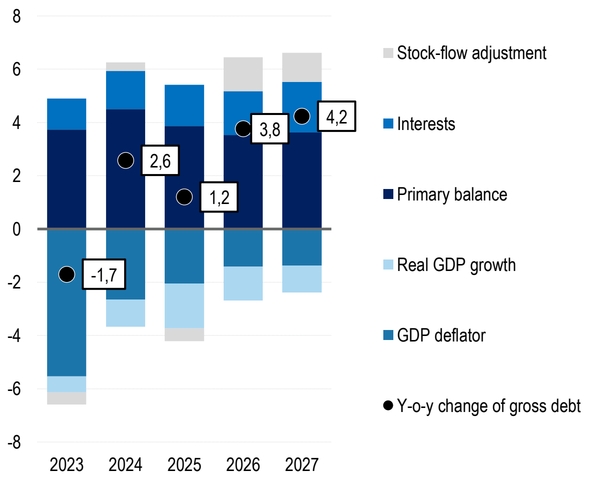


FIGURE 15 – Decomposition of changes in gross debt (no policy-change scenario, % of GDP)



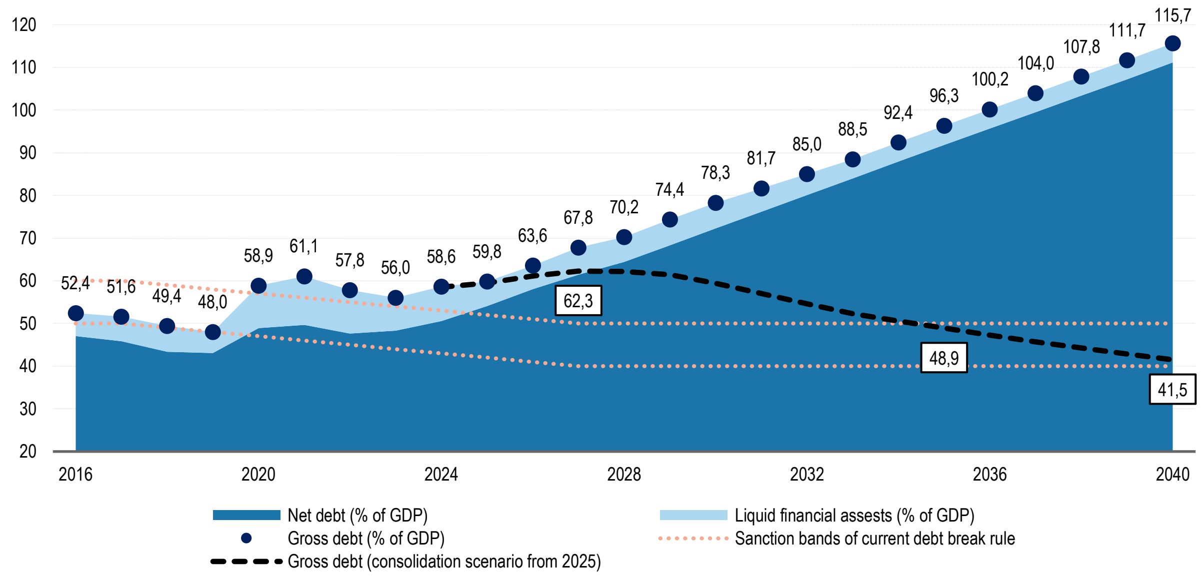
Note: The baseline scenario of the forecast is based on the current proposal of the budget of the Ministry of Finance with projected accrual deficits of 5.4% of GDP in 2025, 5.2% in 2026 and 5.5% in 2027. The scenario of budgetary deficit targets envisages a reduction of accrual deficits by 1 pp annually to the level of 3% of GDP in 2027. Sanction bands correspond to the current Constitutional law on budgetary responsibility. *Source: MoF SR*

To bring debt under 60% of GDP and into lower debt brake sanction bands, consolidation will be needed even beyond the horizon of the current election term. With a continued decline in the deficit to below 3% of GDP even after 2027, debt would embark on a more pronounced downward trajectory. By gradually achieving a

[31] Value notified to Eurostat in April 2024.
[32] In 2023, the highest debt sanction band according to the constitutional law on budgetary responsibility was 54% of GDP and more.

balanced budget, debt could already fall below the highest debt brake sanction band (50% of GDP) and, by maintaining a balanced budget, it would also fall below the lower sanction band (40% of GDP) in the following period. Conversely, without consolidation, debt would exceed 100% of GDP by 2040, driven mainly by the expected growth in the costs of aging of the Slovak population.

FIGURE 16 – Long-term projection of public debt (% of GDP)



Note: The long-term forecast assumes no policy change scenario with the impact of population ageing on the structural balance of general government of 0.2% of GDP on average per year until 2040. The consolidation scenario assumes the achievement of the deficit targets in 2025-2027 and a continuation of the deficit reduction by 1 pp until reaching a balanced budget and its subsequent maintenance. Long-term nominal GDP growth assumptions are based on the 2024 AWG Population Ageing Report. *Source: MoF SR, EC*

IV.2. Sustainability of Public Finances

Long-term sustainability remains in the high-risk zone, but it should move to medium risk once the budget targets are met. Long-term sustainability is in the high-risk zone in 2024 from the perspective of both long-term sustainability indicators[33]. The initial fiscal position and future aging-related expenses contribute equally to the high indicator values. In the scenario that only takes into account the measures currently incorporated in the budget, long-term sustainability would only improve slightly by 2027 and would remain deep in the high-risk zone[34]. A greater improvement only occurs if the budget targets are met, mainly due to the significant reduction in the primary structural balance of 2.4 pp of GDP compared to 2024. Meeting the budget targets would reduce the risk band, but the S2 value would still be just below the high-risk threshold[35].

TABUĽKA 6 – Decomposition of long-term sustainability indicators S1 and S2[36] for 2024 and 2027 (% of GDP)

	2024	2027 current budget	2027 budgetary targets scenario
S1 Indicator	**7,8**	**7,4**	**4,7**
of which:			
Initial budgetary position of structural balance and debt*	4,1	4,3	1,7
of which primary structural balance (-):	-3,8	-3,9	-1,4
Pension expenditures	1,7	1,1	1,1
Health care expenditures	0,9	0,8	0,8
Long-term care expenditures	0,7	0,6	0,6
Education expenditures	0,1	0,1	0,1
Others	0,3	0,5	0,3

[33] S1 expresses the size of the immediate permanent consolidation needed to keep debt below 60% of GDP by 2070 (the final horizon). The indicator is conceptually similar to the long-term sustainability indicator used by the Fiscal Responsibility Council. S2 expresses the size of the immediate permanent consolidation needed to keep debt stable over the long term (on an "infinite" horizon).
[34] The budget and target fulfillment scenarios include expenses related to the 13th pension, which were already incorporated into the indicators in the Draft Budget Plan for 2024.
[35] In the EC methodology, overall long-term sustainability risk is considered medium only if the value of the S2 indicator shows medium or lower risk (a value lower than 6% of GDP). The exact categorization of risks is available in Table 1 of Box I.3.1 of the latest edition of the Debt Sustainability Monitor.
[36] The calculations of the S1 and S2 indicators by the Ministry of Finance of the Slovak Republic (MoF SR) differ from those of the European Commission (EC) due to methodological differences. For more information on the methodological differences, please refer to Box 6 of the Stability Programme 2023 and for the Commission's methodology, please refer to the latest edition of the Debt Sustainability Monitor.

