Stability Programme of the Slovak Republic
for 2023 to 2026

April 2023

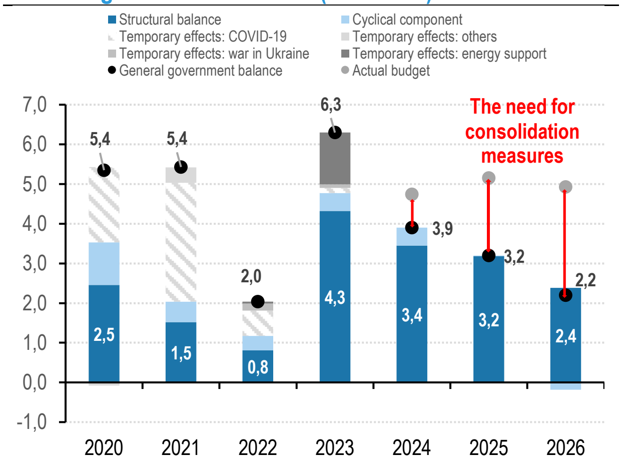
SUMMARY

The Stability Programme for 2023-2026 foresees a gradual recovery in economic growth, alongside a slight retreat from still increased uncertainty. The Slovak economy will avoid recession in times of energy and inflation crises. GDP will grow by 1.3% this year, which will also bring it significantly above pre-pandemic levels. Despite rising prices, the economy will be buoyed by domestic demand, supported by the energy price caps and the drawdown of EU resources. Investments from EU structural funds and the Recovery and Resilience Plan will help revive an undercooled economy. The labour market will remain resilient, although job creation dynamics will be moderate. Inflation will retreat towards 10% this year and real wages will rise moderately. From next year onwards, the Slovak economy is set for a stronger recovery, supported by developments in the euro area and hence a stronger performance of our exports. Economic growth in the next three years in an average above 2% will be slightly dampened by the planned consolidation of public finances. Household and business energy prices remain a moderate risk to the economy, where the ongoing war in Ukraine also maintains uncertainty. Another risk for the domestic economy is weaker spending on the Recovery and Resilience Plan, which in a pessimistic scenario would cut off half of the expected economic growth this year and next.

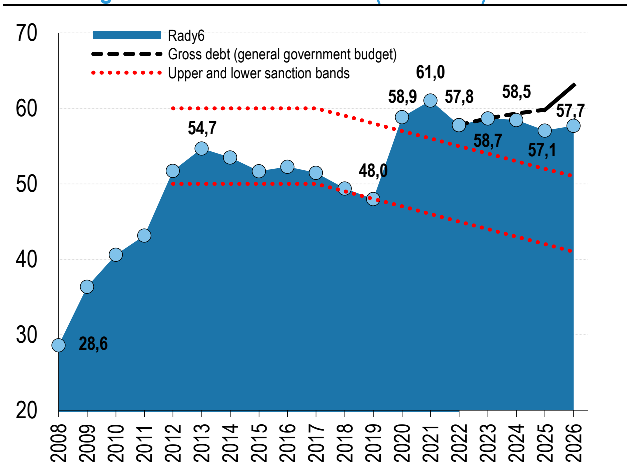
While last year the general government deficit fell sharply to 2% of GDP, this year the deficit will be back above 6% of GDP after the full impact of the inflation shock. While general government revenues were already growing at a double-digit pace year-on-year last year, expenditure developments were even subdued. High spending due to the COVID-19 pandemic has gradually faded, and was only about a quarter of the 2021 value. Growth in wage and social spending was also slower in 2022. Under existing legislation, these expenditures catch up with inflation only with a lag of about one year. This is also why the nominal deficit is estimated to rise more significantly this year, from 2.0% to 6.3% of GDP. The increase in energy aid to firms and households is also an important factor. Temporary measures by the government to cushion price increases are estimated at 1.7% of GDP net of sources of coverage. The increase in the deficit is also largely due to new expenditure not directly related to the energy crisis. Permanent family policy measures, in particular the increase in the child tax credit and child allowances, the reintroduction of free lunches and the introduction of the so-called parental bonus, will widen the deficit by more than 1% of GDP. Other reasons are the increase in health care wages and the reduced VAT rate for selected sectors of the catering, sports and tourism industries. Fiscal policy will also be expansionary this year under the impact of a sharp increase in defence spending.

Given the high structural deficit and the trend of rising debt, an ambitious consolidation of public finances will be needed, amounting to almost 3% of GDP within the next three years. Over the Stability Programme horizon, the nominal deficit is proposed to fall by almost two thirds, from the current level of over 6% of GDP to close to 2% of GDP by 2026. This will also fulfil the basic idea of the currently changing European fiscal rules, which is to present a sustainable debt path**.** Without a response, gross debt would rise over the next three years. It will stabilise below 60% of GDP if the budget deficit targets are reached. The debate on the form of specific consolidation measures amounting to 2.8% of GDP over the next three years remains in the hands of the next government.

General government balance (% of GDP)



General government debt forecast (% of GDP)



Source: MoF SR, Eurostat

The unfavourable rates of the long-term sustainability indicator deep in the high-risk band confirm the need for consolidation and reforms beyond the horizon of the Stability Programme, beyond 2026. The long-term sustainability indicator S2, at 9.2% of GDP, remains in the high-risk band. After the budgetary targets are met by 2026, it will only converge towards the medium-risk band. At the same time, although the government approved a pension reform last year improving the S2 indicator by around 1.6 pp, a combination of further revenue increases, expenditure cuts or more fundamental structural reforms will be needed to fully stabilise public finances beyond 2026.

Structural reforms to kick-start economic growth can also give a stronger boost to the long-term sustainability of public finances. The biggest challenges holding back Slovakia's economic convergence relate to education, the labour market and allocative efficiency. In order to increase the inclusiveness of the education system, a legal entitlement to a place in kindergarten will be introduced, coupled with the increacing kindergarten capacity. The adoption of a new version of the curriculum for all primary school cycles aims at improving children's literacy and skills needed for the 21st century. The profiling and diversification of universities will be supported by the introduction of performance contracts. Measures to reduce barriers of the entry of highly skilled foreign workers into the labour market will address labour shortages. The introduction of a new jobseeker's allowance for retraining will encourage investment to labour market skills shortages. Upcoming measures to improve the quality of institutions and the business environment have the potential to increase allocative efficiency in the economy. The reform of the judicial map and the associated specialisation of judges should lead to faster court proceedings and better quality decisions. Electronification and unification of insolvency processes, together with the adoption of other anti-bureaucratic packages, will reduce administrative barriers to business.

The Stability Programme is the main medium-term budgetary document of the Slovak Republic. Slovakia hereby complies with the obligation defined in Article 4 of Council Regulation (EU) 473/2013. The Stability Programme for 2023-2026 was approved by the Government on 26 April 2023 and will be discussed by the Members of the National Council of the Slovak Republic. The Stability Programme is based on the January forecast of the Committee for Macroeconomic Forecasts and the March forecast of the Committee for Fiscal Forecasts.

CONTENT

LIST OF BOXES, TABLES AND FIGURES

1 ECONOMIC OUTLOOK AND ASSUMPTIONS

The Slovak economy will avoid recession in the current energy and inflation crisis. GDP will grow by 1.3% in 2023, taking it well above the pre-pandemic level. Despite rising prices, the economy will be boosted by domestic demand, supported by capped energy prices and spending of EU funds. Investment from EU structural funds and the Recovery and Resilience Plan will help kick-start an undercooled economy. The labour market will remain resilient, even if job creation remains moderate. Average inflation will ease towards 10% in 2023 and real wages will rise slightly. Inflation will be around half as high in 2024, returning to 2% towards the end of the forecast period. Household consumption will cope with the inflationary period with positive contributions to GDP, but at the expense of savings. Moreover, from next year onwards, the Slovak economy is set for a stronger recovery, supported by developments in the euro area and hence a stronger exports performance. Economic growth averaging above 2% over the next three years will be slightly dampened by the planned consolidation of public finances. Higher energy prices for households and businesses remain a risk for the economy, whereas continued Russian aggression also maintains uncertainty. A potential risk to the domestic economy is a weaker uptake of Recovery and Resilience Plan funds, which would cut off half of the expected economic growth this year and next in a pessimistic scenario.

1.1 Medium-term forecast [1] of macroeconomic developmen for 2023 to 2026

Gross domestic product will grow by 1.3% in 2023, 0.4 p.p. less than in the previous year[2] . Half of the acceleration in the economy will be driven by the roll-out of the Recovery and Resilience Plan (more in **BOX 1**). Government transfers and maximum energy prices have stabilised household budgets, which will provide the rest of GDP growth. Gradually, households will rebuild their savings thanks to higher income. The outlook for foreign trade is improving (**BOX 2**), but net exports will contribute negatively to GDP growth in 2023. Slovak automakers are adapting production facilities to new models and exports will remain subdued this year also due to lingering problems in global supply chains. Imports will be boosted not only due to higher investment from EU funds, but also due to imports of fighter jets and other weapons systems because of the security situation on the eastern border.

After the inflation shock we expect an acceleration of the dynamics of the Slovak economy in the following years 2024-2026. In 2024, GDP will grow by 1**.8%.** Foreign trade will strengthen and European exports will be driven mainly by China. With new models, Slovak carmakers will penetrate new markets and we expect new markets to be gained abroad. Net exports will pull our economy up after the negative energy price shock has worn off. GDP growth will peak at 2.7% in 2025 due to the spending of the Recovery Plan. In 2026, the economy, along with end of EU investment absorption, will ease slightly below 2%.

TABLE 1 – Forecast of selected indicators of economic development of the SR for the years 2023 to 2026[3]

No.	Indicator		Reality		Forecast			
		units	2021	2022	2023	2024	2025	2026
1	GDP, current prices	bn EUR	100,3	109,7	119,7	128,4	137,2	143,4
2	GDP, constant prices	%	3,0	1,7	1,3	1,8	2,7	1,9
3	Final consumption of households and NISD[4]	%	1,7	5,1	0,7	1,1	1,5	1,3
4	Final consumption of general government	%	4,2	-3,2	2,3	1,4	0,5	1,0
5	Gross fixed capital formation	%	0,2	6,5	14,6	1,2	1,3	-3,3
6	Export of goods and services	%	10,6	1,0	1,3	6,9	6,6	5,4
7	Import of goods and services	%	12,1	3,0	4,2	6,2	5,2	3,8
8	Output gap (share of potential output)	%	-1,4	-1,0	-1,2	-1,2	-0,1	0,5
9	Average monthly wage (nominal growth)	%	6,8	7,9	10,4	8,1	6,3	4,2
10	Average employment growth, LFS	%	1,2	1,6	0,1	0,5	0,6	0,4

[1] Forecast of the Committee on Macroeconomic Forecasts.
[2] GDP growth was mainly driven by households drawing on their savings, which, relative to income, reached a historic low. Catching up on investments postponed during the pandemic also contributed positively to economic development. Exports remained subdued during the year due to supply chain problems and weakening demand from abroad, which came under pressure from high prices.
[3] The forecast for 2023 to 2026 was endoresed by the Macroeconomic Forecasting Committee in February 2023.
[4] In the following text, household consumption will be understood as the consumption of households and non-profit institutions serving households (NISD).

11	Average employment growth, ESA 2010	%	-0,6	1,8	0,5	0,5	0,6	0,4
12	Unemployment rate, LFS	%	6,8	6,2	5,8	5,4	5,2	5,2
13	Unemployment rate, registered	%	7,5	6,4	5,9	5,5	5,3	5,3
14	Harmonised Index of Consumer Prices (HICP)	%	2,8	12,1	9,7	5,5	4,3	2,2
15	Current account balance (as a share of GDP)	%	-2,6	-7,2	-5,5	-5,0	-4,6	-4,0

Source: MoF SR

BOX 1 – Estimation of the impact of the Recovery Plan on the Slovak economy in the medium term

The MoF forecast works with the Recovery and Resilience Plan allocation figures (TABLE 2), which are consistent with the country allocation key. The projected allocation does not take into account the failure to meet pre-agreed milestones, which are a condition for drawing money from the facility.

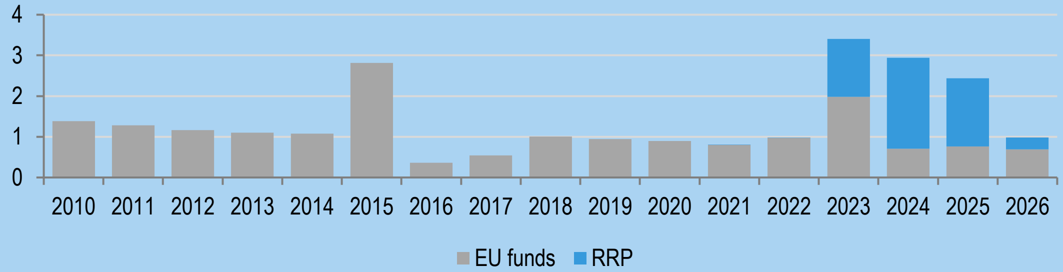
TABLE 2 – Expected expenditures covered by Recovery and resilience plan of SR (mil. eur, w/o. VAT)

	2021	2022	2023	2024	2025	2026	Total
Total recovery plan	**6**	**49**	**1 662**	**2 479**	**1 871**	**343**	**6 410**
Public compensations	2	29	120	131	110	36	**429**
Intermediate consumption	3	11	85	83	52	18	**253**
Government investment	0	2	904	1 635	1 224	141	**3 905**
Natural social transfers	0	0	8	8	4	0	**20**
Social transfers	0	4	23	23	23	0	**72**
Corporate investment	1	3	361	471	356	74	**1266**
Household investment	0	0	162	127	102	74	**464**

Note: The MoF forecast works with Recovery and Resilience Plan allocation figures that are consistent with the country allocation key. The projected allocation does not take into account the failure to meet pre-agreed milestones, which are a condition for drawing money from this instrument. The macroeconomic forecast and the budget in the Stability Programme are based on different assumptions on the absorption of EU funds. The budget assumes that the full amount will be drawn down by the end of 2023. The macroeconomic forecast expects 92% of the total allocation of the 3rd programming period to be spent by the end of 2023 and the remaining 8% of the available resources (approx. EUR 1.3 billion) to be forfeited. From 2024 onwards, a slow ramp-up of the absorption of resources from the 4th programming period is expected.

The total expenditure volume of EUR 6.41 billion (current prices) for the Recovery Plan is based on the spending update from the beginning of March 2023.
Source.: MoF SR

FIGURE 1 – Investment from EU sources (b.c., billion euro)



Source: MoF SR

The impact of the Recovery and Resilience Plan funds will peak in 2024 and GDP will be higher by 2.1%. It will support the economy mainly through new investment, which is expected to be 11.4% higher in 2024. The labour market will react to the stimulus with a slight lag and the effect will peak in 2025, when employment will be 1.3% higher than in baseline. The economic impacts presented in TABLE 3 and FIGURES 3 and 4 are model simulations and abstract from positive impacts of structural reforms included in the Recovery and Resilience Plan.

TABLE 3 – Impact of the implementation of the Recovery and Resilience Plan included in the forecast

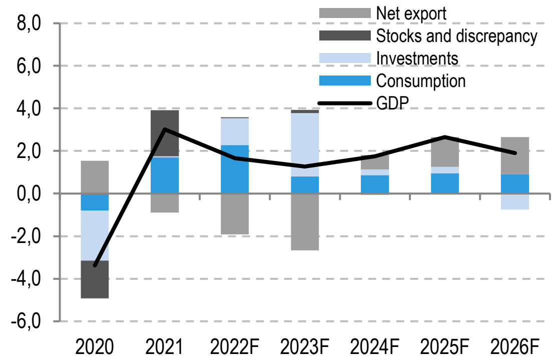
Change in the value of individual variables compared to the evolution without Recovery Plan (%)			
	Real GDP	**Real investments**	**Total employment**
2021	0,0	0,0	0,0
2022	0,0	0,0	0,0
2023	1,6	7,3	0,2
2024	2,1	11,4	1,0
2025	1,0	6,9	1,3
2026	0,2	-0,3	0,8

Source: MoF SR

The labour market will ease this year and employment will increase by 0.5%, with an unemployment rate of 5.8%. More than 12 000 new jobs will be created in the economy, mainly thanks to the investments of the Recovery Plan in the second half of the year. We still expect employment to stagnate in the first half of 2023. Lay-offs due to the energy crisis will be milder as firms will start to receive compensation for high energy prices from February. Investment from the Recovery and Resilience Plan (BOX 1) will contribute significantly to labour growth in the coming years. These, together with the arrival of the new Volvo car company, will mitigate the decline in the workforce due to the ageing population until 2026[5]. Improvment of the migration balance, the implementation of the Recovery and Resilience Plan and later retirements will together contribute to increasing participation rates. At the end of the projection horizon, the unemployment rate will fall to just above 5 %.