S2 Indicator	9,1	8,3	5,7
of which:			
Initial budgetary position of structural balance and debt*	4,3	4,4	1,8
of which primary structural balance (-):	-3,8	-3,9	-1,4
Pension expenditures	1,8	1,2	1,2
Health care expenditures	1,2	1,1	1,1
Long-term care expenditures	1,1	1,1	1,1
Education expenditures	0,2	0,1	0,1
Others	0,5	0,5	0,5

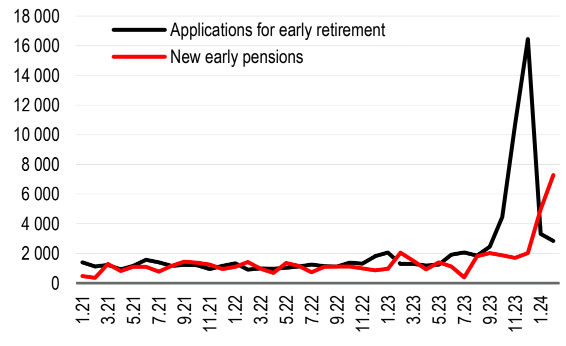
** Initial budgetary position includes contributions of primary structural balance, snowball effect to debt and long-term projection of property income.*
*** In the case of indicator S1, the item "other" includes, in addition to the impact of lost income from the second pillar, also the debt requirement, unlike indicator S2, which only includes the impact of lost income from the second pillar.* *Source: MoF SR*

Changes adopted in ageing-sensitive policies

The approved amending proposal[37] to the government draft law amending the Social Insurance Act[38] largely compensates for the negative impact of the relaxed conditions for early retirement. Since 2023, the conditions for early retirement have been relaxed by introducing the possibility of retiring after 40 years of work (regardless of age). At the same time, the reduction of the granted benefit for early retirement was reduced from 0.5% for each month started before reaching retirement age to 0.3%. This significantly contributed to the increased interest in early retirement[39] in 2023, when the number of applications for early retirement reached 47 thousand (FIGURE 17), which is more than in the previous 3 years combined.

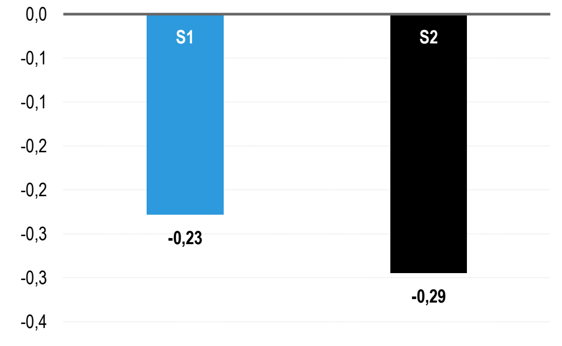
The amending proposal changes the definition of the minimum years worked from 40 years to the difference between the general retirement age and the number 23. For insured persons who reached the retirement age of 63 in 2023 (born in 1960), the minimum remains at 40 years. For each subsequent year, the minimum years of service increases along with the increase in the retirement age, thus ensuring that the period of early retirement benefit takeup is not extended. The proposal further unifies the reduction rate for early retirement to 0.5%. The adoption of the proposal to tighten the conditions for early retirement leads to an improvement in sustainability of 0.3% from the perspective of the S2 indicator and 0.2% from the perspective of the S1 indicator (FIGURE 18).

FIGURE 17 – Number of applications and new early pensions (monthly)



Source: MoF SR

FIGURE 18 – Impact of tightening conditions for early retirement after 40 years on S1 and S2 indicators (% of GDP)



Source: MoF SR

[37] Amending proposal by members of the National Council of the Slovak RepublicZdenka Mačicová, Dagmar Kramplová and Michal Stuška to the government draft law, amending and supplementing Act No. 461/2003 Z. z. on social insurance.
[38] Government draft law increasing the 13th pension to the level of the average pension of the recipient. Its impact on long-term sustainability is described in the Draft Budget Plan of the Slovak Republic for 2024.
[39] A significant motivational factor in 2023 and 2024 is also the fact that for many people it is financially more advantageous to apply for early retirement. The reason is the way in which the newly awarded pension is calculated in our pension system (taking into account the growth of two nominal values at the same time) in combination with the high level of inflation in recent years.

V. ALIGNING THE BUDGET PLAN WITH THE GROWTH AND EMPLOYMENT STRATEGY GOALS AND THE SPECIFIC RECOMMENDATIONS OF THE EU COUNCIL

The Slovak government's reform efforts in key structural areas will continue to focus on the successful implementation of the Recovery and Resilience Plan (RRP) in the coming years. In terms of improving education outcomes, the focus will be on the successful transition to a new education curriculum and increased inclusion of children with special educational needs. To increase labor force availability, client centers will be established to provide comprehensive services to facilitate settlement in Slovakia. In the area of social policies, mitigating the impact of higher inflation on vulnerable groups is addressed by adjusting the valorization of the minimum subsistence level to reflect the rising living costs of low-income households and by unfreezing the minimum pension. A key element of Slovakia's digital transformation will be the adoption and successful implementation of the comprehensive National Digital Decade Plan. Continuing the hospital network optimization reform and establishing a healthcare budget council are important for improving resource allocation and quality in the healthcare sector. Reforms and investments in the REPowerEU chapter of the RRP also aim to reduce Slovakia's dependence on fossil fuels and to more rapidly and widely integrate renewable energy sources into Slovakia's energy mix.

V.1. Key priorities in structural policies

The curriculum and textbook reform is a significant reform aimed at the systematic and targeted development of student literacy. At the end of March 2023, the Minister of Education approved a new state education program for primary education. Its implementation began in September 2023 in primary schools with which an agreement for experimental testing has been concluded. The curriculum aims to develop students' ability to engage with future challenges, take responsibility and solve complex problems, think critically about information, and work collaboratively in diverse teams. The reform also aims to strengthen the skills of teaching staff, including their training in the new curriculum. The establishment of regional curriculum management centers and school support is therefore a key element of the successful implementation of the new curriculum. The role of the centers is to provide mentoring, expert advice and consulting services. The importance of early childhood education has recently been highlighted by the introduction of the right of children to be admitted to kindergarten for children from the age of four and gradually from the age of three, and by the preparation of the transition to normative financing of kindergartens. The new law on state administration in education and school self-government will help to increase the efficiency, effectiveness and quality of education in regional schools. A significant part of the reform effort within the RRP is focused on increasing the inclusion of children with special educational needs, children from marginalized Roma communities and children from families at risk of poverty. Inclusive measures include, for example, the introduction of desegregation standards, the creation of a debarierization manual and the mapping of the needs of schools at all levels of education.

The newly established Office of the Deputy Prime Minister of the Slovak Republic represents another step in strengthening the research, development and innovation (RDI) agenda. The new competence law, in effect since February 2024, confirms the cross-departmental coordination of public policies in this area. Among the milestones achieved under the National Strategy are the approval of the Binding Methodology for Management, Financing and Evaluation of RDI Support[40] and the Review of Expenditures, Competences and Personnel Capacities in RDI. A key element of Slovakia's digital transformation will be the adoption and successful implementation of the comprehensive National Digital Decade Plan. This strategic document will define Slovakia's current and planned development in the field of digitization by 2030. Concrete steps to support digitization will, for example, be directed towards increasing the use of electronic state services, developing cybersecurity and increasing the number of projects to develop and apply cutting-edge digital technologies.

The implementation of measures to reduce barriers to entry for highly qualified workers into the domestic labor market continues, alongside efforts to mitigate the impact of high inflation on vulnerable groups. In order to support the attraction and retention of highly qualified employees and students, three fully functional client centers (so-called "one-stop shops") will be created. These will provide comprehensive services to facilitate settlement in Slovakia. Mitigating the impact of higher inflation on vulnerable groups is addressed by adjusting the

[40] The methodology is a necessary prerequisite for the standardization of processes in competitive funding with the aim of streamlining this area from the perspective of the final recipients of the support provided (researchers and innovators).

valorization of the living minimum to reflect the rising living costs of low-income households and by unfreezing the minimum pension. The amendment to the Living Minimum Act has adjusted the valorization mechanism for the amounts of the living minimum in line with the growth of consumer prices. The unfreezing of the minimum pension amounts allows for their automatic increase, while linking the minimum pension to 136% of the living minimum amount for an individual serves to prevent it from falling into a state of material need.

Improving allocation efficiency in the economy will be primarily supported by measures that improve the quality of institutions and the business environment. An important milestone is the launch of a new reorganized network of courts, which aims to streamline court proceedings and improve the quality of court decisions. Electronicization and acceleration of insolvency proceedings and business register processes will contribute to reducing administrative barriers to business. By the end of 2024, 300 specific measures will take effect, which will lead to administrative savings for businesses. By linking with permitting processes, the environmental impact assessment will be accelerated and streamlined. The adoption of planned legislative changes should bring an improvement to the current mechanism for managing seized and confiscated property. The modernization of information systems for international police cooperation will streamline the exchange of information needed to combat international crime. The aim of building shared service centers is to strengthen and improve the performance of local self-government in providing public services to citizens.

Continuing the hospital network optimization reform and establishing a healthcare budget council are key steps toward improving resource allocation and quality in the healthcare sector. The aim of the council is to support not only the budget preparation process, but also its ongoing monitoring and evaluation throughout the year[41]. A significant measure in the field of hospitals is also the continuation of the network optimization reform. As part of this reform, maximum waiting times and quality indicators will be implemented during 2024. Data collection on waiting times in the field of inpatient care is currently underway with the aim of ensuring patient care management from the beginning of 2025[42]. In the area of long-term care, the unification of assessment activities in assessing the needs of persons with disabilities in the event of entitlement to personal assistance is expected, as well as streamlining of assessments thanks to digitalization.

Reforms and investments in the REPowerEU chapter of the RRP aim to support Slovakia's acceleration towards ending its dependence on imports of fossil fuels from Russia and combating the climate crisis. Measures of reforms and investments in the green economy include, for example, simplifying permitting processes or investing in energy infrastructure, zero-emission transport and energy efficiency of buildings. The funds of the Slovakia Program and the Modernization Fund will also play a key role in the green transformation. The new Climate Law[43] should harmonize the Slovak legislative framework with the EU framework and significantly contribute to achieving Slovakia's climate goals by 2030, including climate neutrality by 2050 at the latest[44]. Reforms and investments aimed at promoting alternative fuels and increasing the share of environmentally friendly forms of transport can significantly help in the transition to sustainable transport. This means making a significant contribution to reducing CO2 emissions in transport and improving air quality. The prepared Waste Management Strategy and Action Plan aim to ensure the stability and predictability of the circular and waste economy environment, thereby contributing to its functioning and development.

EU cohesion policy is one of the fundamental pillars of the European Union's functioning and serves as one of its primary investment instruments. Its aim is to support projects that help to eliminate social and economic disparities in the development of regions, increase their competitiveness and improve the quality of life of all citizens. In 2022, the Government of the Slovak Republic and the EC approved the Partnership Agreement for 2021-2027 and the Slovakia Program. These represent the basic framework for drawing resources within the fourth programming period.

[41] Comprehensive and regular evaluation is an important element for the creation, implementation and evaluation of public policies in the field of health.
[42] Methodologies for their evaluation and gradual publication will be prepared for the quality indicators identified by experts in the course of 2024.
[43] However, it has been withdrawn from the legislative process for now.
[44] Its main objective is to make the legal climate framework transparent so that it is clear that the main priority of climate policy in Slovakia is precisely the accelerated achievement of low-carbon transformation and climate neutrality, increasing climate resilience and adaptation to the adverse effects of climate change.

V.2. Public Finances

Public expenditure limits will be aligned with the new EU fiscal rules from 2025, and the government will comply with the Council of the EU's recommendation on expenditure aggregate growth in 2024. In order to simplify the current fiscal rules, the government will align public expenditure limits with the new EU fiscal rules from 2025. Maintaining national expenditure limits alongside European ones would complicate public finance management. The new fiscal rules are expected to be approved by the European Parliament this spring. At the same time, the government will commit by law to fulfilling the specific Council recommendation on the growth of nationally financed net primary expenditure[45] for 2024. For this purpose, an expenditure limit will also be set for 2024.

In its program statement, the Slovak government has committed to changing the debt brake with the aim of adjusting the sanctioning mechanisms and more effective liquidity management. The current setting of the debt brake may lead to an overly pro-cyclical fiscal policy[46], and therefore the government will seek to amend the constitutional law on budgetary responsibility. As part of the amendment to the law, the government will also consider changing the sanction bands of the debt brake, taking into account 10 years of experience with its functioning. The sanction bands should not be based on gross public debt, but on net debt. This amendment aims to enable more effective liquidity management in the public sector.

Since 2021, the Ministry of Finance has been working to increase the economic value of newly implemented investment projects. The main activities are economic assessments of projects before their implementation and setting priorities and investment plans for ministries. In 2023, the Ministry of Finance assessed 182 projects with identified savings of €525 million. The assessments of a total of €9.2 billion resulted in recommendations for optimizing technical solutions and reducing project costs. The median savings for assessed projects is 6% of estimated costs. Chapters with annual investments of over €20 million have a published methodology for determining priorities and an investment plan for at least the next 5 years. In the evaluation of investment plans, the Ministry of Finance identified room for improvement, particularly in realigning the optimistic number of new projects and allocating funds to declared priorities.

[45] These are public administration expenditures excluding EU funds and RRF, interest costs and cyclical unemployment expenditures and discretionary revenue measures.

[46] Due to the increase in public sector debt in recent years during the COVID-19 pandemic and the energy crisis, gross debt has exceeded all sanction bands of the debt brake. The setting of sanctions based on the debt brake in practice requires significant, sudden savings, which would have a negative impact on the entire economy.

APPENDICES

Appendix 1 – Comparison with the Draft Budget Plan

The Stability Program expects weaker economic performance in 2024 compared to the Draft Budget Plan, which is reflected in worse domestic and foreign indicators. The macroeconomic forecast of November 2023, on the basis of which the Draft Budget Plan for 2024-2027 was prepared, assumed real GDP growth of 2.7% in 2024 and 2.8% in 2025. The current forecast from the extraordinary meeting of the Committee on Macroeconomic Forecasts in March 2024 lowers the dynamics in 2024 by 0.7 pp and only slightly increases economic performance in 2025. The weaker economic performance reflects higher household savings in conditions of higher inflation and also weaker performance of foreign trading partners.

TABLE 7 – Forecast of selected economic indicators in SR

No.	Indicator		Stability programme				Draft budgetary plan			
			2024	2025	2026	2027	2024	2025	2026	2027
1	GDP, current prices	bil. euro	131.4	140.4	147.0	152.7	131.3	139.2	146.6	152.1
2	GDP, constant prices	%	2.0	3.1	2.2	1.6	2.7	2.8	2.1	1.7
3	Final consumption of households and NPISH	%	2.3	2.2	1.9	1.7	3.3	1.7	1.0	1.1
4	Final consumption of general government	%	1.9	1.2	0.8	-0.5	1.3	-0.4	-0.9	0.4
5	Gross fixed capital formation	%	-1.6	10.8	-1.4	-3.8	5.1	4.3	0.9	-2.7
6	Export of goods and services	%	2.8	3.1	4.5	4.5	4.0	3.9	4.6	4.4
7	Import of goods and services	%	6.3	4.7	3.1	2.9	7.4	3.5	3.2	3.0
8	Output gap (share of potential output)	%	-0.3	0.7	1.0	0.8	0.5	1.1	1.0	0.6
9	Average monthly wage (nominal growth)	%	6.3	5.5	4.4	4.0	7.1	5.3	4.5	4.2
10	Average employment growth (LFS)	%	0.2	0.2	0.0	-0.3	0.0	0.0	-0.4	-0.5
11	Average employment growth (ESA 2010)	%	0.2	0.7	0.5	0.1	0.4	0.5	0.1	-0.3
12	Average unemployment rate (LFS)	%	5.5	5.2	5.1	5.0	5.4	5.1	5.0	5.3
13	Average unemployment rate (registered)	%	5.9	5.6	5.4	5.3	5.7	5.4	5.3	5.6
14	Harmonized index of consumer prices (HICP)	%	3.2	4.4	2.4	2.4	3.2	3.4	3.5	2.5
15	Current account balance (share of GDP)	%	-3.2	-3.9	-3.2	-2.5	-3.9	-3.7	-2.9	-2.2