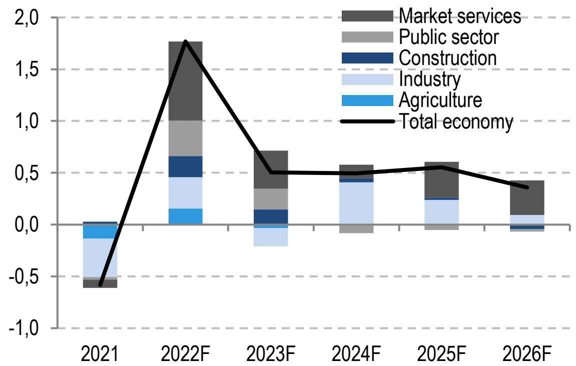
Growth in average nominal wages in the economy accelerates to 10.5% in 2023. The public administration wages will outpace the private sector thanks to a delayed - but historic high - increase in pay scales. In the private sector, employees in the construction sector will see the biggest improvement, also thanks to the end of the programming period for EU funds and the RRP. Real wages will return to growth (0.6%) as nominal wages outpace inflation. From 2024 onwards, wage bargaining will reflect the lower rate of consumer price inflation. The growth rate of nominal wages will gradually slow down to 4% in 2026. At the end of the projection horizon, real wages should increase by almost 2%.

FIGURE 2 – Contributions to GDP growth (p.p.)



Source: SO SR, MoF SR

FIGURE 3 – Contributions to ESA employment growth (p.p.)



Source: SO SR, MoF SR

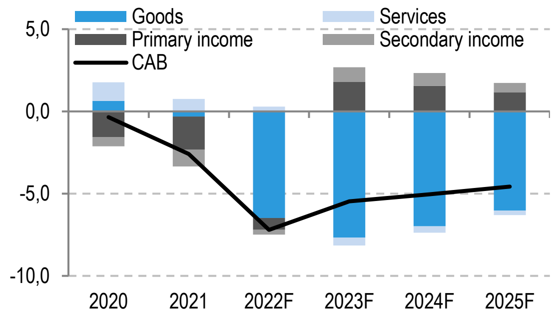
Inflation will average 9.8% in 2023, but will return to close to 2% in the medium term. Year-on-year price growth will be largely influenced by the base effect from the strong price increases at the end of last year. Government measures led to household energy prices rising only very moderately in January compared to developments on commodity markets. Food prices will rise further due to persistently high global agri-commodity prices, and we expect prices to stabilise only in the second half of the year. Fuel prices, on the other hand, will continue to decline this year. While growth in goods prices will start to approach previous lower growth levels towards the end of the year, market services inflation will slow only slightly due to robust labour market developments. Food price growth will normalise next year, while growth in goods and, with a lag, services prices

[5] New investments from the POO as well as the arrival of Volvo will attract additional economically active population to the Slovak labour market. They will partly come from abroad, but the labour force may also increase with the postponed retirement age of part of the population or the return of Slovaks from abroad.

will also slow. On the other hand, however, there is a risk regarding the capping of energy prices given the volatile developments in commodity markets. [6]

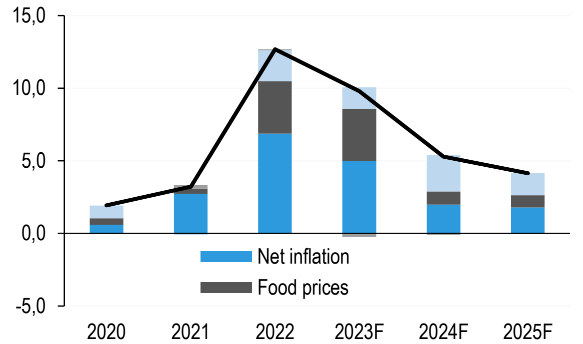
If there were an immediate switch to market-clearing prices next year, gas prices would more than double, despite a visible fall in world market prices. At the same time, heat prices would rise with them. However, we expect some measures to prevent the growth in prices in future years. The assumption is that the gas price are set to reflect the market price of the commodity that the markets now expect in the medium term (2026). This would imply an increase in the end gas price of almost 40% next year and unchanged prices in 2025 and 2026. Gas prices should settle at around 50% and 60% higher than in 2022 respectively in the medium term.

FIGURE 4 – External imbalances - CAB components (% of GDP)



Source: NBS, MoF SR

FIGURE 5 – Structure of consumer inflation – annual contributions of components to the CPI (p.p.)



Source: SO SR, MoF SR

BOX 2 – External environment assumptions

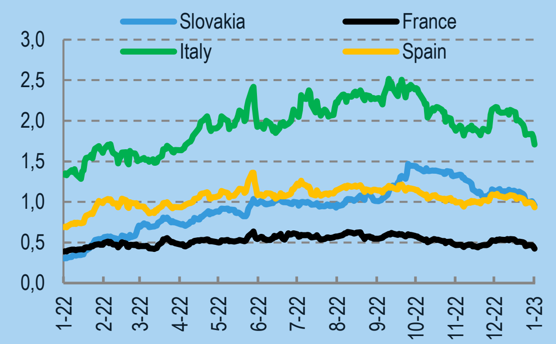
Global inflation and the bottleneck chains are easing as well. Falling energy commodity prices, and the associated month-on-month decline in euro area prices, suggest that inflation may have passed its peak. By the end of the year, oil had erased most of its gains from the first half of the year and moved closer to its long-term price average. This was despite the nervousness caused by the imposition of a price ceiling on Russian oil and the curbs on production by the OPEC cartel countries. As a result, sentiment in the euro area across sectors improved towards the end of the year. The improved outlook for firms was supported in particular by shortening lead times and falling input prices. The move away from the Covid-19 zero-tolerance policy in China also had a positive impact. On the other hand, firms are starting to feel the negative effects of tightening financial conditions on the decline in orders. The low unemployment rate and rising core inflation are likely to force the ECB to hold key interest rates higher for a longer period.

Financial markets were also affected by the year-end positive development. European stock indices gained around 20% between October 2022 and January 2023. The common European currency has also strengthened significantly in recent weeks, rebounding from parity to USD 1.08 per euro. Despite the ECB's strong tightening of monetary policy, bond yields have been gradually declining and the risk premium to German bunds has decreased.

Better prospects abroad will also have a positive impact on the performance of the Slovak economy. Stronger sentiment from our foreign partners suggests that the GDP of our trading partners will be higher in early 2023. Later in the year, however, the lagged effects of tighter monetary policy will start to take hold, weighing on consumption and output... Over the longer term, we expect the economies of our foreign partners to absorb the shocks and gradually return to growth at potential.

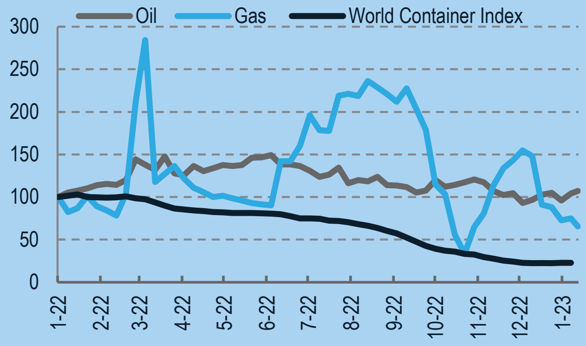
[6] The forecast from February 2023 does not foresee the announced guarantee of maximum electricity prices until 2027 after the update of the memorandum with Slovak Power Plants from the end of March 2023.

FIGURE 6 – Risk premium on 10-year government bonds (%)



Source: Bloomberg, IFP

FIGURE 7 – Commodity prices (index, January 2022=100)



Source: Bloomberg, IFP

The cut-off date for external environment assumptions, including interest rates, commodity prices and exchange rates, was 23 January 2022.

1.2 Cyclical development of the economy

Economic potential remains dampened by weaker productivity in 2023 due to component shortages in production and adjustment to the cost shock. Potential growth is starting to be pulled up by investments from the Recovery and Resilience Plan and EU standard funds, which will accelerate growth of capital stock. Employment is weighing on potential output, mainly because of demografic changes.

FIGURE 8 – Contributions of factors of production to potential output growth (p.p.) - MoF SR approach

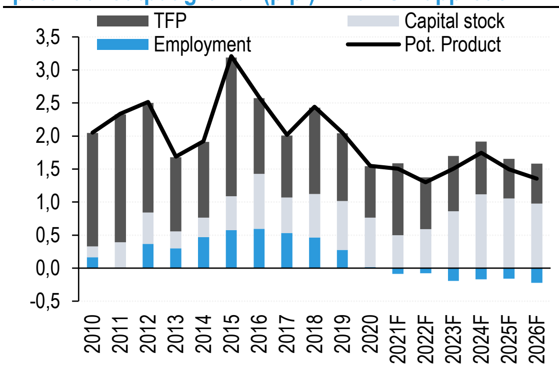


TABLE 4 – Contributions of factors of production to potential output growth - MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2019	2,1	**1,0**	**0,7**	**0,3**
2020	1,5	**0,8**	**0,8**	**0,0**
2021	1,5	**1,1**	**0,5**	**-0,1**
2022F	1,3	**0,8**	**0,6**	**-0,1**
2023F	1,5	**0,8**	**0,9**	**-0,2**
2024F	1,7	**0,8**	**1,1**	**-0,2**
2025F	1,5	**0,6**	**1,1**	**-0,2**
2026F	1,4	**0,6**	**1,0**	**-0,2**

** total factor productivity*

Source: MoF SR

The Slovak economy will remain slightly undercooled in 2023 and 2024, but expected to close the output gap in 2025. Continued absorption of the Recovery Plan will be dampened by a shortfall in demand after the end of the structural funds absorption in 2023. At the same time, the expected consolidation of public finances will have a negative impact on domestic demand, which will slightly delay the closure of the output gap. However, GDP growth will gradually accelerate from 2024 onwards and the economy will reach equilibrium from 2025 onwards.

FIGURE 9 – Output gap (% of GDP) – MoF SR approach

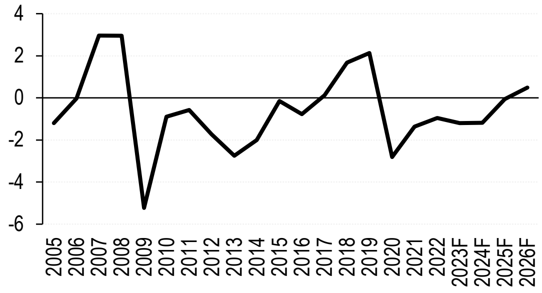


TABLE 5 – Output gap - MoF SR approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% of pot. GDP)
2019	2,5	2,1	**2,1**
2020	-3,4	1,5	**-2,8**
2021	3,0	1,5	**-1,4**
2022	1,7	1,3	**-1,0**
2023F	1,3	1,5	**-1,2**
2024F	1,8	1,7	**-1,2**
2025F	2,7	1,5	**-0,1**
2026F	1,9	1,4	**0,5**

Source: MoF SR

1.3 Comparison of the Slovak economy forecasts of the Ministry of Finance of the Slovak Republic with forecasts of other institutions

The MoF's forecast is comparable with other institutions. The MoF expects similar growth in 2023 as the EC, NBS and the IMF. The acceleration of the economy after the retreat of strong inflation in 2024 is more pronounced compared to other institutions only in the case of the NBS. The OECD forecast was published before the announcement of the energy price cap, which pushed down expected inflation for 2023 and pushed up the real performance of the economy. At the same time, the MoF and the OECD expect a slow rebalancing of the current account deficit in the balance of payments. The deeper current account deficit is mainly due to a negative balance with goods. The absorption of EU funds and the Recovery Plan brings strong imports of investment goods, which on the other hand are not compensated by the performance of exporters. We expect a stronger performance of exporters on foreign markets only in 2025, due to a change in the structure of production in the automotive industry and a stabilisation of foreign demand.

TABLE 6 – Comparisons of forecasts of MFSR and other institutions

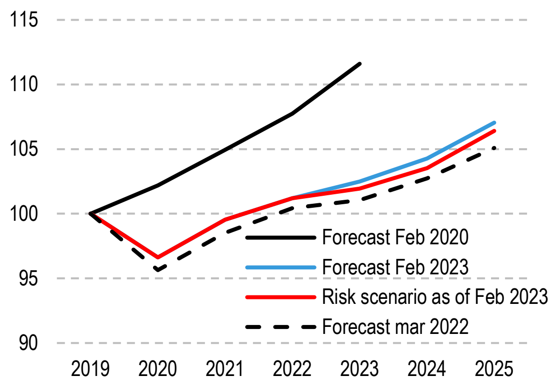
	2022	2023	2024
		Real GDP growth (%)	
MoF SR	**1,7**	**1,3**	**1,8**
MFC (median)	1,6	1,0	2,5
NBS	1,7	1,3	3,2
EC	1,7	1,5	2,0
OECD	1,6	0,5	2,1
IMF	1,7	1,3	2,7
		HICP (%)	
MoF SR	**12,1**	**10,2**	**4,9**
MFC (median)	12,8	10,8	6,5
NBS	12,1	10,5	6,7
EC	12,1	9,7	5,3
OECD	12,0	15,5	5,1
IMF	12,1	9,5	4,3
		CAB (% of GDP)	
MoF SR	**-7,2**	**-5,5**	**-5,0**
MFC (median)	-	-	-
NBS	-	-	-
EC	-	-	-
OECD	-7,3	-7,0	-6,3
IMF	-4,3	-3,5	-2,6

Source: the MoF (February 2023), the Committee for Macroeconomic Forecasts (February 2023), the NBS (March 2022), the EC (February 2023), the OECD (November 2022) and the IMF (April 2023).

1.4 Risk scenario

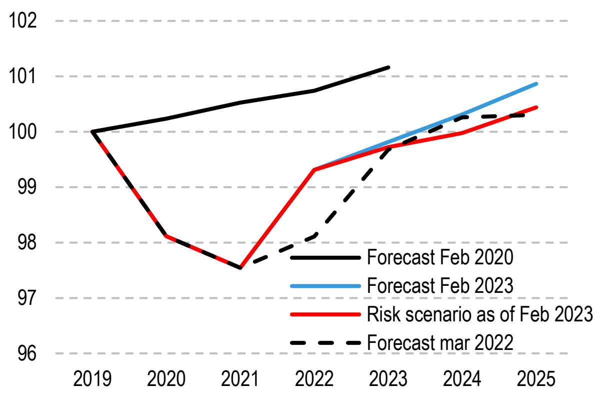
If the downside risks of the Recovery Plan materialize, GDP will grow by only 0.8% in 2023.We have reflected the uncertainty associated with the drawdown of Recovery and Resilience Plan (RRP) resources in a risk scenario. We assume underachievement of the targets of the individual calls and that the volume of the RRP absorption will be 33% lower compared to the baseline scenario. This scenario is based primarily on a shortfall in investment, which accounts for almost 90% of the package. On average over the period 2023 to 2026, this would mean a slowdown in the amount of 0.5% of GDP. Lower investment absorption would also slow capital accumulation and cause a permanent loss of 0.5% of GDP, a level of potential below the original trajectory with full absorption of the Recovery Plan.

FIGURE 10 – Slovakia's real GDP in the forecast and in the scenario with slower RRP absorption (index, 2019 = 100)



Source: IFP

FIGURE 11 – Employment in the forecast and in the pessimistic RRP absorption scenario (index, 2019 = 100)



Source: IFP

TABLE 7 – Risk scenario of weaker absorption of the Recovery and Resilience Plan funds

Cumulative change of variables compared to the forecast

	Real GDP	Consumer prices	Private consumption	Public consumption	Real investment	Real export	Total employment	Nominal wages	Output gap
2023	-0,5	0,0	-0,1	-0,4	-2,4	-0,1	-0,1	-0,2	-0,4
2024	-0,7	-0,2	-0,3	-0,3	-3,6	-0,2	-0,3	-0,3	-0,5
2025	-0,6	-0,6	-0,5	-0,3	-2,8	-0,1	-0,4	-0,9	-0,2
2026	-0,4	-0,9	-0,6	-0,2	-2,0	-0,2	-0,3	-1,5	0,0

Source: MoF SR

2 THE CURRENT PUBLIC FINANCE POSITION

Last year, the general government deficit fell to 2.0% of GDP. It is less than half of the budget target. While government revenue has already grown at a double-digit annual rate, expenditure developments have been more subdued. The high costs from the COVID-19 pandemic have gradually receded and were only about a quarter of the 2021 value. Growth in wages and social spending was also slower, which, under existing legislation, is only catching up with inflation with about a year's delay. This is also cause, why the nominal deficit is already projected to rise to 6.3% of GDP this year, in line with the budgetary target. Government revenue will continue to maintain last year's growth rate of around 10%, while expenditure growth is up to twice as fast. This is mainly due to the extra cost of energy aid to firms and households. The government's temporary measures related to price increases are projected to 2.6% of GDP this year, compared to 0.4% of GDP last year. Another important factor behind the sharp increase in expenditure and the economic deficit is the government's new permanent measures, which also increase the structural deficit, to 4.6% of GDP. Family policy measures, in particular the sharp increase in the child tax credit as well as in child allowances and the so-called parental bonus, will widen the deficit by more than 1% of GDP. Health care costs are also rising significantly, mainly due to the sharp above-inflation adjustment of health care workers' wages. Defence spending is also rising sharply year-on-year.

While the general government balance surprised with its lowest ever structural deficit last year, this year the overall deficit is set to triple year-on-year after the full impact of the inflation shock. Government revenues have already risen by a tenth last year after the onset of inflation. However, the expenditure side was still lagging significantly when the pandemic receded and the valorisation mechanisms were delayed. This has contributed to less than half of the budgeted deficit and an all-time low structural deficit of 0.8% of GDP. In contrast, this year fiscal policy is already turning around significantly. The adoption of a significant amount of new anti-inflationary schemes to support households and firms, together with the indexation of a number of expenditures, will significantly increase spending year-on-year. Part of the costs will be refinanced by unused EU funds and the taxation of temporary super-profits in the energy sector. The nominal deficit will rise to 6.3% of GDP this year from 2% last year, close to post-global financial crisis levels. The structural deficit will increase by 3,5 percentage points year-on-year.

FIGURE 12 – Evolution of the headline and structural deficit as % of GDP

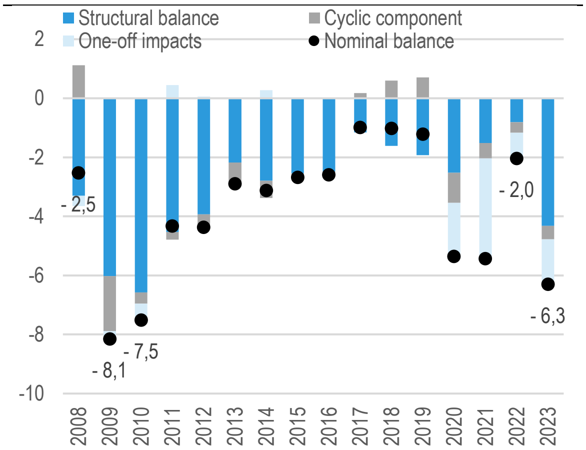
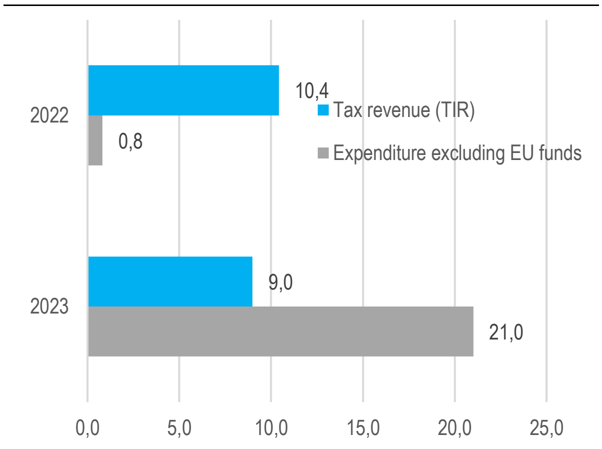


FIGURE 13 – Annual growth rates of selected items in 2022 and 2023 (% growth, ESA2010)



Source: MoF SR

TABLE 8 – Main government measures explaining the year-on-year change in the deficit (in % of GDP)

	2022	2023
VAT reduction to 10% - gastronomy, sports facilities, lifts and fitness	-	-0,2
Other income measures	0	0,2
Measures within family policies	-0,2	-1,1

Defense spending	0,5	-0,3
Government measures in the health sector	0	-0,5
Other spending measures	-0,1	0,1
Government measures compensating the rise in energy prices*	-0,4	-1,7
Taxation of temporary surplus profits due to high energy prices*	0,4	0
Government measures related to the COVID-19 pandemic*	2,1	0,5
Expenditure caused by the conflict in Ukraine*	-0,2	0,1
Total impact on the nominal balance	**1,9**	**-2,8**
Total impact on the structural balance	**0,9**	**-1,8**

** explain the change in the nominal balance, but not the structural one, as it is a measure with a temporary effect.*

Note: a detailed list of measures and their incremental impact on the balance can be found in the appendices: Discretionary income and expenditure measures

Note 2: (+) the measure improves the balance, (-) the measure worsens thebalance *Source: MoF SR*

2.1 General government balance in 2022

Growth of tax revenue[7] in 2022 was the highest since 2007, reaching double-digit rates. Tax revenue growth was supported by strong growth in almost all macroeconomic indicators. Tax and social security contributions (SSC) collection performance weakened year-on-year as tax collection did not keep pace with macroeconomic dynamics. On the contrary, new legislative measures following the EU Energy Crisis Regulation had a positive impact on revenue. Among the most important tax and social security contributions items, VAT in particular grew by 13.2% yoy, based on strong consumption growth[8] . The strong consumption growth was partly offset by a slightly lower collection success rate (ETR) relative to consumption (FIGURE 14). The decline in the effective rate in 2022 from the high level in 2021 may be related to the reopening of some sectors after the pandemic[9] , as well as the return to cash payments after the pandemic improved[10] (FIGURE 14). Social and health contributions increased by 8.7% on average. Similarly strong growth was recorded in personal income tax (10.7%). This development is mainly the result of wage growth above 8%. However, better macroeconomic developments in the labour market have not been fully reflected and real SSC collection has not kept pace with wage dynamics. The exception was personal income tax, where the silent taxation[11] contributed positively to the growth of the effective tax rate. Corporate tax increases marginally year-on-year12.[12] Corporate profitability was reduced by rising costs from inflationary pressures (FIGURE 15).

FIGURE 14 – Average effective tax rate on VAT (%)

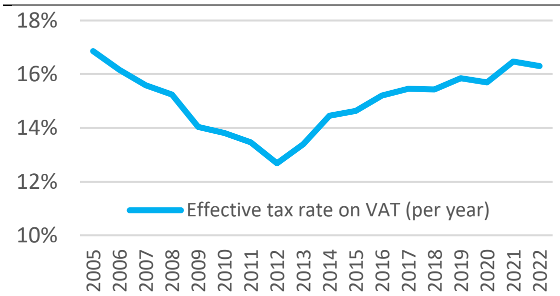
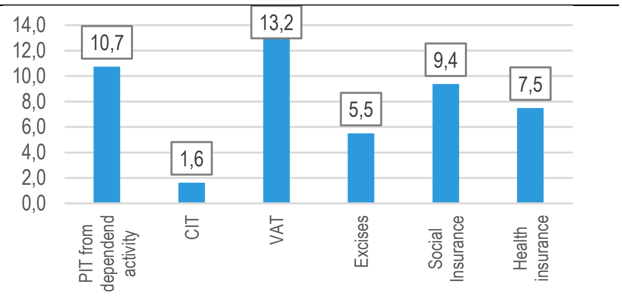


FIGURE 15 – Year-on-year change and growth in taxes and SSC collected in 2022 (%)



Source: MoF SR

[7] This is the tax-tax revenue projected by the Tax Forecasting Committee.
[8] Consumption grew by up to 18% year-on-year.
[9] This is particularly the case in the catering and construction sectors, where the tax gap is significantly higher compared to other sectors.
[10] The effective tax rate rose precisely during the pandemic, i.e. at a time when these sectors were closed.
[11] Income from PIT from dependent activity is also affected by a methodological adjustment to the recording of the stabilisation allowance - a one-off payment to health professionals in the amount of EUR 5 000. According to the methodology of the SUSR, the contribution is not included in the tax revenue in 2022, but will be included in the tax income in the years 2023 to 2025.
[12] The current estimate is based on the closed year 2021, when the tax reached a record annual growth of over 30%. Another factor in the minimal growth in the DPPO is the update to the economic development estimate.

Non-tax revenue also recorded an aggregate annual growth of almost 10%. ZSSK's revenue grew by up to 38 %, mainly due to the release of anti-pandemic measures, which was reflected in higher passenger numbers. Total revenue from e-toll and vignette sales continued to recover year-on-year in 2022 at 4.2%. The level of vignettes sold exceeded the pre-crisis level of 2019. Conversely, dividend income from enterprises co-owned by state for 2022 declined by up to 23% year-on-year[13] mainly driven by weaker economic performance of the SPP Group.

Wage and salary growth last year lagged behind both inflation and the rate of private sector wage growth. Total compensation expenditures were up 3.2% from a year earlier, well below inflation. Growth in wage and salary spending has been slowed in particular by the termination of pandemic measures[14] . The 3% wage indexation for public sector employees from July 2022, together with a one-off bonus of EUR 500, contributed to the below-inflation trend in wage expenditure[15].

Along with the rise in prices, spending on goods and services has risen sharply[16] . The sharp year-on-year increase was mainly driven by government expenditure on energy. These grew by more than 40% year-on-year. To a lesser extent, the year-on-year growth was also driven by war-induced expenditure in Ukraine[17] (see **BOX 3**). Conversely, growth is being held back by lower operating expenditure related to the COVID-19 pandemic, which is down by more than half year-on-year. This is mainly a decline in testing spending, but also in pandemic-related spending by health facilities.

BOX 3 – Expenditure caused by the military conflict in Ukraine

The costs of the war in Ukraine amounted to 0.2% of GDP last year, mainly due to the so-called Lex Ukraine (I, II, III) and the costs of direct contact with refugees and their integration into society. By the end of March this year, approximately 113 thousand people had applied for temporary shelter in Slovakia[18] . The largest part of the expenditure was paid in housing allowances, while increased expenditure was also in the regional education system, which absorbed some of the refugee children. Expenditure on material hardship benefits or other costs for the integration of refugees into society has so far been minimal. Other expenditures are related to military and humanitarian aid sent directly to Ukraine. The military conflict in Ukraine also has an indirect impact on public finances, in terms of induced costs. In particular through the cost of building a container town for NATO troops who arrived in Slovakia in response to the Russian military invasion. Another cost is the purchase of new police helicopters. Part of this expenditure will be refinanced from EU funds, but until the end of 2022, European money was not used for this purpose.

TABLE 9 – Expenditure caused by the war in Ukraine (million euro)	2022	2023
Expenditure related to refugees	143	90
of which: accommodation allowance	*64*	*50*
of which: costs of the Ministry of the Interior (excluding the accommodation allowance)	*46*	*10*
of which: inclusion of pupils in regional education	*20*	*25*
of which: other	*13*	*5*
Humanitarian and military aid to Ukraine	23	0
Other (induced) expenditure	28	10
Total	**194**	**100**

Note: Table shows a cash drawdown. The quantification does not include deliveries of weapon systems such as the S-300, nor does it include revenue from the European Peace Facility, as both factors have a neutral impact on the general government deficit in the ESA2010 methodology. Furthermore, the quantification does not include health care expenditure of employed refugees.

Source: MoF SR

[13] Almost a third of the expected dividends have already been paid by the companies, with the balance based on profits from the financial year ending 2021.
[14] In 2021, rewards were paid to workers fighting the pandemic.
[15] Remuneration of €500 was paid in September only to civil servants. Public employees are to be paid their bonuses by December 2022. The increase in wages and salaries in the public administration lags significantly behind the development of wages and salaries in the private sector. In the private sector, wages grew by 9.5%.
[16] In ESA 2010 considered as intermediate consumption (P.2)
[17] Not all costs associated with the military conflict in Ukraine are related to intermediate consumption, but also to social transfers, other current transfers and capital expenditure.
[18] By 31 March 2023, 113 242 refugees from Ukraine had applied for temporary shelter in Slovakia.

The cost of servicing public debt was stable over the past year, growing by only 3% year-on-year[19] . In an effort to reduce inflationary pressures and reduce uncertainty in financial markets, the European Central Bank has been raising interest rates in 2022. However, this impact has not been more pronounced in the past year due to the fact that rates on the existing portfolio of Slovak bonds are fixed and higher rates are only reflected on new issues. Moreover, Slovakia accumulated a significant amount of liquid assets in the last two years 2020 and 2021, when interest rates were at minimum levels. Some of these resources have been used at the expense of new issuance.

Social spending[20] , like wage and salary spending, has lagged behind inflation in the past year. The lower growth compared to price growth is mainly due to the legislative adjustment of the indexation of a large part of social benefits. Social benefits are mostly indexed in the beginning of the year, according to price, wage or other variable increases in the previous period. Thus, high price or wage growth in 2022 is delayed. In 2022, pension spending grew by 2% year-on-year, driven mainly by indexation spending and the impact of demographics (inflow of new beneficiaries with higher benefits and outflow of older beneficiaries with relatively low benefits). Expenditure on sickness benefits even declined by 9% year-on-year, due to a reduction in the take-up of pandemic sick leave and sick leave insurance, as the Omikron wave did not have as strong impact on take-up as previous pandemic waves. Similarly, spending on unemployment benefits fell by up to 17% year-on-year. In contrast, the growth in social spending is dragged by the initial 0.2% of GDP start-up of the pro-family package[21] . As of July, the child tax credit was increased to €70 for children under 15 and €40 for children over 15, and child allowances were raised to €30. Expenditure also rose last year due to temporary measures taken by the government to compensate inflation. These include one-off aid for families and selected population groups as well as the payment of the 14th pension (see **BOX 4**).

Health care spending[22], which grew at nearly double-digit rates last year, has already responded to inflation. Costs associated with higher-than-expected energy price rises and inflation, and the catch-up of deferred care due to the COVID-19 pandemic, were the main contributors to the near-10% growth in spending. Other drivers of spending growth are the standard indexation of health workers' salaries[23] .

On the contrary, other current transfers recorded a significant decrease. The significant decrease is mainly due to the scaling down of aid to enterprises during the COVID-19 pandemic, in particular the 'kurtzarbeit' scheme. The anti-pandemic 'kurzarbeit' scheme operated until the end of February last year.[24] It has subsequently been replaced by a permanent short-time working scheme, the uptake of which is much lower, due to more restrictive conditions but also to the improved economic situation[25].

Capital expenditure from national sources grew by almost 17% year-on-year[26] . In transport, major road construction is underway, with R2 Kriváň - Lovinobaňa as well as D1 Hubová - Ivachnová (each with an impact of 0.1% of GDP) and railway upgrades such as Púchov-Žilina, the Púchov-Považská Teplá section (together accounting for 0.1% of GDP). The increased investment expenditure of municipalities (0.3% of GDP) also contributes to the expected growth.

2.2 Recent developments public finances

Tax-revenue growth slows slightly in 2023, but remains at a solid 9%. The highest growth is expected for employment tax (12.6%). Social and health contributions are expected to grow by around 9.0%. As in 2022, income from labour taxation[27] pulls in more than 10% wage growth[28] . In the case of health contributions, the introduction of a minimum health contibutions will also help growth. VAT revenue continues to grow strongly (11.9%) in line

[19] Interest expense on a net basis, i.e. as interest expense net of interest income.
[20] Social transfers outside health
[21] At the same time, both the child tax credit and the child benefit are set to increase much more significantly in the current year 2023.
[22] Including the MoH chapter.
[23] The one-off stabilisation allowance for non-physician employees in the general government sector does not affect the year-on-year increase in health expenditure as it is recorded on an accrual basis in the ESA2010 methodology. Thus, the amount paid is prorated over a period of 3 years (or 36 months), as the stabilisation allowance is paid to employees with the condition of remaining in active employment for 3 years.
[24] Claims could be made for the month of February 2022 at the latest, payments were made until the end of April 2022
[25] In 2022 (from January to 12 August), €278 million was paid to finance pandemic aid to businesses to maintain employment (so-called "kurzarbeit"). Claims for the payment of support during short-time working (so-called permanent kurzarbeit) amounted to EUR 22.2 million from March to the end of 2022.
[26] The largest items were defence spending on Tracked Combat Vehicle projects with a cash drawdown in 2022 of €475m and Armoured Fighting Vehicles with a cash drawdown of €60m. However, these have deliveries only in subsequent years and therefore do not affect the 2022 deficit in the ESA2010 methodology.
[27] Income tax on income from employment, social and health contributions.
[28] This will be fully translated into revenues from labour taxation. Despite indications of weaker year-on-year performance, strong double-digit growth is also projected for 2023.

with the increased price level, although slowing slightly year-on-year. Household consumption is expected to decelerate more markedly to 10%. This will also be reflected in lower year-on-year growth in VAT revenue. The introduction of a reduced VAT rate on catering and sports venues will also subtract from revenue. Growth in business tax (6.8%) should evolve in line with economic growth in 2023. Both the energy and inflation crises are impacting on business costs. At the same time, however, the introduction of state aid aimed at capping energy price rises will help firms, as will the fall in spot energy prices on the market. Also, EU and Recovery Plan funds may have a positive impact on the economy, as in 2015, when the ending EU funds programming period boosted corporate profits. Tax revenue growth is also affected by the increase the tax rate of the excise duty on alcohol and the increase in the gambling levy.