Source: MoF SR

TABLE 8 – Comparison of budget targets with the Draft Budgetary Plan

	ESA code	2022 R	2023 R	2024 E	2025 F	2026 F
		% GDP	% GDP	% GDP	% GDP	% GDP
Target balances of general government	**B,9**					
Stability programme (1)		-1,67	-4,89	-5,93	-4,97	-3,97
Draft budgetary plan (2)		-2,02	-6,52	-5,97	-4,97	-3,97
Difference (2-1)		**0,25**	**-1,63**	**0,04**	**0,00**	**0,00**

E – Expected fact
F – Forecast (government budget proposal)

Source: MoF SR

Appendix 2 - Evaluation of forecasts by the committees for macroeconomic and tax forecasts

The March 2024 macroeconomic forecast of the Ministry of Finance of the Slovak Republic (MF SR), in terms of its impact on budget revenues for 2024, is approximately at the same level as the median of the other members of the Committee on Macroeconomic Forecasts. This impact is expressed as a weighted average of the individual relevant bases for budget revenues, with the weights being the shares of individual taxes in total budget revenues. The Ministry of Finance expects higher inflation in 2025, leading to higher nominal average wage and GDP growth. On the other hand, the Ministry of Finance's estimate is lower for 2026 and 2027 in terms of real GDP, nominal and real consumption. The Ministry of Finance's forecast was assessed as realistic by most of the members present (CBR, NBS, SLSP, Tatrabanka, Infostat, SAV, CSOB), while Unicredit considered the forecast to be optimistic.

TABLE 9 – Assessment of the September MoF forecast by the Macroeconomic Forecast Committee

MFC member	Assessment
CBR, NBS, SLSP, Tatrabanka, Infostat, SAV, Unicredit, CSOB	Realistic
Unicredit	Optimistic

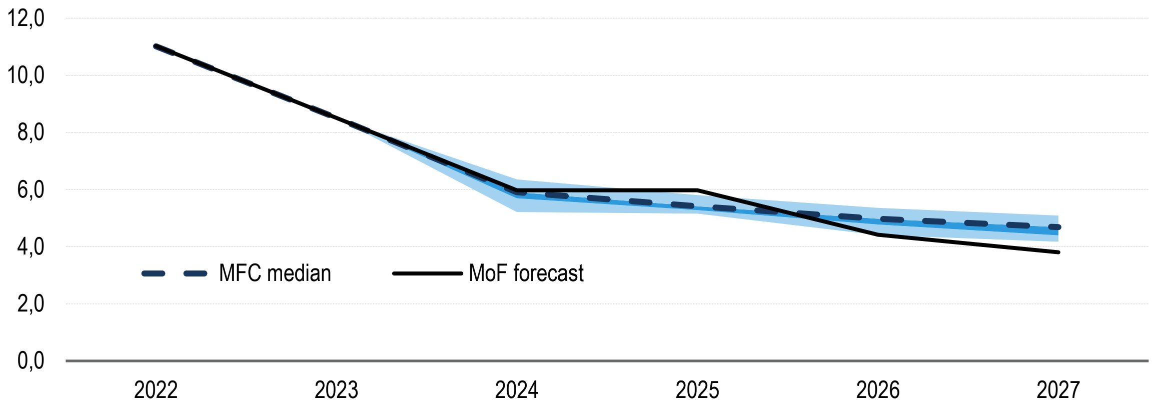
Source: Macroeconomic forecast committee

TABLE 10 – Average forecast of MFC members and forecast of MoF SR

	2023	2024		2025		2026		2027	
% unless otherwise stated		MFC	MoF SR	MFC	MoF SR	MFC	MoF SR	MFC	MoF SR
GDP, real growth	1.6	2.0	2.0	2.5	3.1	2.5	2.2	2.4	1.6
GDP, current prices	122.8	129.3	131.4	136.6	140.4	143.5	147.0	149.8	152.7
Final consumption of households, real growth	-3.2	2.1	2.3	2.1	2.2	2.3	1.9	2.4	1.7
Final consumption of households, nominal growth	6.8	5.1	6.1	5.5	6.3	4.8	4.1	4.6	3.9
Average monthly wage, real growth	-0.8	3.9	3.2	2.6	1.4	2.5	2.0	2.5	1.7
Average monthly wage, nominal growth	9.7	6.8	6.3	5.5	5.5	5.1	4.4	4.9	4.0
Employment growth	0.2	0.1	0.1	0.3	0.7	0.3	0.5	0.2	0.1
CPI (average growth)	10.5	2.9	3.0	2.9	4.1	2.5	2.3	2.3	2.2

** Macroeconomic forecast committee* *Source: Macroeconomic forecast committee*
*** The GDP forecast in current prices of the committee members was based on unrevised values.*

FIGURE 19 – Comparison of forecasts of macroeconomic bases[47] for tax revenues with MFC members



Source: MoF SR

BOX 5 – Independent Committees for Macroeconomic and Tax Forecast

The Committee on Macroeconomic Forecasts and the Committee on Tax Forecasts are established in accordance with the Constitutional Law 493/2011 Z. z. on Budgetary Responsibility as advisory bodies 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 law, the committees prepare forecasts at least twice a year, by February 15 and June 30 of the current budget year. However, in accordance with long-standing practice, they also prepare forecasts by the end of September for the purposes of the budget process. In exceptional cases, a meeting of the committee may be convened by the chairperson of the committee, the Minister of Finance, or a majority of the members of the committee.

In addition to the Ministry of Finance, the committees are composed of representatives of independent institutions from the government (NBS, SAV, Infostat and private banks). Members of the Committee on Macroeconomic Forecasts assess the Ministry of Finance's macroeconomic forecast verbally as conservative, optimistic or realistic. Members of the Committee on Tax Forecasts assess the Ministry of Finance's tax forecast by submitting their own forecast, and their assessment is calculated automatically on the basis of the deviation. **The Ministry of Finance's forecast is adopted as the committee's forecast if a majority of the members describe it as *conservative* or *realistic*.** If the forecast does not receive such an assessment, the Ministry of Finance is obliged to revise the forecast and re-submit it to the committee for assessment. The process is repeated until the Ministry of Finance's forecast is adopted as the committee's forecast.

In the course of 2021, the Committee on Tax Forecasts was expanded to include forecasts of selected non-tax revenues and expenditures, which have a significant impact on economic development. Taking into account economic developments and assessing other specific assumptions in the forecasts through a commission of experts from the public and private sectors means transparently consulted estimates and a more accurate budget. In March and September 2021, the forecasts were extended to include non-tax revenues of approximately €1.1 billion and expenditures of approximately €7-8 billion. On the revenue side, this includes revenues from the sale of emission allowances, revenues from tolls and motorway stickers, levies from gambling and dividends from state enterprises. On the expenditure side, unemployment benefits, sickness benefits and old-age pensions were added.