FIGURE 16 – Impact of factors on annual growth of tax revenue (2023, ESA 2010, p.p.)

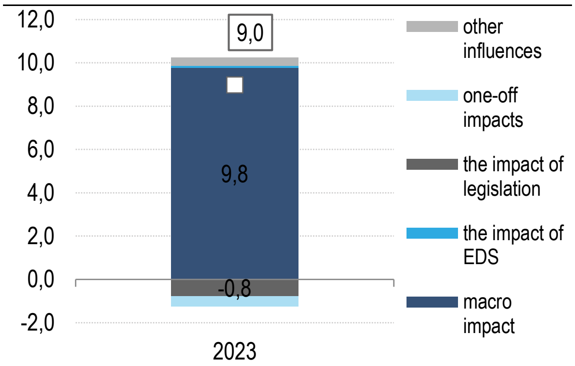
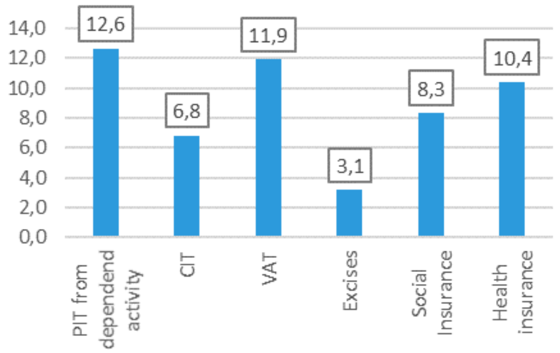


FIGURE 17 – Annual change in taxes and SSC collected (2023, ESA 2010, %)



Source: MoF SR

Non-tax revenue will grow by only 3% this year. Dividend income from state-owned enterprises is projected to be lower in 2023 compared to the previous year, estimated at up to 47%. The historically largest dividend payer to the State, the SPP group, will provisionally not pay dividends in 2023, which is expected to have the largest impact on the reduction in these revenues. Other state-owned enterprises have different structural impacts compared to the previous year, but in aggregate there is a decline of up to 10%. NDS revenues from vignettes and electronic tolls will increase by 8.5% year-on-year, mainly due to the increase in vignette prices from 1 January 2023.

Thanks to valorisation, wage costs in the public administration are roughly in line with inflation. The increase in wage expenditure is mainly driven by the valorisation of teachers' and public administration staff salaries. Teachers received a 10% pay rise in January and will receive a further 12% pay rise from September this year. Other public employees will also see a double salary indexation, but slightly lower than for teachers. Their salaries will increase by 7% from January and by a further 10% from September.

The cost of goods and services is rising by around half year-on-year. Expenditure is rising mainly due to higher energy prices, which influence the public administration as wel. Costs are also rising year-on-year as a result of inflation, which is pushing up the prices of commonly consumed goods as well as services. Conversely, the growth in spending on goods and services is dampened by the decline in spending related to the COVID-19 pandemic. This year, spending on the purchase of vaccines and medicines is projected to amount to only 0.1% of GDP, which is about a third of the spending in 2022[29].

Debt servicing costs will rise only slightly by 1% year on year. The rise in ECB interest rates has so far only a gradual impact on interest costs in 2023. This is because rates on the existing Slovak bond portfolio are fixed and only new sovereign bond issues are affected by higher rates. Slovakia also had liquid financial assets of 10% of GDP at the end of 2022, which will gradually be used to finance the needs of the state at the expense of new bond issues.

Social spending will grow by 15% year-on-year, mainly due to strong pension indexation, increasing support for families and the introduction of the parental bonus. Expenditure of the Social Insurance Institution will be pushed up mainly by pension expenditure. Double-digit inflation from 2022 is reflected in their sharp

[29] This is a comparison of intermediate consumption expenditure only. Total spending in 2022 associated with the COVID-19 pandemic was up to almost 6 times higher.

indexation this year, with a year-on-year increase of 11.8%. In addition, legislative changes, led by the parental bonus, come into force from January 2023. The parental bonus will allow employed children to contribute to their parents' retirement pension according to their salary[30] . The increase in spending is also due to changes in early retirement pensions, which extend eligibility for pensions after 40 years worked[31] . Spending on state-paid benefits will also rise, mainly due to increased support for families through higher child allowance and also the child tax credit. Child allowance will increase from €40 to €60 per month from January 2023. At the same time, the maximum amount of the child txa credit has been increased from €70 to €140 per month for children under 18 and from €40 to €50 for children over 18 from 2023[32].

The year-on-year growth in health spending was driven by a jump in wage indexation. Health spending is rising mainly due to the jump in the adjustment of health workers' wages above the price level. In addition to the standard indexation, doctors, nurses and other health workers have had their basic salaries increased by coefficients in proportion to the average wage in the economy. Over and above this adjustment, an automatic salary indexation based on years of service was introduced in the remuneration of health professionals (in total 0.3% of GDP). In particular for more experienced medical staff, this has resulted in wage increases well above inflation. In the context of inflation, wage indexation in hospitals and high energy prices, funding for the outpatient sector has increased by 0.2% compared to 2022.

Other current transfers are rising significantly due to energy aid for households. This year, total energy aid to firms[33] and households rises to 3.0% of GDP, an increase of more than five times compared to last year's 0.4% of GDP (see **BOX 4)**. Other current transfers are also rising due to the reintroduction of free lunches in the last year of kindergartens and primary schools (0.1% of GDP). In contrast, the year-on-year increase is slightly dampened by the termination of the temporary exchange rate schemes during the pandemic.

BOX 4 – Measures taken by the government in response to rising prices

The biggest challenge in the current year is the need to compensate for high energy price increases. After a slight stabilisation of the situation related to the consequences of the COVID-19 pandemic and the conflict in Ukraine, the energy crisis has come to the fore. This is an unprecedented shock both to the economy and to public finances themselves. A total of EUR 3.8 billion (3.3% of GDP) has been earmarked from public funds to tackle high energy prices this year and last[34] .

The one-off compensatory measures related to price increases in 2022 were mainly targeted at pensioners, families with children and the most vulnerable groups. The one-off aid for families and low-income groups[35] amounted to EUR 100 (0.1% of GDP). The payment of '14th pensions', amounted to 70% of the 13th pension and mainly helped low-income seniors (0.2% of GDP). The one-off aid is complemented by a subsidy scheme for the providers of various social services, paid out at the end of 2022.

Compensation for the costs of rising energy prices for households will reach €2.5 billion this year (2.1% of GDP). The government has capped the year-on-year increase in gas prices for households at 15%, and the increase in heat prices at an average of 20%. The difference between the maximum increase and the regulated price, which is set by the Office for Regulation of Network Industries (URSO), will be covered by the state budget. In the case of gas price compensation, the cost is 1.2% of GDP, or 0.3% in the case of heat. Thanks to the agreement with Slovak Power Plants, the government does not have to compensate for the power component of electricity, which remains at 2022 levels. The cost to the public finances will be incurred by compensating for the rising system and distribution charges (0.3% of GDP), as the government guarantees to maintain the overall electricity price at last year's level.[36] . In addition, a new category of regulated customers has been created by the

[30] 1.5% of each parent's gross wage, up to a maximum of 1.2 times the average wage two years ago.
[31] The standard entitlement to the early retirement pension is 2 years before retirement age, at which time the pension is reduced by 0.5% for every 30 days. With 40 years of work, the reduction is only 0,3 % for every 30 days. Previously granted pensions meeting the 40 years of work condition will be recalculated until the end of 2025 in accordance with this measure, and these persons will also be paid a supplementary payment for the period lost.
[32] From 2025, the previously approved maximum amount of €100 for younger children will apply, but this will only be applicable to children up to 15 years of age.
[33] Aid to firms is recorded as subsidies in the ESA 2010 classification.
[34] The budget originally earmarked €3.4 billion for this purpose. The volume of expenditure was increased by part of the unspent expenditure earmarked to help the government with high energy prices from last year.
[35] Child benefit for all children was paid as a one-off payment of EUR 100 in June (impact EUR 83 million).Households in material need, low-income seniors, caregivers of severely disabled people as well as professional parents caring for children from orphanages also received EUR 100 (impact EUR 23 million). Consequently, the newborn child allowance of EUR 100 was paid once more at the end of the year, with a total impact of EUR 6.3 million.
[36] Final electricity prices for households rose by an average of 2.5% in January 2023. The so-called electricity supply price, which includes not only the commodity price but also the supplier's deviation costs and a reasonable profit, has increased.

change in legislation in 2022, the so-called "selected vulnerable customers", which includes domestic boiler houses, social service providers, tenancies and social housing. Compensation for this group of customers for all energy is set at 0.3% of GDP. The reduction of energy prices in the markets this year will not affect the level of aid for households, as these are regulated prices and most of the energy has already been purchased by distributors during the last year.

The schemes announced so far to support firms compensating for high energy prices are estimated to 0.4% of GDP[37] . At the end of 2022, the government compensated businesses for 80% of the cost of energy prices above the cap for the months of August and September. For the power component of electricity, the cap was set at €199 excluding VAT per MWh, the cap for gas supply was set at €99 excluding VAT per MWh. More than 13 thousand applications have been supported through this scheme and the compensation has so far amounted to €77 million (0.1% of GDP). The same scheme with identical compensation parameters is also approved for the first quarter of 2023, with an expected cost of EUR 165 million (0.1% of GDP). For energy intensive companies, EUR 40 million has been paid in 2022 through the reduction of the Tariff for System Operation (TPS). The same amount of aid is foreseen for this year. Small enterprises with an annual consumption of 30 MWh of electricity and 100 MWh of gas per year, falling under regulated prices will be compensated on a full-year basis (0.2% of GDP). The government will compensate 100% of the costs from the energy price above the ceiling. The ceiling is identical to that of unregulated firms at €199 per MWh for electricity and €99 per MWh for gas. Based on a notification by the European Commission, the Ministry of Agriculture of the Slovak Republic has announced state aid schemes to support primary production and storage of agricultural primary production products at the end of 2022. The schemes are to last until the end of 2023, with an expected average annual budget of EUR 50 million.

The cost of the energy measures will be partly offset by temporary revenues from the taxation of windfall profits and EU funds (1.6% of GDP). In response to high energy prices, the European Union has adopted a regulation concerning the solidarity contribution from companies' excess profits resulting from the energy crisis. The solidarity contribution applies to companies in the oil, gas and coal processing sectors, where such activities must represent at least 75% of their turnover. In Slovakia, this contribution has been set at 55 % and 70 % of the excess profits generated in 2022 and 2023 respectively. The one-off revenue is estimated at 0,3 % of GDP. At national level, in line with the EU Regulation, the revenue from electricity generation has also been capped[38] . Profits of companies that sell electricity above a set price[39] will be taxed at a rate of 90% (0.1% of GDP). A levy on the State Enterprise Water Construction (0.1% of GDP) has been established over and above the EU regulation. This measure is also aimed at taxing excess profits from electricity sales[40] . Additional resources to cover expenditure related to the increase in energy prices are the reallocation of yet unspent EU funds from the 3rd programming period, estimated at 0.9% of GDP.

Public finances will also bear the higher energy prices paid by public administration entities (0.4% of GDP). The government has committed to reimburse local governments for increased energy costs in schools that are not under the original competence of municipalities, i.e. primary and secondary schools[41] . At the same time, the same support scheme applies to municipalities as to unregulated companies. The government will reimburse municipalities 80% of the costs above the ceiling of EUR 199 per MWh for electricity and EUR 99 per MWh for gas. The state budget will also incur additional costs with increased energy prices paid by government entities (e.g. ministries, authorities, etc.).

TABLE 10 – Measures taken by the government to tackle the energy crisis with budgetary implications

	2022	2023

[37] On 19 April, the Government of the Slovak Republic adopted a resolution approving the capping of distribution charges in electricity prices outside households. The tariff for losses, system operation and system services will thus be at the level of 2022 this year. From 1 May, companies, state institutions and municipalities will also have flat fees outside the power price of electricity (from the beginning of 2023, this measure applies to households and vulnerable consumers). The measure will affect approximately 319 thousand electricity consumers and will cost 325 million euros. However, this decision was taken by the Government after the conclusion of the inputs to the Stability Programme and is therefore not included in the assumptions on which the document is based.

[38] . The taxation of superprofits only applies to the years 2023 and 2024 and is partly dependent on the spot price of electricity on the power exchange.

[39] Different price ceilings have been approved for different types of power plants: waste incineration: €100, solar power plants: €120, nuclear, wind, hydro, geothermal power plants: €180, lignite power plants: €230, biomass and biogas power plants: €240.

[40] A state-owned enterprise may be subject to a special levy on after-tax profits under the State-Owned Enterprises Act. This instrument allows the State to transfer part of the profits from the Water Production Enterprise to the State budget through the State Budget Act for the relevant financial year.

[41] The devolved competences of local governments (i.e. not original competences) include primary and secondary schools. Increased energy costs will not be reimbursed by the state in kindergartens, kindergartens or primary art schools, which are in the original competence of local governments.

Housholds	Payment of the 14th pension	-208	
	One-off increase in child benefit	-83	
	One-off aid for low-income groups	-23	
	Subsidies for social services	-20	
	One-off increase in the allowance for a child just born	-6	
Companies	Capping electricity and gas prices for unregulated businesses	-77	-165
	Capping electricity and gas prices for regulated companies	-	-235
	Support for energy-intensive businesses	-40	-40
	Support for primary agricultural production and storage of primary agricultural products	-11	-50
Housholds	Capping of gas prices for households		-1462
	Heat price capping for households		-329
	Capping of electricity prices for households (distribution and system charges)		-379
	Support for selected vulnerable customers (gas + electricity)		-347
Others	Increased state budget expenditure on energy for public administration entities		-470
	Other as yet unspecified measures		-25
Source for spending	Reimbursement of scheme costs from unused EU funds		1000
	Temporary revenue from the EU Excess Profits Regulation	412	209
	Price caps for electricity producers		107
	Temporary revenue from the special levy for Water Construction		150
	Total (net effect on balance)	**-57**	**-2036**
	Total (gross impact excluding sources of cover)	**-469**	**-3502**
	Measures with no direct impact on the balance		
	Regulation by the Office of the Regulatory Authority within the framework of existing legislation on electricity prices (impact for 2022)		
	Advance payment of 13th pensions		
	Fixed electricity price agreement with Slovak Power Plants		

Source: MoF SR

At the same time, measures have been taken without any direct impact on public finances. Households are assured of stable electricity prices from this year onwards by the agreement with Slovenske elektrárne, a. s. The capping of electricity prices for households in 2023 and 2024 is at the level of 2022 prices, i.e. approximately EUR 61 per megawatt-hour of the power component, excluding VAT. In 2025, according to the new agreement, the power component is to increase to EUR 67 per megawatt-hour, or EUR 79 in subsequent years. The newly adopted legislation, which authorises the government to order electricity producers to whom they must supply electricity and at what price, is also supposed to ensure sufficient electricity in case of an emergency. The Office for Regulation of Network Industries used its powers to reduce the distribution and transmission fee as well as the system operation tariff for 2022[42] . The government also brought forward the payment of the 13th pension in 2022 from November to June.

Capital expenditure excluding EU funds and Recovery Plan funding is growing by a quarter year-on-year. The largest investment projects planned for 2023 are in transport and defence**.** Defence expenditure is primarily based on NATO membership commitments and is earmarked for the modernisation of military equipment. In transport, large-scale road infrastructure constructions such as the Lietavská Lúčka - Višňové - Dubná Skala motorway (0.1% of GDP) and upgrades of railway lines such as the Devínska Nová Ves - Slovak/Czech border (0.2% of GDP) are underway. The establishment of a strategic industrial park near Košice, amounting to 0.2% of GDP, is contributing to capital expenditure[43] .

TABLE 11 – The 15 largest investment projects in 2023 in cash drawdown (EUR million)

Project name	Chapter	Source	Total cost	By 2023	2023	2024	2025	After 2025
Modernization of the railway Devínska Nová Ves - border of Slovakia/Czech Republic	MoT SR	SB, EU	276	41	205	30	0	0

[42] https://www.urso.gov.sk/urso-vyrazne-znizil-tps-a-zredukoval-naklady-na-distribuciu-a-prenos-elektriny-cim-v-maximalnej-miere-vyuzil-svoje-regulacne-nastroje-aby-zmiernil-narast-celkovej-ceny-elektriny-pre-slovenske-domacnosti-a-podnikatelov-v-roku-2022/

[43] The necessary supporting documents for the project were not available at the time of budget preparation, therefore the project is not included in the table.

Multirole tactical aircraft (F-16 fighters)	MoD SR	SB	-	-	-	-	-	-
Construction of the Lietavská Lúčka - Višňové - Dubná Skala motorway	MoT SR	SB, EU	269	135	91	27	3	13
Construction of the expressway part Kriváň - Mýtna	MoT SR	SB	319	74	78	114	40	14
Modernisation of the rolling stock of railway vehicles (Part 3)	MoT SR	EU	76	8	69	0	0	0
Construction of the motorway section Hubová - Ivachnová, Phase II	MoT SR	SB	501	345	53	81	1	21
Modernisation of the rolling stock of railway vehicles (Part 7)	MoT SR	EU	77	27	50	0	0	0
Construction of the expressway part Šaca - Košice Olšany, section II	MoT SR	SB, EU	207	70	47	49	31	10
Construction of the northern bypass of Prešov, Stage I	MoT SR	SB, EU	200	142	45	5	0	8
Modernisation of the railway Čadca - Svrčinovec - border CR/SR	MoT SR	SB, EU	88	25	42	21	0	0
Construction of D1 Bratislava - Triblavina	MoT SR	SB	150	23	39	34	32	22
Construction of the expressway Tvrdošín - Nižná	MoT SR	SB, EU	77	35	39	0	0	3
Electrification of the line Haniska near Košice - Moldava nad Bodvou	MoT SR	SB, EU	72	33	39	0	0	0
3D medium range radars	MoD SR	SB	-	-	-	-	-	-
Armoured Fighting Vehicles 8x8	MoD SR	SB	-	-	-	-	-	-

Source: MoF SR (ÚHP), documents for chapters on the creation of RVS 2023 - 25 and economic evaluation of MoF SR projects

Risks not included in the baseline deficit estimate

Increased uncertainty about price and energy aid developments, as well as the upcoming elections, are reflected in higher volatility in nominal deficit estimates. The negative risk to the baseline deficit estimate comes from lower refinancing of energy assistance from EU funds that government provides to firms and households. Expenditure related to the war in Ukraine may need to be increased, depending on the prolongation of the conflict as well as the presence of refugees on our territory. More negatively than in the baseline scenario, the performance of local governments may end up not being able to maintain their expenditure growth at the estimated level due to the slowdown in the growth of their revenues from the personal income tax and high inflation. The deficit may also be increased by some of the parliamentary proposals currently under discussion in the National Council of the Slovak Republic.

3 BUDGET OBJECTIVES

Once the impact of the energy shock has subsided, the restoration of budgetary rules will require ambitious consolidation of public finances from next year onwards. In the Stability Programme, the MoF sets out a deficit reduction plan to stabilise public debt below 60% of GDP, thus respecting the basic idea of the currently changing European rules. The proposed budgetary targets correspond to a reduction of the deficit by almost two thirds, from the current level of over 6% to close to 2% of GDP by 2026. The discussion on the concrete form of the consolidation plan of close to 3% of GDP within the next three years remains in the hands of the next government in the context of the current political situation. However, it is necessary to stabilise the debt burden. Meeting the budget balance targets would bring debt to 58% of GDP by 2026. At the same time, a long-term sustainability indicator deep in the high-risk band implies the need for further fiscal adjustment and reforms beyond the Stability Programme horizon.

3.1 Setting budgetary targets for the general government balance

Once the impact of the energy shock has subsided, the restoration of budgetary rules will require ambitious consolidation of public finances from next year onwards. Gas and electricity prices are falling and are currently below the levels before the Russian invasion of Ukraine. The labour market is developing favourably, with unemployment rates at low levels. Inflation developments suggest that the peak in the price level has passed. At the same time, real GDP is above pre-pandemic levels and with the output gap closing, the economy will reach its potential by 2025. In view of these macroeconomic developments, national and European fiscal rules are being renewed from next year. In the national legislation, this mainly concerns the expenditure limits introduced last year, and in the European context the rules of the Stability and Growth Pact, which are however currently being reformed.

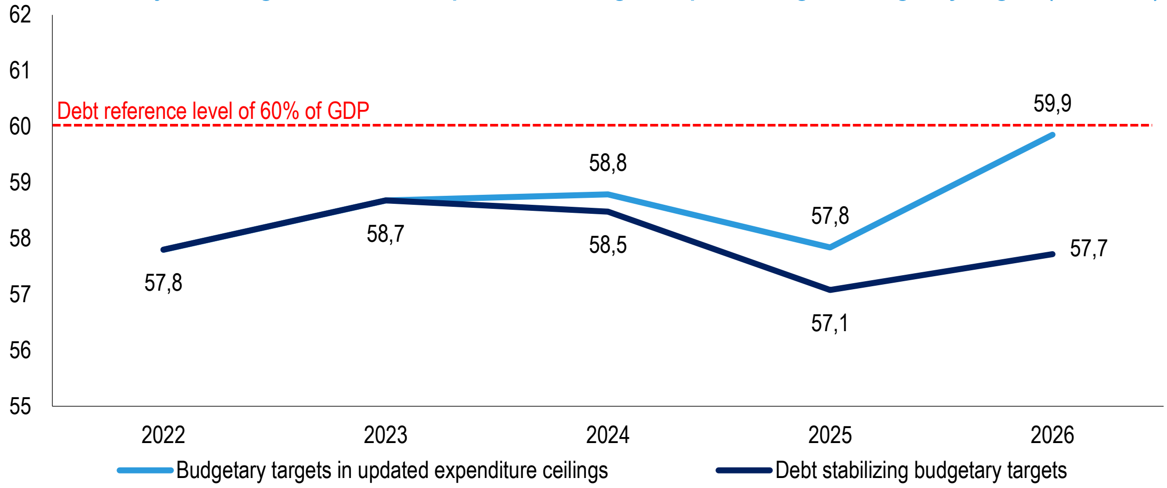
At the same time, the national legislation requires a balanced budget already for 2024, but with the new government, this sanction will be postponed again. The spring Eurostat notification confirmed that the level of gross debt has reached a level at which the most stringent debt-brake sanctions leading to debt reduction are to be automatically triggered under the current constitutional law on budgetary responsibility. These sanctions will start to apply from May of the current year, as a number of measures defined in the constitutional law are not applied for a period of two years, after the approval of the government's programme declaration. The government must submit to the National Council a draft general government budget for next year that is in balance or in surplus. At the same time, as early elections will be held at the end of September, it is expected that to the new government will be given confidence in the National Council by the end of this year. The new government that emerges from the elections will thus also be able to present a deficit budget, as it will automatically be subject to the two-year escape clause from the most stringent of the top three debt brake sanctions. Thus, the scenario of a balanced budget from the debt brake can be considered legislatively correct, but just alternative one in terms of the likely future direction of fiscal policy.

TABLE 12 – Fiscal rules affecting the design of the Stability Programme

Fiscal rule	Implications for the budgetary targets for 2024-2026	Average annual structural consolidation	Bindingness or variability of the rule
National expenditure ceilings	Nominal deficit to fall close to 3% of GDP by 2026 (more in Annex 6)	0.3 - 0.5% of GDP	Expenditure ceilings will be recalculated after the election of a new government (based on the new calculation of the sustainability gap and the NPC scenario)
Stability and Growth Pact (reform proposal) / fiscal guidelines of the EC for the creation of the Stability Program*	Nominal deficit to fall below 3% of GDP and debt to stabilise below 60% of GDP by 2026, *or in a stricter interpretation, deficit to fall to 1% of GDP (not to exceed 3% of GDP in the next 10 years in the NPC scenario) - more BOX 5*	0.5% of GDP, or approx. 1% of GDP in a stricter interpretation	Still subject to technical and political debates
National debt brake	Balanced budget from 2024	One-time up to 4.3% of GDP	The rule will be suspended for 2 years after the election of a new government.

Since deficit targets based on national expenditure ceilings do not ensure debt stabilisation over the budget horizon[44], the MoF set stricter targets, also in the context of the currently changing rules at the European level. The basic thrust of the reform of the European fiscal rules is to simplify them and to emphasise debt sustainability. One of the principles of the new rules, to which the EC invites the Member States also in the fiscal guidelines for 2024, is to ensure a declining trajectory of gross debt, or keeping it below the 60% of GDP threshold (more **BOX 5**)**.** The need for consolidation is also laid down by the expenditure ceilings, which will be binding from next year onwards, once the current escape clause expires. However, the nominal deficits based on the expenditure ceilings are not low enough to ensure a declining trajectory of gross debt (or at least a stabilisation of debt below 60% of GDP). Therefore, the Stability Programme presents stricter targets compared to the expenditure limits by almost 1% of GDP cumulatively.

FIGURE 18 – Projection of gross debt with expenditure ceilings compared to tighter budgetary targets (% of GDP)



Note: The budgetary targets correspond to general government deficits that approximately stabilise gross debt over the entire Stability Programme horizon. This is also in line with the EC recommendation in the 2024 Fiscal guidance. *Source: MoF SR*

The proposed targets correspond to a decline in the headline deficit from over 6% of GDP to close to 2% of GDP by 2026. The planned decline in the headline deficit by almost two-thirds, from 6.3% of GDP to 2.2% of GDP, implies an average annual structural consolidation of around 0,7% of GDP (**TABLE 13**). This pace of adjustment of public finances not only stabilises debt safely below 60% of GDP, but also creates the preconditions for a further reduction of the headline deficit to 1% of GDP, which is needed to absorb the costs of the gradual ageing of the Slovak population over the next 10 years. The targets set out in the Stability Programme thus fully reflect the potential new shape of the European fiscal rules (see **Box 5**).

In the context of the current political situation, the discussion on concrete consolidation measures remains in the hands of the next government. Meanwhile, the preliminary budget (the so-called fiscal framework) expects a nominal deficit of around 5% of GDP between 2024 and 2026. In order to achieve the planned deficit reduction towards 2.2% of GDP, further measures need to be specified over the Stability Programme horizon up to 2026, totalling EUR 4 billion (2.8% of GDP). As the different layers of the fiscal rules will be updated, the amount of consolidation needed may change with the arrival of a new government. The ending mandate of the current government means that the concrete form of the consolidation strategy of the public finances will be specified by the new government that emerges from the autumn parliamentary elections.

TABLE 13 – Planned consolidation effort (ESA 2010, % of GDP)

	2021	2022	2023	2024 PS	2025 PS	2026 PS
1. General government balance/budgetary targets	**-5,5**	**-2,0**	**-6,3**	**-3,9**	**-3,2**	**-2,2**
2. Cyclic component	-0,5	-0,4	-0,5	-0,5	0,0	0,2
3. One-time effects[45]	-3,4	-0,9	-1,5	0,0	0,0	0,0
4. Structural balance (1-2-3)	**-1,6**	**-0,8**	**-4,3**	**-3,4**	**-3,2**	**-2,4**
5. Consolidation efforts (year-on-year change 4)	0,9	**0,7**	**-3,5**	**0,9**	**0,3**	**0,8**
p.m. General government balance by debt brake				**0,0**	**0,0**	**0,0**

[44] The expenditure ceilings are calculated by the CBR only for the years 2023 to 2025. For 2026, this is the MoF SR assumption

[45] A table of one-off impacts is provided in Annex 3.

sanctions			
p.m. General government balance from the preliminary draft budget (fiscal framework - FRGF)	**-4,7**	**-5,2**	**-4,9**
p.m. Measures needed to achieve the budgetary targets in million euro against the FRY	**1073**	**2677**	**3920**

** * Some amounts may differ from the sum of the individual components due to rounding.* *Source: MoF SR*

BOX 5 – Reform of EU fiscal rules

The reform of the fiscal rules in the EU is under discussion, intended to anchor debt sustainability as the main objective and replace a complex system of instruments with a single expenditure rule. In late 2022, the European Commission presented a proposal to change the fiscal rules applicable to EU countries. According to the proposal, the current system of multiple indicators in the form of deficit, debt, structural balance or expenditure rule should be significantly simplified and focused on one objective - debt sustainability. To achieve this, the EC proposes to introduce a single operational rule in the form of expenditure control, whose annual level and growth is set by the EC itself several years in advance. This should make fiscal policy more counter-cyclical, while debt reduction will create sufficient fiscal space to respond to future crises.

In the National Multiannual Fiscal-Structural Plan (NFP), the government should present its deficit reduction plan in a binding manner, meeting the EC's expenditure limit requirement. In order to strengthen the national element in the new framework, the Commission proposes that the expenditure limit requirement identified by the Commission should be translated into a four-year fiscal plan of the government at the national level. The government will thus present a consolidation strategy, the structure of which it will be able to set itself, but subject to compliance with the expenditure trajectory set by the Commission. The government will then present the plan to the EC, which, after negotiations, must approve it and submit it to the EU Council for final approval. Once approved by the Council, the NFP becomes binding for budgeting. Failure to implement the plan will incur financial sanctions and the government will also bear reputational costs.

In the new framework, the Commission plans to introduce a more country-specific approach, responding to the specific challenges countries face or will face in the next decade. One-size-fits-all rules should be replaced by a more specific approach based on debt sustainability analysis (DSA). This should capture the evolution of the main macro-fiscal variables as well as the costs of ageing that countries will face over a 10-year horizon, which are different for each country. In a significant change from the current rules based on year-on-year efforts, the proposal will also extend the medium-term horizon in the no-policy-change (NPC) scenario to include stress tests on gross debt developments. Under the Commission's proposal, the new framework of rules would thus require countries at high risk of debt sustainability to reduce their deficits over four years so that debt does subsequently decline satisfactorily or deficit would not rise above 3% of GDP over a 10-year period in a no-policy-change scenario (i.e. without additional consolidation measures and after the stress tests).

Indicative calculations of the Ministry of Finance suggest that the EC could require Slovakia to achieve structural consolidation close to 1% of GDP per year for four years under the new rules. In its fiscal guidance for 2024, the European Commission firstly recommends setting fiscal targets such that debt declines over the medium term or remains at a prudent level below 60% of GDP. The Commission has also called on countries to ensure that the strategy is consistent with a gradual transition to the new framework of rules. According to it, Slovakia will be classified as a high risk country in terms of debt sustainability, as EC reports have long indicated[46] . The consolidation requirement can therefore be expected to be one of the most stringent. This is due not only to the current state of public finances - the structural deficit and the level of gross debt, but also to the expected costs of an ageing population. These are expected to increase cumulatively by 2% of GDP over 10 years after the four-year fiscal plan (see section 3.4 for more details). For the deficit in the no-policy-change scenario not to exceed 3% of GDP over the 10-year horizon, Slovakia would need to achieve a nominal deficit close to 1% of GDP around 2028 (and a structural deficit of around 0.5% of GDP). Thus, fiscal space will need to be created in advance for the future costs of an ageing population. Consolidation on this scale is considerably tighter than domestic rules call for. The expenditure limits reduce the structural deficit relative to the no-policy-change scenario by 0.5% of GDP per year, which on average represents an annual structural consolidation of about 0.3% of GDP.

[46] The EC ranks Slovakia as one of the countries with the worst sustainability of public finances from 2020 onwards in indicator S2 - Debt Sustainability Monitor 2020, Fiscal Sustainability Report 2021, Debt Sustainability Monitor 2022.