Tax Forecast Committee

t the meeting of the Tax Forecast Committee on March 27, 2024, the Ministry of Finance (MF SR) presented its updated medium-term forecast of tax revenues for the years 2023 to 2028. The MF SR's medium-term forecast of tax revenues and social contributions was assessed as **realistic** by all members of the committee.

[47] Macroeconomic bases for budget revenues (the weight of indicators depends on the share of individual taxes in total tax and social security 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%.

TABLE 11 – Assessment of the MoF forecast by the Tax Forecast Committee

TFC member	Assessment
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank, VÚB	realistic

Source: Tax forecast committee

Appendix 3 – Forecast of gross public debt based on cash flows

The development of nominal debt will be influenced throughout the entire budget horizon primarily by the need to cover the cash deficits of the state budget. The increase in public debt will also be contributed to by the borrowing activity of other public sector entities, particularly transport companies. The increase in debt will also be affected by discounts on bond issuance. The current environment of higher interest rates, combined with low coupons on government bonds, increases the required discounts on issues, i.e. the difference between nominal debt and the liquidity obtained.

TABLE 12 – Impact on change in nominal gross government debt (in EUR million)

	2021	2022	2023	2024 E	2025 F	2026 F	2027 F
A. GG gross debt (as of 1.1.)	**54 993**	**61 238**	**63 378**	**68 830**	**77 048**	**83 974**	**93 453**
B. Total YoY Change of Gross Debt	**6 245**	**2 140**	**5 452**	**8 218**	**6 926**	**9 479**	**10 104**
- state budget deficit (cash accounting)	7 014	4 525	7 675	6 628	6 558	8 348	9 138
- of which ST funds used to finance SR cash deficit	-2 365	-1 150	-2 587	697	-447	-45	456
- Debt of other GG entities	-152	116	201	167	180	217	233
of which: ŽSR + ŽSSK	-140	-62	-9	65	67	100	100
of which: Municipal transport companies	-6	41	-10	13	31	35	27
of which: municipalities and counties	18	149	252	12	33	32	32
of which: Eximbanka	-2	14	-1	100	50	50	50
- Issue discount	18	542	454	742	689	998	460
- Discount on redemption	-2	-11	0	-15	-53	-39	-183
- Other	1 732*	-1 881*	-292	-1	0	0	0
C. Gross Government Debt (as of 31.12.)	**61 238**	**63 378**	**68 830**	**77 048**	**83 974**	**93 453**	**103 557**
% of GDP	**61,1**	**57,7**	**56,0**	**58,6**	**59,8**	**63,6**	**67,8**
D. Change in Gross Debt Compared to Stability Programme (pp)	**0,0**	**-0,1**	**-2,6**	**-0,7**	**0,0**	**0,5**	
of which: contribution of change in nominal GDP forecast	0,0	-0,1	-1,5	-1,4	-1,3	-1,5	
contribution of change in nominal debt forecast	0,0	0,0	-1,1	0,7	1,3	2,1	
p.m. SR contribution to ESM	0	0	-1	0	0	0	0

*Note: * including a change in the resources of non-government sector entities. Positive items increase general government debt as of 31 December of the respective year, negative items decrease debt. OS - expected fact at the end of the year; N - draft general government budget.*

Source: MoF SR

TABLE 13 – Impact on change in nominal gross debt (government deficit targets, in EUR million)

	2021	2022	2023	2024 E	2025 F	2026 F	2027 F
A. GG gross debt (as of 1.1.)	**54 993**	**61 238**	**63 378**	**68 830**	**76 838**	**83 514**	**89 793**
B. Total YoY Change of Gross Debt	**6 245**	**2 140**	**5 452**	**8 008**	**6 676**	**6 279**	**5 273**
- state budget deficit (cash accounting)	7 014	4 525	7 675	6 418	5 878	6 522	5 207
- of which ST funds used to finance SR cash deficit	-2 365	-1 150	-2 587	697	-18	-694	-444
- Debt of other GG entities	-152	116	201	167	180	217	233
of which: ŽSR + ŽSSK	-140	-62	-9	65	67	100	100
of which: Municipal transport companies	-6	41	-10	13	31	35	27
of which: municipalities and counties	18	149	252	12	33	32	32
of which: Eximbanka	-2	14	-1	100	50	50	50
- Issue discount	18	542	454	742	689	272	460
- Discount on redemption	-2	-11	0	-15	-53	-39	-183
- Other	1 732*	-1 881*	-292	-1	0	0	0
C. Gross Government Debt (as of 31.12.)	**61 238**	**63 378**	**68 830**	**76 838**	**83 514**	**89 793**	**95 066**
% of GDP	**61,1**	**57,7**	**56,0**	**58,5**	**59,5**	**61,1**	**62,3**
D. Change in Gross Debt Compared to Stability Programme (pp)	**0,0**	**-0,1**	**-2,6**	**0,0**	**2,4**	**3,4**	
of which: contribution of change in nominal GDP forecast	0,0	-0,1	-1,5	-1,3	-1,3	-1,4	
contribution of change in nominal debt forecast	0,0	0,0	-1,1	1,3	3,7	4,8	

The forecast assumes cash deficits of the general government to meet the nominal deficit targets of 5% of GDP in 2025, 4% of GDP in 2026, and 3% of GDP in 2027.

Source: MoF SR

Appendix 4 – One-off and temporary measures

The SR Stability Programme for 2024-2027 includes the following one-off and temporary measures on the horizon of 2023-2027 according to the national methodology.[48]

TABLE 14 – List of one-off and temporary measures

(ESA 2010, in EUR mil.)	2023	2024	2025	2026	2027
Net impact of the government's measures in the fight against the COVID-19 pandemic (reduced by reimbursement from EU funds)	-91	-	-	-	-
Net impact of expenses caused by the war in Ukraine (reduced by reimbursement from EU funds)	-108	-26	-	-	-
Net impact of support schemes related to high energy prices (reduced by reimbursement from EU funds)	-1986	-800	-	-	-
Temporary income from the EU regulation regarding excessive profits	329	129	-	-	-
Implementation of price ceilings for electricity producers	30	5	-	-	-
Total	**-1827**	**-692**	**0**	**0**	**0**

Source: MoF SR

[48] However, according to the EC methodology, these measures are not classified as one-off. Therefore, a zero value is stated for one-off measures in the mandatory tables.

Appendix 5 – Discretionary measures (DRM and DEM)

The EC methodology defines discretionary revenue measures as legislative measures with an impact on public sector revenue. Their evaluation is carried out using the so-called additional impacts (marginal changes) of these measures. A distinction is made between whether it is a permanent or a one-off measure. A permanent measure is recorded with an impact in the first year (at the time of its entry into force) and without an impact in 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 different impacts due to the deferred validity of the measure, only the marginal change is recorded. For one-off revenue measures, the impact is recorded in one year and the shortfall in the same amount in the following year, i.e. the total impact of the measure in two consecutive years is zero.

TABLE 15 – Discretionary revenue measures - yoy incremental changes (in EUR mil., ESA2010)

Measures	2023	2024	2025	2026	2027
Modification of the motor vehicle registration fee	-13	-14	-	-	-
Changes to the super deduction (research and development and Industry 4.0)	-15	-	-	-	-
Introduction of a seasonal contribution-deductible item for social contributions	-11	-	-	-	-
Implementation of accounting standard IFRS 17 for insurance companies	23	3	-10	-17	-
Reform of the second pension pillar	-11	-22	-	-	-
Gaming taxes	20	2	-	-	-
Minimum health insurance contributions	20	-6	-	-	-
Abolition of license fees for Radio and Television Slovakia (RTVS)	-35	-41	-	-	-
Toll sticker price increase	21	-	-	-	-
Revenue from excess profits tax - power plants	30	-25	-5	-	-
Extension of the solidarity contribution from activities in the oil sector and others	-82	-199	-129	-	-
Regulation on excessive profits - revenue from the special levy for "Vodohospodárska výstavba"	152	-69	-43	-20	-20
Valorization of administrative and court fees - from Q1 2024	-	38	13	-	-
Increase in the fee for maintaining emergency oil reserves by 1 cent	-	33	-	-	-
Waste charges - ban on landfilling of waste without pre-treatment	-	-	-15	-	-
Extension of the special levy on business in regulated sectors	-	320	-51	-41	-46
Reduced VAT on catering, sports venues, ski lifts, indoor and outdoor sports and fitness facilities and subsequent exclusion of alcoholic beverages from catering services	-149	27	-	-	-
Increase in the withholding tax rate on dividends to 10%	-	-	10	-	-
Introduction of a minimum corporate income tax and change of the income threshold for micro-entrepreneurs	-	118	-	-	-
Increase in excise duty rates on tobacco products	-	83	70	-	-
Compesatory tax on the enterpirse tax	-	49	-	-	-
Increase in the excise duty rate on alcohol from 1.1.2024	40	50	-	-	-
Increase in health contributions for emplyers by 1%	-	350	-	-	-
Cancellation of one Day of Rest	-	3	87	-	-
Change in property tax rates according to the Municipal Regulation	34	115	-	-	-
Local Waste Fee (local taxes) - increase in rates annually	36	40	-	-	-
Exemption from employer's social security contributions for employees in the food industry	-24	-11	35	-	-
Gradual growth of the contribution to the second pension pillar, its temporary freeze and decrease to 4% from 2024	-	371	-	-	-
Total	36	1 216	-38	-77	-66

Source: MoF SR

Note: (+) improves general government balance, (-) worsens general government balance

TABLE 16 – Discretionary expenditure measures - yoy incremental changes (in EUR mil., ESA2010)

Measures	2023	2024	2025	2026	2027
Capping the retirement age	16	-18	-	-	-
COVID expenditure	-605	-91	-	-	-
Early retirement for persons who raised children (born in 1957-1965)	-48	1	-7	-14	-
Freezing of the amount of minimum pension in 2021 and its unfreezing in 2023	25	34	-	-	-
Increase of maintenance funds of 1st class roads managed by Slovak Road Administration	-	-10	-	-	-
Time mismatch of deliveries (accrual) of military equipment	-125	561	731	-1003	155
Increase in defence expenditure to 2% from 2023	-	-	279	-	-
Introduction of permanent kurzarbeit scheme	-20	-	-	-	-
Costs associated with the Valaliky Industrial Park	47	137	-63	-64	-
Expenditure caused by the war in Ukraine	215	-82	-26	-	-
Inflation aid for families and socially disadvantaged groups	-112	-	-	-	-
Increased transfer from HIC to social service facilities	-29	-	-	-	-
Judicial reform and administrative courts (judicial map project)	24	-15	-	-	-
Law on construction, spatial planning and the establishment of a central construction authority	65	5	-	-	-
Increase in reimbursement of long-term care by the Social Insurance Institution (ZP)	14	-	-	-	-
Retirement after 40 years of work	34	235	-	-319	-
Parental pension	286				
14th pension (one-time transfer)	-208	-	-	-	-
Abolition of the reduction of the pensioner's care allowance	20	16	-	-	-
Increased child allowance	227	-	-	-	-
Increase of the tax bonus to EUR 100 and temporarily to EUR 140	550	-	-241	-	-
Total compensation for rising energy prices	2052	-1379	-800	-	-
Collective negotiation of healthcare workers	398	-25	-	-	-
Stabilisation allowance for social services workers	44	-44	-	-	-
Increasing the contribution of insurance companies for the emergency health service and NHIC	14	-	-	-	-
Additional financing of the ambulatory sector	190	-	-	-	-
Free lunches (introduced in 2019, 2021 canceled and reintroduced in 2023)	113	79	-	-	-
Special valorization of pensions from July 2023	524	-524	-	-	-
Parental pension for parents of workers with service pension	13	-	-	-	-
Accelerated valorization of the parental allowance	35	-	-	-	-
Amendment to the Education Act (right to admission to kindergarten and right to special support)	-	116	116	50	-
Parental allowance (for children older than 3 years whom are not admitted to kindergarten)	2	38	-	-	-
Expansion of personal assistance in schools	-	14	-	-	-
Increase in the housing allowance within the framework of assistance in material need	10	10	-	-	-
Change in assessment of disability pensions	4	39	-	-	-
Performance contracts for universities and colleges	-	47	20	20	-20
Increase in spending on R&D	-	50	130	134	44
One-time pensioner's allowance of 300 euros	441	-441	-	-	-
Doubling of the 13th pension from 2024	-	515	-	-	-
Compensation for the increase in mortgage payments	-	88	-73	-	-
Reduction of personal expenses in central governement by 5%	-	-71	-	-	-
Damping of wage valorization in public administration from 2024	-	-56	-193	-98	-90
Cancellation of support for reduction of the final price of electricity for businesses	-	-40	-	-	-
Creation of the new Ministry of Tourism and Sports of the Slovak Republic	-	100	-	-	-
Increased spending on healthcare (unspecified)	-	263	-	-	-
Total	4 197	-448	-127	-1 295	89

Source: MoF SR

Note: For measures related to the COVID-19 pandemic or government assistance with the rising price level, this represents the fading impact of the measures. As these were one-time measures, they initially increased expenditures (worsened the balance) in incremental terms, and their effect gradually diminished (improved the impact on the balance).

Note 2: (-) improves general government balance, (+) worsens general government balance

Appendix 7 – Mandatory tables of the Stability Programme

Table 1a – Macroeconomic prospects (ESA2010, EUR bn.)

	ESA code	2023 Level	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change	2027 Rate of change
1. Real GDP	B1*g	94,0	1,6	2,0	3,1	2,2	1,6
2. Nominal GDP*	B1*g	122,8	11,9	7,0	6,8	4,7	3,9
Components of real GDP							
3. Private consumption expenditure	P.3	52,2	-3,2	2,3	2,2	1,9	1,7
4. Government consumption expenditure	P.3	15,8	-0,6	1,9	1,2	0,8	-0,5
5. Gross fixed capital formation	P.51g	21,0	10,6	-1,6	10,8	-1,4	-3,8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-2,3	-2,5	1,4	2,0	1,9	1,9
7. Export of goods and services	P.6	89,0	-1,4	2,8	3,1	4,5	4,5
8. Imports of goods and services	P.7	82,0	-7,6	6,3	4,7	3,1	2,9
Contribution to real GDP growth							
9. Final domestic demand (total)		86,7	-0,6	1,2	3,7	0,9	0,0
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-2,3	-5,0	3,9	0,8	0,0	0,0
11. External balance of goods and services	B.11	7,0	5,9	-2,9	-1,4	1,4	1,7

** Nominal GDP revision as of April 19th, 2024*

Source: So SR, MoF SR

Table 1b – Price developments (ESA2010)

	ESA code	2023 Level	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change	2027 Rate of change
1. GDP deflator		1,3	10,1	5,0	3,6	2,4	2,2
2. Private consumption deflator		1,4	10,3	3,7	3,9	2,2	2,2
3. HICP		1,4	11,0	3,2	4,4	2,4	2,4
4. Public consumption deflator		1,6	10,2	5,7	3,5	2,8	2,9
5. Investment deflator		1,3	9,1	4,5	3,8	4,0	3,8
6. Export price deflator (goods and services)		1,3	4,5	-1,1	3,5	2,7	2,7
7. Import price deflator (goods and services)		1,3	4,2	-1,7	3,7	2,8	2,9

Source: MoF SR

Table 1c – Labour market development (ESA2010)