TABLE 14 – Assumed requirement of structural adjustment of EU fiscal rules and expenditure ceilings (proposed period of 2025-2028)

	2024	2025	2026	2027	2028
Reformed SGP rules (estimate - own calculations of the MoF)					
Implicit target for the structural balance	-4,4	-3,5	-2,5	-1,5	-0,5*
Adjustment (cumulatively 2024-2028)					3,9
Annualy					***1,0***
Approved expenditure ceilings					
Implicit target for the structural balance	-3,6	-3,1	-3,0	-2,6	-2,3
Adjustment (cumulatively 2024-2028)					1,3
Annualy					***0,3***

*Note: * The level of the structural balance ensuring that, without further government intervention, the debt remains below 60% of GDP in the next 10 years and the deficit does not exceed 3% of GDP. Population ageing will cause the deficit to increase by around 2% of GDP over 2028-2038.*
The different level of the initial structural balance results particularly from the projected consolidation according to the officially published national expenditure ceilings already in 2024 and different assumptions of the expected structural balance in 2023.

Source: MoF SR, CBR, EC

3.2 Evolution of individual budget items in the currently compiled fiscal framework

Both government revenue and expenditure will gradually decline relative to the performance of the economy over the budget horizon. Government revenue as a share of GDP is projected in the Stability Programme to decline by 3,8 p.p. by 2026, compared to the current year. The decline is driven by tax revenue developments, mainly due to a shortfall in temporary revenue from excesive profits. On the expenditure side, the GDP ratio also declines by 5,2 pp. by 2026, compared to the current year. This development is mainly due to the planned tapering of government support linked to high energy prices. In 2026, the decline in capital expenditure is also reflected, due to the phasing out of the Recovery and Resilience Plan and only a slow start of the new programming period of EU funds.

TABLE 15 – Development of individual revenue and expenditure items projected in the Stability Programme (ESA 2010, % of GDP)

	Reality	Reality	Reality	E	SP		
	2020	2021	2022	2023	2024	2025	2026
1.Total revenue	**39,4**	**40,1**	**40,2**	**42,4**	**39,4**	**38,9**	**38,6**
Tax revenue	19,2	19,8	19,9	20,0	19,4	18,9	18,6
Social contributions	15,5	15,6	14,9	15,4	15,7	15,6	15,8
Non-tax revenue	3,0	3,2	3,2	3,0	2,8	2,7	2,6
Grants and transfers	1,6	1,5	2,2	4,0	1,6	1,7	1,5
- of which EU funds	1,2	1,2	1,3	3,3	0,9	1,2	1,1
2. Total expenditure	**44,7**	**45,6**	**42,3**	**48,7**	**44,2**	**44,1**	**43,5**
Current expenditure	40,4	42,0	38,6	42,9	39,9	39,9	40,2
Employee compensation	11,3	11,3	10,6	10,4	10,3	9,9	9,6
Intermediate consumption	5,5	5,7	5,9	8,2	5,7	5,6	5,4
Subsidies	1,3	1,4	1,1	2,0	0,7	0,7	0,7
Interest costs	1,2	1,1	1,0	1,0	1,2	1,4	1,5
Total social transfers	17,9	18,3	17,9	19,1	19,5	19,2	19,5
- Social benefits other than in kind	14,7	14,9	14,5	15,2	15,9	15,6	15,9
- Social transfers in kind (healthcare facilities)	3,3	3,4	3,4	3,9	3,6	3,6	3,6
Other current transfers	3,0	4,0	1,9	2,2	2,3	3,1	3,3
Capital expenditure	4,3	3,6	3,7	5,8	4,3	4,2	3,3
Capital investments	3,6	3,1	3,4	5,3	4,2	4,0	3,1
- Gross fixed capital formation	3,4	3,1	3,3	5,1	4,0	3,7	2,9
Capital transfers	0,7	0,5	0,3	0,5	0,1	0,2	0,2
3. General government balance net of additional measures (GFSR)	**-5,4**	**-5,4**	**-2,0**	**-6,3**	**-4,7**	**-5,2**	**-5,0**
4. General government balance after additional measures (budgetary targets)	**-5,4**	**-5,4**	**-2,0**	**-6,3**	**-3,9**	**-3,2**	**-2,2**
5. Additional measures needed to achieve the objectives (4-3)					**0,8**	**2,0**	**2,8**

Source: MoF SR

Social security, health and defence spending will grow more strongly nn the budget horizon than in the past. Due to the slow take-up of resources from the fourth programming period, spending on the economic area will decrease significantly from 2024 onwards. A higher share of social security expenditure relative to GDP is visible over the whole budget horizon, where the lagged impact of price increases on the indexation of social benefits is fully reflected. Social spending will be mainly dragged down by high pension indexation. Towards the end of the horizon, GDP growth and prices will converge, leading to a stabilisation of social security expenditure. The planned investments under the Recovery and Resilience Plan will be mainly driven by health and education spending. Expenditure on general public services in 2025 and 2026 is influenced by the provision to cover new legislative proposals, which is intended to introduce services for children, the so-called 'krúžkovné'. Defence expenditure is expected to be higher than in the past over the whole budget horizon and in particular in 2025, especially following the delivery of much of the military equipment already ordered and paid for in the past, notably multi-role tactical aircraft.

TABLE 16 – General government expenditure by COFOG classification (% of GDP)

Features	(2017-2019)	(2020-2021)	OS (2023)	PS (2024)	PS (2025)	PS (2026)
1. General public services	5,1	5,7	5,7	5,5	6,2	6,4
2. Defence*	1,0	1,3	1,7	1,9	2,2	1,5
3. Public order and security	2,2	2,3	2,4	2,1	1,9	1,9
4. Economic affairs	5,3	6,7	8,7	4,4	4,1	4,1
5. Environmental protection	0,8	0,9	0,9	0,8	0,7	0,7
6. Housing and amenities	0,5	0,5	0,6	0,6	0,6	0,5
7. Health	5,6	6,5	6,9	6,8	6,7	6,7
8. Recreation, culture and religion	1,0	1,0	1,0	1,0	0,9	0,9
9. Education	4,0	4,4	4,5	4,3	4,2	4,0
10. Social security	14,4	15,9	16,1	16,8	16,5	16,8
Total expenditure	**39,9**	**45,1**	**48,7**	**44,2**	**44,1**	**43,5**

Note: NRVS - draft general government budget *Source: MoF SR, Eurostat*

Note 2: All figures are after taking into account the spring Eurostat notification

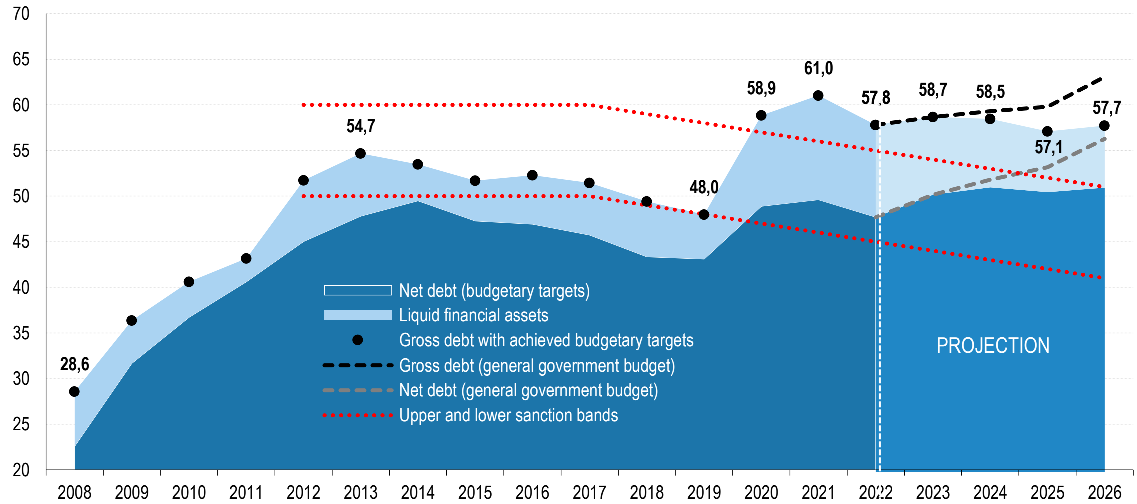
** COFOG classification is reported in ESA 2010 methodology (i.e. accrual), where expenditure is recorded according to the moment of delivery. Large capital projects are traditionally delivered several years after payment and are therefore reflected later in the ESA 2010 classification than in the national cash methodology.*

3.3 Government gross debt

Gross debt returned to below 60% of GDP last year, mainly due to high inflation. The upward trend in debt-to-GDP from the pandemic period was temporarily reversed last year. As a share of GDP, gross debt declined by more than 3 p.p. of GDP year-on-year[47] to 57.8% of GDP (**FIGURE 19**). The most important factor behind the decline in debt was the high level of inflation, which increases nominal GDP that serves as a denominator. presented.

[47] In terms of public administration entities, the central government was the primary contributor to the decline in gross debt-to-GDP (3.2 pp of GDP), while among other entities, railway transport companies and the NDS contributed most to the reduction in debt (0.1 pp of GDP).

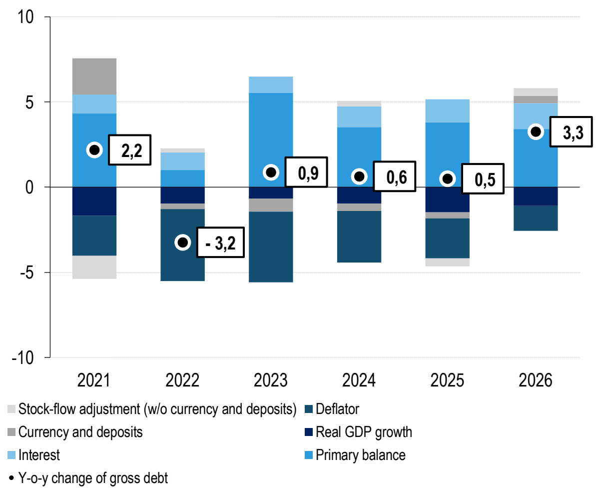
FIGURE 19 – Gross and net debt of general government (% of GDP)



Note: The evolution of gross debt corresponds to the emission plan with accrual deficits of the general government according to the fiscal framework of 4.7% of GDP in 2024, 5.2% in 2025 and 4.9% in 2026. The forecast of gross debt after the budget targets are met is based on the revised emission plan and assumes the achievement of the budget targets at the level of accrual deficits of the general government of 3.9% of GDP in 2024, 3.2% of GDP in 2025 and 2.2% of GDP in 2026. *Source: MoF SR*

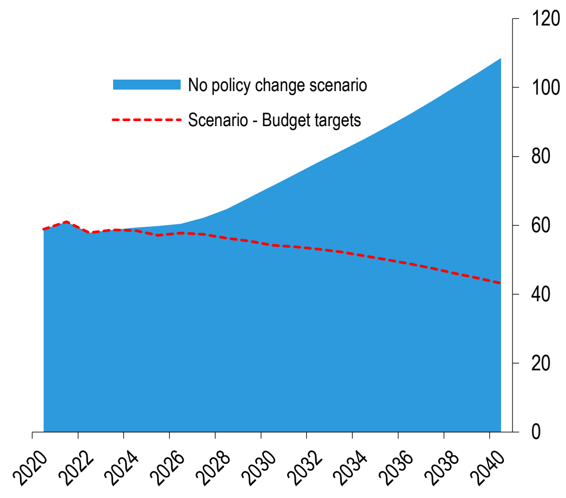
From 2023 onwards, after a gradual retreat of inflation, a rising trend of debt above 60% of GDP will start again, which can only be halted by ambitious consolidation of public finances. In the current year, debt will increase mainly in the context of rising energy measures and a number of permanent government measures not directly related to the energy crisis. The unfavourable debt developments are also due to gradually rising interest costs. This trend will intensify in the coming years. This is due to a combination of below-average economic growth, receding inflation and expected deficits of around 5 % of GDP. In these circumstances, stabilisation of both gross and net debt is only possible by gradually reducing the economic deficit further below 3 % of GDP by 2026. Deficit reduction needs to be even more significant for debt to continue to decline in the long term. Conversely, without a fiscal adjustment, debt would exceed 100% of GDP by 2040, mainly as a result of the gradual ageing of the Slovak population (see next section).

FIGURE 20 – Contributions of factors to the debt change in baseline no-policy change scenario (% of GDP)



Source: MoF SR

FIGURE 21 – Long-term projection of gross debt (% of GDP)



Source: MoF SR

Note: The no-policy change scenario is based on the assumption of deficit development from 2024 without adjustment and with the additional impact of costs related to the ageing of the population. The consolidation scenario assumes the achieved budgetary targets (nominal deficit of 2.2% of GDP by 2026) and subsequent structural consolidation of 0.5% of GDP until a structural surplus of 0.5% of GDP is reached. The long-term macroeconomic outlook is taken from the current macroeconomic forecast and projections of the European working group AWG.

3.4 Sustainability of public finances

The sustainability of public finances over the medium and long term is assessed by indicators that quantify the change in the structural balance needed to offset both the current budgetary position and the future costs of ageing. The indicators quantify whether public indebtedness will be kept under control over the longer term, given the current level of government debt and balance and the current ageing-sensitive policy settings[48]. The Ministry of Finance uses the medium-term indicator S1 and the long-term indicator S2 in assessing the sustainability of public finances[49]. Similar indicators are used by the European Commission to assess sustainability, but with important differences in input data and methodology. In the case of indicator S1, the European Commission made a conceptual change in the last report and the current indicator S1 is no longer used to assess sustainability in the medium term, but as a complementary indicator for assessing long-term sustainability[50]. Differences between the national and the European Commission methodology for compiling the indicator S2 are described in **BOX 6**. The so-called long-term sustainability indicator[51], calculated by the Council for Budget Responsibility, is part of the national framework of fiscal rules from 2022 onwards. This indicator is the basis for determining the consolidation effort and setting the limit on public expenditure.

Both medium- and long-term sustainability indicators remain in high-risk[52] even after taking into account the impact of the pension reform. The higher level of both indicators is influenced by the high value of the expected structural balance, which deteriorates from -0.8% of GDP in 2022 to -4.3% of GDP in 2023. If the budgetary targets are met, the structural balance would improve to -2.4% of GDP by 2026, bringing sustainability into medium-risk for indicator S1 and closer to the medium-risk threshold for indicator S2 (**TABLE 17**). A further decline in sustainability risks will require continued consolidation effort and further reforms.

TABLE 17 – Decomposition of S2 indicator in 2023 and 2026 (% of GDP)

	2023	2026 budgetary targets scenario	2026 fiscal framework
S1 Indicator	**3.5**	**0.7**	**4.3**
of which:			
Initial budgetary position of structural balance and debt*	1.4	-0.6	2.0
of which primary structural balance (-):	*-3.4*	*-0.9*	*-3.6*
Pension expenditure	0.9	0.6	0.6
Healthcare	0.5	0.4	0.4
Long-term care	0.3	0.3	0.3
Expenditure on education	0,2	0.1	0.1
Other	0.03	-0.04	-0.04
S2 Indicator	**9.2**	**6.1**	**8.8**
of which:			
Initial budgetary position of structural balance and debt*	3.4	1.2	4.0
of which primary structural balance (-):	*-3,4*	*-0,9*	*-3,6*
Pension expenditure	3.0	2.5	2.5
Healthcare	1.4	1.3	1.3
Long-term care	1.6	1.5	1.5
Expenditure on education	0.1	0.0	0.0
Other	-0.3	-0.4	-0.4

** Initial budgetary position includes contributions of primary structural balance, snowball effect of debt and long-term projection of property income.*
Source: MoF SR
Note: Impact of 1st and 2nd pillar reform is estimated to improve the S2 indicator by 1,6 p.p. of GDP.

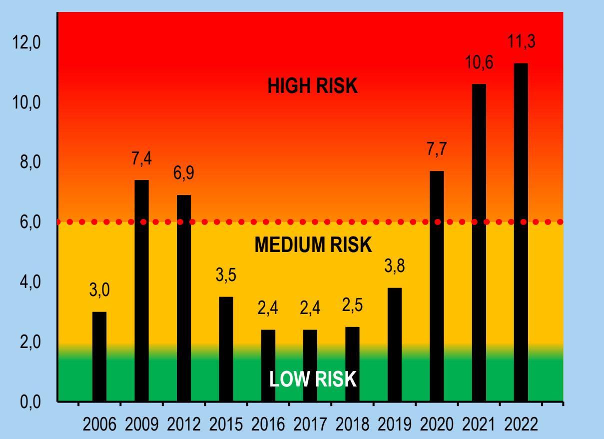
[48] These are the current budgetary position or its short-term target, and the long-term projections for pension, health, long-term care and education spending.
[49] S1 (medium-term horizon) - presents the value by which the current primary structural balance needs to change permanently in order to keep government gross debt below 60% of GDP over a 15-year horizon (after taking into account expected future age-related expenditure). S2 (long-term horizon) - represents the amount by which the primary structural balance must change permanently in order for the current debt to be covered by future primary balances. Unlike S1, S2 takes into account ageing-related projections over an infinite horizon, with the required change in the balance to ensure that the current level of debt is stabilised. In its quantifications, the MoF SR considers the impact of the second pillar on both the revenue and expenditure side.
[50] For indicator S1, the European Commission reverts to the definition it applied until 2011. In the new report, the indicator reflects the need for an immediate and permanent consolidation in 2024 to ensure that debt does not exceed 60% of GDP by 2070.
[51] The long-term sustainability indicator measures how much the government's structural balance needs to be reduced to keep gross debt below 50% of GDP over a 50-year horizon.
[52] The low-risk for the indicator S1 is defined as values below 0, the medium-risk interval ranges from 0 to 3 and the high-risk represents values above 3. For the indicator S2, the low-risk applies up to a value of 2, the medium-risk interval ranges from 2 to 6 and the high-risk band represents values above 6.