	ESA code	2023 Level	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change	2027 Rate of change
1. Employment, persons (thousands) [1]		2 434	0,3	0,2	0,7	0,5	0,1
2. Employment, hours worked (thousands) [2]		3 946	1,0	0,1	0,2	-0,3	-0,8
3. Unemployment rate (%) [3]		5,8	5,8	5,5	5,2	5,1	5,0
4. Labour productivity per persons (EUR) [4]		38 616	1,3	1,2	2,1	1,4	1,8
5. Labour productivity per hours worked (EUR) [5]		24	0,6	1,8	2,8	2,6	2,5
6. Compensation of employees (EUR mill.)	D.1	51 354	10,5	5,8	6,6	5,2	4,5
7. Compensation per employee (EUR)		24 598	10,4	5,8	5,9	4,7	4,4

[1] Total occupied population, domestic concept – national accounts definition

[2] National accounts definition

[3] Harmonised definition according to Eurostat; levels

[4] Real GDP per person employed

[5] Real GDP per hour worked

Source: So SR, MoF SR

Table 1d – Sectoral balance (ESA2010, % of GDP)

	ESA code	2023	2024	2025	2026	2027
1. Net lending / borrowing vis-à-vis the rest of the world	B.9	-1,6	-3,2	-3,9	-3,2	-2,5
of which:						
- Balance on goods and services		1,8	-0,8	-2,4	-1,4	-0,2
- Balance of primary incomes and transfers		-2,6	-1,9	-1,4	-1,6	-1,8
- Capital account		-0,8	-0,4	-0,1	-0,2	-0,5
2. Net lending / borrowing of the private sector	B.9	-4,9	-5,9	-5,4	-5,2	-5,5
3. Net lending / borrowing of general government (targets of Stability Programme)	EDP B.9	-2,0	-6,3	-3,9	-3,2	-2,2
4. Statistical discrepancy		-	-	-	-	-

Source: MoF SR

Table 2a – General government budgetary prospects

	ESA code	2023 level	2023 % of GDP	2024 % of GDP	2025 % of GDP	2026 % of GDP	2027 % of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-6 009,8	-4,9	-5,9	-5,4	-5,2	-5,5
2. Central government	S.1311	-6 381,9	-5,2	-5,8	-5,4	-5,6	-5,9
3. State government	S.1312						
4. Local government	S.1313	97,7	0,1	-0,2	-0,2	0,0	0,0
5. Social security funds	S.1314	274,4	0,2	0,1	0,2	0,4	0,3
General government (S13)							
6. Total revenue	TR	52 842,8	43,0	41,0	40,5	39,7	39,0
7. Total expenditure	TE [1]	58 852,6	47,9	46,9	45,9	44,9	44,5
8. Net lending/ borrowing	EDP B.9	-6 009,8	-4,9	-5,9	-5,4	-5,2	-5,5
9. Interest expenditure	EDP D.41	1 420,7	1,2	1,4	1,6	1,6	1,9
10. Primary balance	[2]	-4 589,1	-3,7	-4,5	-3,9	-3,5	-3,6
11. One-off and other temporary measures	[3]	0,0	0,0	0,0	0,0	0,0	0,0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		24 653,5	20,1	19,6	19,3	18,8	18,5
12a. Taxes on production and imports	D.2	15 121,3	12,3	11,6	11,4	11,0	10,6
12b. Current taxes on income, wealth, etc	D.5	9 532,2	7,8	8,0	7,9	7,9	7,9
12c. Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	18 876,3	15,4	15,6	15,5	15,7	15,8
14. Property income	D.4	1 197,8	1,0	0,9	0,8	0,6	0,6
15. Other	[4]	9 313,0	7,6	5,8	5,7	5,2	4,7
16=6. Total revenue	TR	52 842,8	43,0	41,0	40,5	39,7	39,0
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	43 529,8	35,4	35,2	34,9	34,5	34,3
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	20 395,8	16,6	16,1	16,1	16,1	15,8
17a. Compensation of employees	D.1	13 514,6	11,0	10,5	10,5	10,4	10,3
17b. Intermediate consumption	P.2	6 881,2	5,6	5,7	5,7	5,7	5,5
18. Social payments (18=18a+18b)		24 185,5	19,7	20,6	20,6	20,6	20,6
of which Unemployment benefits	[6]	267,5	0,2	0,2	0,2	0,2	0,2
18a. Social transfers in kind - purchased market production	D.632	4 178,0	3,4	3,8	3,8	3,8	3,9
18b. Social transfers other than in kind	D.62	20 007,5	16,3	16,8	16,8	16,9	16,7
19.=9. Interest expenditure	EDP D.41	1 420,7	1,2	1,4	1,6	1,6	1,9

20. Subsidies	D.3	4 078,4	3,3	0,9	0,9	0,8	0,8
21. Gross fixed capital formation	P.51	5 765,6	4,7	4,0	4,0	2,9	2,6
22. Capital transfers	D.9	743,8	0,6	0,6	0,6	0,4	0,4
23. Other	[7]	2 262,9	1,8	2,2	2,1	2,4	2,4
24=7. Total expenditure	TE [1]	58 852,6	47,9	46,9	45,9	44,9	44,5
p.m.: Government consumption (nominal)	P.3	24 705,2	20,1	21,1	20,4	20,3	20,2

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9 *Source: MoF SR*
[2] Primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[3] A plus sign means a deficit-reducing one-off measure
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
[6] Includes cash benefit (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits
[7] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8

Table 2b – No-policy-change scenario

	2024 level	2024 % of GDP	2025 % of GDP	2026 % of GDP	2027 % of GDP
1. Total revenue at unchanged policies			40,5	39,7	39,0
2. Total expenditure at unchanged policie			45,9	44,9	44,5

Note: For the purposes of the NPC for the years 2025 to 2027, the fiscal framework of the public administration budget was used. *Source: MoF SR*

Table 2c – Amounts to be excluded from the expenditure benchmark

	2023 level	2023 % of GDP	2024 % of GDP	2025 % of GDP	2026 % of GDP	2027 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	3081	1,8	1,0	0,7	0,4	0,1
1.a. of which investment fully matched by EU funds revenue	2200	0,7	0,9	0,9	1,2	0,9
2. Cyclical unemployment benefit expenditure	6	0,0	0,0	0,0	0,0	0,0
3. Effect of discretionary revenue measures	36	0,0	0,9	0,0	-0,1	0,0
4. Revenue increases mandated by law	0,0	0,0	0,0	0,0	0,0	0,0

Source: MoF SR

Table 3 – General government expenditure (% GDP)

	COFOG	2022 % of GDP	2027 % of GDP
1. General public services	1	4,7	6,5
2. Defence	2	1,5	1,8
3. Public order and safety	3	2,3	1,9
4. Economic affairs	4	4,8	4,4
5. Environmental protection	5	0,8	0,8
6. Housing and community amenities	6	0,5	0,5
7. Health	7	6,4	6,6
8. Recreation, culture and religion	8	1,1	0,9
9. Education	9	4,5	4,2
10. Social protection	10	15,6	16,8
11. Total expenditure	**TE**	**42,4**	**44,5**

Source: Eurostat, MoF SR

Table 4 – General governement debt development (% of GDP)