BOX 6 – Differences in the calculation of the indicator S2 between the European Commission and the Ministry of Finance of the Slovak Republic

In April 2023, the European Commission published the Debt Sustainability Monitor 2022[53] , which included a regular assessment of the long-term sustainability of EU countries using the S2 indicator. Although the ministry of finance and the European Commission use similar indicators to assess long-term sustainability, there are some differences in methodology and inputs which result in different values for the S2 indicator. The main differences include:

- **the year of expected consolidation -** the European Commission is based on the autumn forecast of the previous year t-1 and its projection of the structural balance at time t+2, which becomes the base year for the calculation of the S2 indicator, while the MoF uses the base year t in its methodology for the current value of the S2 indicator,

FIGURE 22 – Indicator S2 in the EC methodology



Source: EC

- **different values for the structural balance and debt in the base year -** when quantifying the structural deficit and debt levels, the European Commission uses its own methodology, which, for example, considers as one-off measures only measures outside the government's control; similarly, unspecified consolidation measures, or measures which are in preparation, are not included in the EC's NPC scenario,

- **Taking into account the impact of second pillar:** the European Commission follows a common methodology that assumes a constant level of government revenues over the projection horizon. This means that the introduction of automatic entry into the second pillar for new entrants to the labour market does not take into account the fall in government revenue due to the higher volume of transfers to the second pillar and thus its impact on S2 will differ significantly.

In addition to the above-mentioned factors, the difference in the published long-term sustainability indicators results also from the impact of the first pillar reform which was not included in the Commission's projections. Due to the short time frame between the approval of the reform and the deadline for the delivery of input data to the report, it was not possible to include the impact of the reform on long-term expenditure in the report. The impact of the reform on long-term expenditure projections will be included in the European Commission's quantifications after the standard process of approving long-term projections in the Ageing Working Group during autumn 2023.

Changes adopted in ageing-sensitive policies

Since the previous publication of the Stability Programme, a number of measures have been taken that will have an impact on the age-related expenditures. The most important of these is the reform of the first pillar of the pension system, which contributes to improving sustainability by 2,6 p.p. in the long run (see FIGURE 24), but puts an additional pressure on public finances in the medium term. In particular, the

[53] Debt Sustainability Monitor 2022

introduction of the parental pension[54], but also the introduction of an early retirement after 40 years of service[55], has a negative impact on long-term sustainability. In addition, the second pillar contribution rates have been temporarily frozen[56] through an amendment, which mitigates this negative impact in the short term. In the long term, the impact of the change in rates on sustainability will be approximately neutral. The long-term sustainability will be improved in particular by re-linking of the retirement age to life expectancy growth[57] and the decrease in the rate growth of the current pension point value[58]. These measures generate savings, especially over the long term, and it will therefore be important from the perspective of the long-term sustainability that they are maintained in the future when savings start to be realised.

Further changes in the first pillar were adopted in 2023, namely the unfreezing of the minimum pension and adjustment of the pension indexation mechanism. The minimum pension has been re-linked to the minimum subsistence level, with the increased amount being paid from mid-2023 instead of the standard 1st January. At the same time, the levels of the minimum pension for pensioners with 50 or more years of pension insurance have also been adjusted. Pension indexation mechanism has been amended to include a special indexation, effective from 2024[59], which will be activated if an increase in consumer prices for pensioners' households exceeds five per cent in the period since the last increase of pensions. If the special indexation is paid during the year, the standard indexation, which will occur on 1st January of the following year, will be reduced by the amount of the special indexation. Under current macroeconomic assumptions, it is not expected that the activation of the special indexation will materialize under the current setting. For standard indexation, there has also been an extension of the period over which pension inflation growth is monitored, from the first six to the first nine months of the preceding year.

The approved second pillar reform improves the efficiency of pension saving scheme, thereby increasing the adequacy of pensions granted in the future. The most important reform measure resulting from the Recovery and Resilience Plan is the introduction of a default life-cycle investment strategy[60], which will lead to a higher allocation of savings to equities for a large proportion of savers[61]. The pay-out phase has also undergone a change, and will be split into two parts - a program withdrawal and a lifetime annuity. Savings will continue to be invested during the program withdrawal phase, thus extending the investment horizon of savers. Furthermore, the fee policy[62] of pension management companies (PMCs) is also modified and the obligation for PMCs to set up and manage index funds with qualitative conditions for their composition is introduced. The system of guarantees is changed to an individual guarantee system, whereby the saver is guaranteed a pay-out from the bond guaranteed fund at least equal to the amount of savings invested. Automatic participation in the second pillar for people entering the labour market before the age of 40 is restored, with the possibility of opting out.

In terms of the S2 indicator, the introduction of automatic entry into the second pillar has a negative impact on long-term sustainability of 0.9 p.p., but this is a consequence of the S2 methodology, which does not take into account the reduction of expenditures that occur beyond the 50-year horizon. In the medium term, the measure will lead to a decrease in the revenues of the Social Insurance Agency, as more contributions will be passed to the PMCs. This negative impact on public finances is offset at the time of retirement and the pensions from the first pillar will be reduced, as participation in the second pillar is taken into account when calculating new pensions. However, the savings from lower pension benefits from the first pillar will not fully materialise and offset the negative impact on the pension balance over the 50-year projection horizon that enters into the S2 calculation.

[54] The value of the parental pension for each child will be at the level of 1.5% of the child's assessment base from two years ago, with the child's assessment base capped at 1.2 times the general assessment base.

[55] Previously, one could qualify for an early retirement pension 2 years before retirement age at the earliest. In addition, a new pension reduction was introduced for early pensioners with at least 40 years of service (0.3% for every 30 days started), which is lower than the reduction for other early pensioners (0.5% for every 30 days started).

[56] The second pillar contribution rates will remain at 5.5% in 2023 and 2024, rising to 5.75% in 2025 and 2026, and will be set at 6% from 2027. According to the original setting, the rate was to increase to 5.75% already in 2023 and remain at 6% from 2024 onwards.

[57] After the reform, the increase in the retirement age defined in Act No. 461/2003 Coll. will remain in force; the change will apply only to people born in 1967 or later.

[58] The current pension point value will grow at 95% of the average wage in the economy, reducing future new pensions compared to the previous setup.

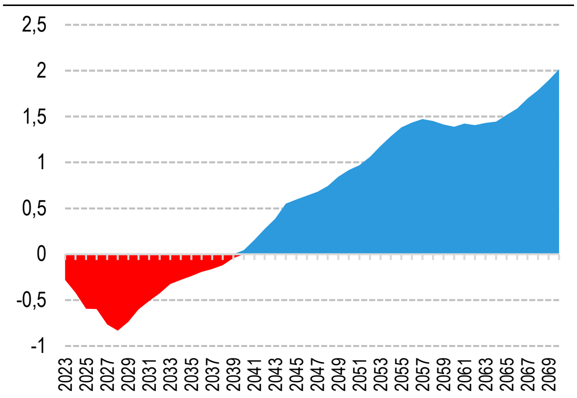
[59] At the time of the finalization of the material, the final setting of the valorisation mechanism and its effectiveness is not clear, as there are amendments put forth in the parliament which are in the second reading and may fundamentally change its form.

[60] Default strategy in pension saving: the case of Slovakia.

[61] New savers and selected groups of existing savers will be admitted to the default investment strategy and will be allowed to opt-out of the default investment strategy at any time. Savers who were moved to guaranteed bond funds in 2013 and have not made any change to their asset allocation since then will automatically enter the default investment strategy. Depending on the savers age, either all the assets in the second pillar (born after 1968) will be synchronized with the default investment strategy or only new contributions (born in 1968 or earlier) will be redirected to a more risky assets.

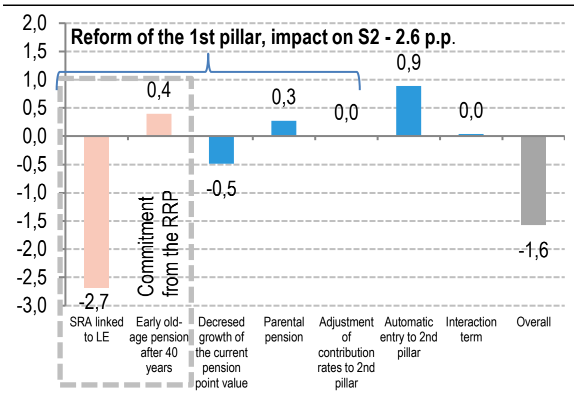
[62] The proposal abolishes the pension account management fee and the appreciation fee, while the maximum pension fund management fee increases from 0.3% to 0.45% of the average annual net asset value of the pension fund in 2023, then 0.425% in 2024 and 0.4% thereafter.

FIGURE 23 – Impact of the 1st and 2nd pillar reforms on general government balance (% of GDP)



Source: MoF SR

FIGURE 24 – Change in S2 with the introduction of individual measures and with the reform as a whole (p.p. of GDP)



Source: MoF SR

Note: All measures are calculated as the effect relative to the previous setting, except for the effect of early exit from the labour market after 40 years. The latter is taken as an additional effect to the restoration of oretirement age growth with life expectancy. Under the previous setting of retirement age (capping), this effect would have been minimal.

Planned measures in the pension system

In line with the objective of the Recovery and Resilience Plan, a measure is to be put in place to improve information on future first pillar pensions. The rates that define the decline in the ability to earn income due to invalidity are also to be adjusted. The aim of the proposed bill[63] is to create the preconditions for ensuring better information on future pension entitlements under the mandatory pension scheme. Together with the existing information on entitlements from the second and third pillar, the aim is to integrate information from all pillars into a single information sheet based on the Swedish orange envelope model. The proposal further adjusts the rates that define the decline in the ability to earn income for disability purposes to correspond to current medical knowledge. The conditions for assessing invalidity will be changed and will result in a higher number of newly granted invalidity pensions and an increase in pension benefits, both new and currently paid. In the medium term, the negative impact of the measure on the general government budget is 0.1% of GDP, which we assume to remain constant in the long term.

[63] Amendment to Act No. 461/2003 Coll. on Social Insurance.

4 STRUCTURAL POLICIES AND INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

The biggest challenges hindering Slovakia's economic convergence are education, the labour market and allocative efficiency. In order to increase the inclusiveness of the education system, a legal entitlement to a place in kindergarten will be introduced, coupled with increasing kindergarten capacities. The profiling and diversification of universities will be supported by the introduction of performance contracts. Measures to reduce barriers of entry of highly skilled foreign workers into the labour market will address labour shortages. The introduction of a new jobseeker's allowance for retraining will encourage investment to labour market skills shortages. The reform of the judicial map and the related specialisation of judges should lead to faster court proceedings and better quality decisions. The most significant legislative change in the area of public finances in the last year was the agreement on the methodology and the approval of binding limits on public expenditure in the National Council. Increasing the efficiency of public spending and identifying potential savings will continue with further spending reviews. During 2022, a review of expenditures on subsidies has been carried out with a potential savings estimate of 0.3% of GDP. A review of expenditures on direct and indirect support for research, development and innovation is also under preparation.

4.1 Structural reforms

An important reform to increase inclusion in the education system and support mothers' return to the labour market is the introduction of a legal entitlement to a place in a kindergarten for children aged four (September 2024) and three (September 2025). A draft amendment to the Education Act introducing this legal entitlement has already been approved by the Government in February 2023 and is expected to be approved by the National Council in the near future.[64] Another important inclusion measure is the change in the approach to children with special education needs. Children and pupils experiencing barriers in accessing education are defined and their entitlement to educational support through special support measures is established. To improve pupils' literacy and skills needed for the 21st century, a new curriculum for all primary school cycles is expected to be approved in 2023, with the possibility to implement the new curriculum in the first grades of the first cycle of primary education. The modification of the methodology for the distribution of subsidies through the introduction of performance contracts will support the profiling and diversification of higher education institutions based on their specific strengths and development potential.

The approval of the National Strategy for Research, Development and Innovation by the Government of the Slovak Republic represents a key moment in terms of policy direction and funding for research, development and innovation. The Strategy, together with the Action Plan, sets out measures aimed at streamlining and making the management and funding system more efficient and transparent, increasing investment in a functioning support system, developing and attracting talent, as well as a framework for determining thematic specialisation in research and innovation[65]. R&D investments from the Slovak Recovery and Resilience Plan (RRP) will provide a significant boost to the research ecosystem. They will focus mainly on involvement of domestic companies and researchers in the European Research Area, private-public cooperation, excellent science as well as research and innovation in green and digital transformation. To support the digital transformation, a new central platform for the use of IT resources (the Digital Marketplace) will be launched in 2023 to enable a more efficient way of procuring IT commodities and professional capacities. The aim is to increase flexibility and reduce the time to procure services and to involve a wider range of suppliers, including small and medium-sized enterprises.

In response to the labour shortage problem, the implementation of measures to reduce barriers of entry of highly skilled foreign workers into the labour market continues. The extension of the fast-track visa scheme and the simplification of the recognition of qualifications facilitate the entry of highly skilled workers into the country. The amendment to the Employment Services Act aims at aligning the lifelong learning system with the needs of the labour market. To this end, the Alliance of Sector Councils will monitor and communicate labour market developments to the ministries. The introduction of a new allowance for the retraining of jobseekers will encourage

[64] The current budget, however, does not foresee this measure

[65] The current budget, however, does not include the fiscal impact based on this strategy.

investment in labour market skills shortages. A number of housing policy measures have been implemented to increase housing affordability and promote labour mobility. The adopted Construction and Spatial Planning Acts will help streamline the construction process by speeding up permitting processes, computerising the permitting of new constructions and improving the possibilities for removing illegal construction. Amendments to the Public Procurement Act will bring changes to the exercise of supervision, as well as professionalisation of public procurement.

Improving allocative efficiency in the economy will be achieved mainly through measures improving the quality of institutions and the business environment. The reform of the judicial map and the related specialisation of judges should lead to faster court proceedings and better quality decisions. The necessary legislation related to the reform has already been approved by the National Council of the Slovak Republic.The biggest challenge in terms of successfully completing the introduction of the new judicialt network is currently the staffing of the administrative courts. Electronification and unification of insolvency processes will reduce administrative barriers for businesses. The adoption of further anti-bureaucratic packages and the simplification of the environmental impact assessment process will also contribute to easing the regulatory burden on businesses. The amendment of land regulations aims to tighten measures against fragmentation of land ownership. Shared service centres are being built with the intention to improve the performance and strengthen the administrative capacity of the public administration at local level.

In order to stabilise the health workforce, wages of healthcare workers in inpatient healthcare are being significantly increased from 2023, and the financial resources for outpatient care are also being increased. To promote the entry of innovative treatments with effect from 2023, an amendment to the medicinal products legislation has been approved. A key measure to streamline financing in the sector is the continued introduction of the DRG (Diagnoses Related Groups) mechanism and the optimisation of the hospital network. At the end of 2022, the Ministry of Health started the implementation of the first phase of hospital categorization, and plans for the construction of new hospitals were approved to improve infrastructure. Under the RRP, the first steps to support general outpatient care in the form of allowances for outpatient clinics were launched. In long-term care, attention is being paid to improving the quality of services through the reform of supervision of service provision, but resources are also being increased for capacity building and more adequate reimbursement for services by health insurance companies.