	ESA code	2023	2024	2025	2026	2027
1. Gross debt		56,0	58,6	59,8	63,6	67,8
2. Change in gross debt ratio		-1,7	2,6	1,2	3,8	4,2
Contributions to change in gross debt						
3. Primary balance		3,7	4,5	3,9	3,5	3,6
4. Interest expenditure		EDP D.41	1,2	1,4	1,6	1,6
5. Stock-flow adjustment		-0,5	0,3	-0,5	1,3	1,1
of which:		0,0	0,0	0,0	0,0	0,0
- differences between cash and accruals		-1,1	-0,8	-0,7	0,1	-0,1
- net accumulation of financial assets		0,3	0,8	-1,8	0,1	1,1
of which: revenues from privatisation		0,0	0,0	0,0	0,0	0,0
- valuation effects and others		0,4	0,3	2,0	1,1	0,2
p.m. implicit interest rate on debt		2,2	2,7	2,8	2,9	3,1
Other relevant variables						
6. Liquid financial assets		7,5	7,8	5,6	5,4	6,2
7. Net financial debt (7=1-6)		48,5	50,8	54,3	58,2	61,6
8. Debt repayment (existing debts) from previous year			3,6	3,5	4,3	2,8
9. Share of debt denominated in foreign currency*			0,6	0,4	0,3	0,0
10. Average maturity (years)**		8,6	8,3	7,9	8,1	7,8

** Lloans included.*
*** Maturity of state debt as of 31.12.*
Source: MoF SR

Table 5 – Cyclical developments

(% of GDP)	ESA code	2023	2024	2025	2026	2027
1. Real GDP growth (%)		1,7	1,3	1,8	2,7	1,9
2. Net lending of general government*	B.9	-4,9	-5,9	-5,4	-5,2	-5,5
3. Interest expenditure	D.41	1,2	1,4	1,6	1,6	1,9
4. One-off and other temporary measures		0,0	0,0	0,0	0,0	0,0
Of which:						
One-offs on the revenue side: general government		0,0	0,0	0,0	0,0	0,0
One-offs on the expenditure side: general government		0,0	0,0	0,0	0,0	0,0
5. Potential GDP growth (%)		2,0	2,0	2,0	2,0	1,8
contributions:						
- labour		0,0	0,0	-0,1	-0,3	-0,3
- capital		0,8	1,0	1,0	1,1	1,0
- total factor productivity		1,1	1,0	1,0	1,0	1,0
6. Output gap		-0,3	-0,3	0,7	1,0	0,8
7. Cyclical budgetary component		-0,1	-0,1	0,3	0,4	0,3
8. Cyclically-adjusted balance (2 - 7)		-4,8	-5,8	-5,7	-5,5	-5,8
9. Cyclically-adjusted primary balance (8 + 3)		-3,6	-4,4	-4,1	-3,9	-3,9
10. Structural balance (8 - 4)		-4,8	-5,8	-5,7	-5,5	-5,8

** For 2024, we are projecting the estimated figures.*
Source: MoF SR

Table 6 – Comparison between the previous forecast and the updated forecast

	ESA code	2023	2024	2025	2026	2027
Real GDP growth (%)						
Previous update*		1,3	1,8	2,7	1,9	-
Current update		1,6	2,0	3,1	2,2	1,6
Difference		0,3	0,2	0,4	0,3	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-6,3	-4,7	-5,2	-4,9	-
Current update **		-4,9	-5,9	-5,4	-5,2	-5,5
Difference		1,4	-1,2	-0,3	-0,2	-

General government gross debt (% of GDP)					
Previous update*	58,7	59,3	59,8	63,1	-
Current update **	56,0	58,6	59,8	63,6	67,8
Difference	-2,6	-0,7	0,0	0,5	-

Note: * Stability Programme for 2023 - 2026

** For 2024, we are projecting the estimated figures.

Source: MoF SR

Table 7 – Long-term sustainability of public finances (% of GDP)*

	2024	2030	2040	2050	2060	2070
Total expenditure	**46,9**					
Of which: Age-related expenditures	**20,3**	**21,9**	**23,1**	**24,5**	**25,9**	**25,0**
A. Pension expenditure**	9,4	10,2	10,8	11,5	12,1	11,3
a) Old-age and early pensions	7,1	7,7	8,1	8,9	9,5	8,8
b) Other pensions (disability, survivors)	2,2	2,5	2,7	2,7	2,6	2,6
B. Health care	6,1	6,4	6,9	7,2	7,4	7,3
C. Long-term care	1,1	1,3	1,6	1,8	2,2	2,4
D. Education expenditure	3,8	4,0	3,9	3,9	4,2	4,0
E. Other age-related expenditures						
Of which: Interest expenditure	3,5	3,9	4,0	4,0	4,0	4,0
Total revenue	**41,0**					
Of which: Property income (D.4)	0,7	0,6	0,6	0,6	0,6	0,5
Of which: Pensions contributions	7,2	7,0	6,9	6,7	6,5	6,4
Pension reserve fund assets						
Of which: Consolidated public pension fund assets						
Systematic pension reforms						
Social contributions diverted to voluntary private scheme	1,0	1,2	1,4	1,6	1,8	1,9
Pension expenditure paid by voluntary private scheme						
Assumptions						
Labour productivity growth	2,1	2,5	2,2	2,0	1,6	1,2
Real GDP growth	2,1	1,6	1,5	1,3	1,2	1,3
Participation rate males (aged 20-64)	85,7	84,7	83,2	84,1	85,5	86,0
Participation rate females (aged 20-64)	78,2	79,0	78,4	80,9	83,0	83,6
Total participation rate (aged 20-64)	81,9	81,9	80,9	82,5	84,3	84,8
Unemployment rate (aged 20-64)	5,2	5,6	6,0	6,1	6,0	6,0
Population aged 65+ over total population	18,2	20,6	23,9	28,6	31,3	30,2

** Age-related expenditures as well as macroeconomic assumptions were updated after issuing Ageing report 2021.*
*** New measures affecting public pensions expenditure included.*

Source: MoF SR

Table 7a – Contingent liabilities

	2023 % of GDP	2024 % of GDP
Public guarantees	**10,8**	**-**
of which: linked to EFSF and ESM	6,9	6,4
of which: linked to international financial institutions	1,1	
of which: linked to anti-COVID19 guarantees	2,5	2,3
of which: linked to state-owned financial institutions (other than anti-COVID19)	0,3	-

Source: MoF SR

Table 8 – Basic assumptions

	2023	2024	2025	2026	2027
Short-term interest rate €str (annual average)	3,4	3,9	3,4	3,0	2,7
Long-term interest rate 10Y-SLOVGB (annual average)	3,7	3,7	3,7	3,6	3,6
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,1	1,1	1,1	1,2	1,2
Nominal effective exchange rate	1,1	-1,0	0,1	0,3	0,1
World excluding EU, GDP growth	-	-	-	-	-
EU GDP growth	-	-	-	-	-
Growth of relevant foreign markets	0,0	1,0	2,1	2,1	2,1
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	82,2	81,3	76,3	73,0	71,0

Source: MoF SR

Table 9a – RRF impact on program (grants)

	ESA Code	2021 % of GDP	2022 % of GDP	2023 % of GDP	2024 % of GDP	2025 % of GDP	2026 % of GDP
Revenue from RRF grants							
1. RRF GRANTS as included in the revenue projections		**0,0**	**0,0**	**0,3**	**0,9**	**0,8**	**0,4**
2. Cash disbursements of RRF GRANTS from EU		**0,9**	**0,4**	**1,1**	**1,7**	**0,8**	**0,3**
Expenditure financed by RRF grants							
3.TOTAL CURRENT EXPENDITURE		**0,0**	**0,0**	**0,1**	**0,3**	**0,2**	**0,1**
of which:							
- Compensation of employees	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 Payments	D.62+D.632			0,0	0,0	0,0	0,0
- Interest expenditure	D.41		0,0	0,0	0,0	0,0	0,0
- Subsidies, payable	D.3		0,0	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		0,0	0,2	0,3	0,4	0,3
- Capital transfers	D.9		0,0	0,0	0,3	0,2	0,0
Other costs financed by RRF grants							
5. Reduction in tax revenue			**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
6. Other costs with impact on revenue			**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
7. Financial transactions			**0,0**	**0,0**	**0,0**	**0,0**	**0,0**

Source: MoF SR