The main objective of the reforms and investments in the forthcoming REPowerEU national chapter in the framework of the RRP update is to diversify energy sources and to move away from Russian fossil fuels. This will be achieved by increasing energy efficiency and by investing in the resilience of the electricity grid to accelerate the transition to renewable energy sources. In addition,, the chapter also includes measures to help combat energy poverty, promote low- and zero-emission transport and accelerate the retraining of the workforce in green and related digital skills. Slovakia's first ever climate law should bring clarity to the legal climate framework and thus significantly increase the potential to achieve ambitious climate goals, including climate neutrality by 2050 at the latest.Comments on the draft law are currently being evaluated. In response to the long-standing problem of air pollution, the Air Protection Act introduces more stringent pollution control and allows for a localised approach to air quality management. Improving water management in the countryside has the potential to mitigate the effects of drought and contribute to the restoration of ecosystems and biodiversity.

4.2 Institutional reforms of public finances

Expenditure ceilings of general government

The most significant change in recent months was the approval of the expenditure ceilings in the National Council of the Slovak Republic for the budgets between 2023 and 2025 and the linking of the limit to the European fiscal rules. The limits were anchored in legislation in spring 2022 as the main operational rule for public finance management. Their implementation is intended to ensure counter-cyclicality of fiscal policy and at the same time reduce risks of the long-term sustainability of public finances. The expenditure limit corresponds to a structural deficit evolution such that it decreases by 0.5% of GDP each year between 2023 and 2025 compared to the no-policy-change scenario. Following an agreement on the methodology for calculating the limit between the Council of Budget Responsibility (CBR) and the Ministry of Finance, the Parliament adopted an amendment to the Law on Budgetary Rules in December 2022 to allow the expenditure ceilings approved by the Parliament to be exceeded during the suspension of the European fiscal rules[66] .

When the new government takes the Office, the CBR will calculate a new expenditure limit for each year of the electoral period starting in 2024, based on a reassessment of the long-term sustainability situation. After the general elections and the approval of the new government's manifesto, the CBR will submit a new public expenditure limit for the next four years to the National Assembly for discussion within 60 days. Both the new recalculation of the long-term sustainability gap and the new no-policy-change scenario will be taken into account. Subsequently, the limit will be updated to take into account adopted legislative changes (in particular legislation affecting the level of revenue and changes affecting long-term sustainability), but also to correct any non-compliance with the limits from the previous period. The updated limit shall be submitted by the CBR to the Finance and Budget Committee and the Economic Affairs Committee for approval, always by 30 June, or at the request of the Government. Failure to meet the expenditure ceilings for two consecutive periods by more than 1% of GDP implies that the government will request a vote of confidence in Parliament. Monitoring the implementation of the limits during the current year is responsibility of the Ministry of Finance.

Amendment to the Constitutional Law on Budgetary Responsibility

A government proposal for an amendment to the Constitutional Law on Budget Responsibility is still pending in the National Assembly, which would reduce the number of sanction bands of the debt brake, rationalise sanction mechanisms and escape clauses, and streamline the management of the cash reserve by switching to net debt. The draft amendment, which is still pending approval in Parliament, responds to 10 years of experience with the functioning of the current constitutional law. This has led to the need for a number of changes. The first change should be the narrowing of the sanction bands to four from the current five and the related requirement for active measures already at the lowest band in the form of structural deficit consolidation. By reaching the highest debt brake sanction band, the law will allow the government to avoid the sanction of presenting a structurally balanced budget and a vote of confidence in the event of previous sanctions being met, compared to the current situation[67]. The change would also see a shift from a gross debt indicator to a net debt indicator, which should contribute to the efficiency of the government's cash reserve management. The reserve would be subtracted from gross debt for the calculation of net debt for the assessment of sanctions bands exceeded. The amendment also modifies the economic crisis escape clause, which would become less restrictive[68].

Revisions of expenditure

In 2022, a review of subsidy spending[69] was undertaken which identified potential savings worth 0.3% of GDP. The aim of the review was to identify dysfunctional subsidy schemes with a view to abolishing them, while formulating measures to improve the efficiency of justified schemes. The review assessed expenditure of EUR 1.46 billion per year (1.5% of GDP) in the form of public expenditure (EUR 876 million), tax breaks (EUR 471 million) or reduced fees for companies (EUR 116 million). The identified savings potential is EUR 291 million per year, made up of subsidy schemes which the review recommends abolishing. Inefficient subsidies are in several areas, most of them in the energy sector[70] (saving almost €218 million a year), but the review also recommends abolishing, for example, sports vouchers, support for food producers, patent box, and tax exemptions for still wines. Subsidies in these cases are not an appropriate form of addressing market failures, some are ineffective in meeting objectives or non-transparent. For schemes worth €80 million, the review recommends suspending funding and making its eventual resumption conditional on modification or more detailed analysis demonstrating their effectiveness. Subsidies worth €358 million need to be adjusted to some extent to increase their effectiveness.

A revision to Science and Research is also in the pipeline. The Research and Innovation Agency (VAIA) is

[66] The EU fiscal rules are temporarily inactive from 2020 and this escape clause will expire at the end of 2023. For 2023, there is therefore no need to align the budget with the public spending limit once they are adopted by the National Assembly. Budget alignment with the limit will take place from 2024 onwards once the European fiscal rules are reactivated.

[67] In this case, the law would require an improvement of the structural balance by 1% of GDP per year until the debt is reduced to the lower sanction band.

[68] The current situation allows the debt brake to be temporarily waived, but only if the year-on-year difference in economic growth exceeds 12 p.p. Such an economic downturn did not occur even in 2020 with the COVID-19 pandemic. The modification of the escape clauses with the temporary waiver of the debt brake therefore already responds in the proposal to the year-on-year economic downturn

[69] The review considered subsidies to be state aid that either lowers the prices of products and services or raises the incomes of producers compared to the outcome of the free market.

[70] Specifically, these include schemes to support the production of electricity from domestic coal (EUR 117 million), compensation to companies for the tariff for operating the system (EUR 40 million) and optional exemptions from energy taxes (EUR 61 million).

also working with the VfMD on a review of expenditure and competences for research, development and innovation. The review will assess public expenditure on research, development and innovation (R&D&I) support in both the public and private sectors, including expenditure on budgeted and contributory organisations of the relevant ministries. The aim is to assess the effectiveness of this spending, with an emphasis on achieving better results. The review will map and evaluate existing instruments and schemes for both direct support and indirect support[71] , and will also analyse research in universities, in sub-ministerial organisations and in ESIF-funded projects. It will then identify gaps in support instruments at all stages of development from basic research to commercialisation, based on good practice from abroad. An important part of the review will be an analysis of the institutional framework and management of the R&D support system across the responsible ministries and institutions. This will result in recommendations for the consolidation of competences in line with the objectives of the National Strategy for Research, Development and Innovation, or other necessary changes to the funding and management system

Budgeting of capital expenditure

According to the investment management reform, from 2021 onwards, only demonstrably socially beneficial and ready projects should be included in the budget in addition to ongoing projects. Funds for other planned projects are committed in the budget within the investment stack in the general treasury. Their disbursement is only possible after an assessment by the MoF (zero-based budgeting). The aim is to gradually reduce the stack (reserve) and allocate funds directly to chapters for ready and priority projects. Inaccurate planning and frequent changes in priorities in the past have meant that unprepared projects have blocked a large pool of money for a long time at the expense of ready and better investments across sectors. Therefore, only ready and repayable projects are financed in line with the prioritised investment plans and within the limits of available budgetary resources in each year.

In 2022, the Government of the Slovak Republic approved the Methodology for the Preparation and Evaluation of Investment Projects[72] . The material helps investors (ministries) to better prepare projects and plan investments. The Methodology does not add new tasks, it only clarifies and explains the current obligations in more detail. Standardised processes and the selection of suitable projects at an early stage will ensure a higher quality of project preparation and a better basis for decision-making on their implementation. The implementation of the reform is the responsibility of the MoF in coordination with all ministries. In order to complete the reform, it is necessary to improve the set-up of the MoF's economic evaluation rules on the basis of previous experience, to complete the analytical capacity responsible for analytically sound investment plans of the ministries and to link the plans to the budget. There is also a need to simplify the preparatory process, to refine methodologies and to streamline public procurement.

BOX 7 – Investments in line with value for money

The ongoing reform of investment management aims to increase the economic value of newly implemented investment projects and to get a better return for every euro. The main parts of the reform are economic assessments of projects before they are implemented, setting priorities and investment plans of ministries and including only ready and profitable projects in the public budget. In order to improve budget planning and execution, the above activities have already been or are being implemented:

- **The publication of feasibility studies increases transparency and the quality of the discussion about investment projects.** The studies prepared for all large projects above EUR 40 million (or above EUR 10 million in the IT sector) are legally required to be published online from 2019[73] . The MoF subsequently publishes project assessments and recommendations based on them. In 2022, feasibility studies for 39 projects were published.

- **In 2020, the Government of the Slovak Republic, in the form of a resolution[74] , introduced a mandatory assessment of investments with expected total expenditures exceeding EUR 1 million including VAT by the Ministry of Finance of the Slovak Republic (MoF SR).** Public

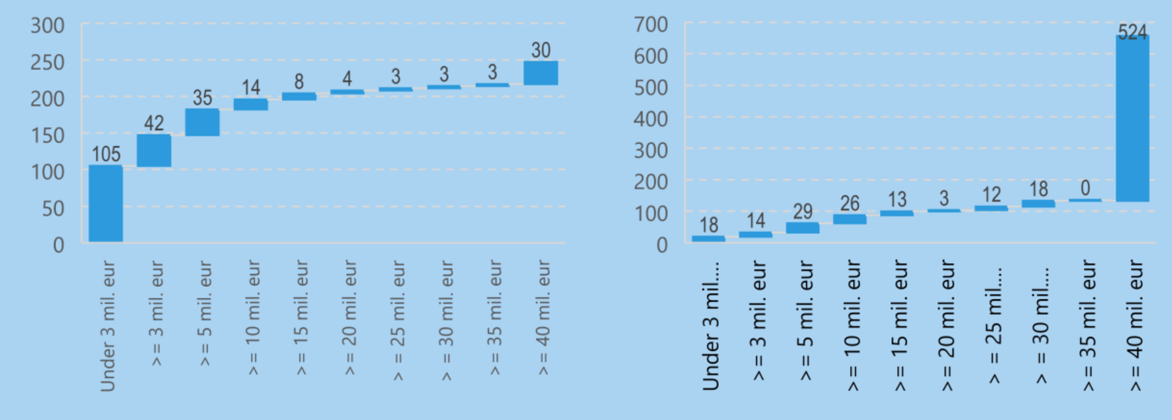
[71] Direct support schemes: direct funding, grants, support services, subsidised loans, equity funding, etc. Indirect support schemes: tax credits.
[72] The methodology was approved by Government Resolution No. 181/2022 and is available online on the website of the Ministry of Finance of the Slovak Republic.
[73] The obligation was approved in § 19a of Act No. 523/2004 Coll. on the Financial Rules of the Public Administration, as amended.
[74] The obligation was approved by Government Resolution 649/2020 in Task C.5 and C.6.

administration entities, except for local self-government and organisations established by it, are obliged to submit to the MoF for assessment at least a detailed project budget and documents demonstrating the project's compliance with the sectoral strategy, or clearly demonstrate the need (demand) for the project.

- **After the introduction of the assessment of projects from EUR 1 million, the number of projects assessed by the ÚHP increased tenfold (from 24 to 250), the greatest added value is provided by the MoF in the asssessment of large projects.** Small projects (under 10 million in IT and 40 million in other areas) account for almost 80% of the MoF assessments, but they bring minimal savings and the MoF's comments have been incorporated in less than half of the cases. This is because small projects are submitted for assessment prior to the call for tenders, when there is little scope and willingness to change the project. Raising the threshold for small projects and lowering the threshold for large projects would free up capacity for the assessment of more strategically important projects, which would be captured at an earlier stage of preparation when possible solutions are still only on paper. The proposed change is currently being evaluated for comments in an inter-ministerial comment procedure[75].

Overview of projects assessed in 2022

FIGURE 25 – Number of projects assessed left FIGURE) and potential savings (right FIGURE) in 2022



Source: MoF SR

In 2022, the MoF assessed 246 projects with an identified saving of EUR 657 million. Assessments for a total of EUR 10.3 billion brought recommendations towards optimisation of technical solutions or reducing the cost of projects. The median saving of the projects assessed was 6% of the estimated costs.

Slovakia's public investment is lower compared to other countries in the region, which is why it is particularly important to apply the principle of value for money in investment projects. An analytical perspective helps the state to systematically focus on the implementation of the most needed projects. At the same time, the benefits of economic evaluation are most pronounced at the beginning of project preparation, when there is room to consider other alternatives and reassess technical solutions.

According to the government resolution[76] , ministries prepare investment strategies, which include prioritisation methodologies and investment plans. Clearly identified priorities and long-term plans will improve project preparation and increase the accuracy of investment budgeting. Currently, all relevant ministries have published investment methodologies and plans, but some do not meet the quality criteria and need to be updated. An update is already underway and ministries are obliged to update their investment plans by 30 May each year.

BOX 8 – Status of the development of investment strategies

Currently, all ministries with annual investments above EUR 20 million have a published prioritisation

[75] The boundary adjustment is subject to the inter-ministerial comment procedure LP/2023/155 and LP/2023/156.
[76] The obligation was approved by Government Resolution 649/2020

methodology and an investment plan for at least the next 5 years. Ministries are obliged to develop an investment strategy: (1) a prioritisation methodology, (2) a prioritised list of projects, (3) an investment plan. The obligation was approved by Government Resolution 649/2020 in Task C.2 and C.3. The investment plan is to be updated by the ministries annually by 30 May. An overview of investment methodologies and plans is published on the MoF website: https:/bit.ly/investicie_metodiky.

Published investment methodologies and plans currently have different formats and some of them do not meet the quality criteria. Inappropriate criteria in the methodologies make it difficult to identify the most important projects. These are, for example, the criterion of readiness of project documentation or existing commitment. At the same time, the investment methodologies of ministries sometimes do not cover all types of capital expenditure or the ministries do not disclose a list of planned investments prioritised on the basis of the methodology.

Investment plans must have realistic cost estimates and sufficient detail to be used for budget preparation. The criteria that a good investment plan must meet are, in particular, clarity, correct prioritisation based on the methodology, a realistic amount of capital expenditure and also coverage of all expenditure**.** Currently, chapters have different formats for their investment plans, which are often not machine processable, without a uniform format and without key data (e.g. source of funding).

Investment plans often do not correspond to the actual spending of the budget during the year and thus do not contribute to better investment planning. An example is the Ministry of the Interior of the Slovak Republic, which included in its investment plans projects in the amount of EUR 1.3 billion, while the real absorption was at the level of 55%. The MoF is discussing improvements for the upcoming updates with the ministries so that the plans present an overall picture of the ministry's capital expenditure in the coming years and are linked to the general government budget. Currently, a positive example is the Ministry of Culture of Slovak Republic, which has published in the investment plan projects with an expenditure of over EUR 54 million for 2022 and has financed 90% of the total.

ANNEXES

Annex 1 - Mandatory tables of the Stability Programme

TABLE 18 (Table 1a): Macroeconomic prospects (ESA2010, EUR bn.)

	ESA code	2022 Level	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change
1. Real GDP	B1*g	90,8	1,7	1,3	1,8	2,7	1,9
2. Nominal GDP*	B1*g	109,7	9,3	9,1	7,3	6,9	4,5
	Components of real GDP						
3. Private consumption expenditure	P.3	52,9	5,1	0,7	1,1	1,5	1,3
4. Government consumption expenditure	P.3	16,1	-3,2	2,3	1,4	0,5	1,0
5. Gross fixed capital formation	P.51	18,5	6,5	14,6	1,2	1,3	-3,3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2,6	2,9	2,1	2,0	2,0	1,9
7. Export of goods and services	P.6	88,6	1,0	1,3	6,9	6,6	5,4
8. Imports of goods and services	P.7	87,9	3,0	4,2	6,2	5,2	3,8
	Contribution to real GDP growth						
9. Final domestic demand (total)		86,7	3,7	4,6	1,0	1,2	0,2
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	2,6	0,1	-0,9	0,0	0,0	0,0
11. External balance of goods and services	B.11	1,7	-1,9	-2,7	0,7	1,4	1,7

* Nominal GDP revision as of April 20th, 2023

Source: MoF SR

TABLE 19 (Table 1b): Price developments (ESA2010)

	ESA code	2022 Level	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change
1. GDP deflator		1,2	7,6	7,8	5,5	4,1	2,5
2. Private consumption deflator		1,3	12,3	9,5	5,3	4,3	2,3
3. HICP		1,3	12,1	9,7	5,5	4,3	2,2
4. Public consumption deflator		1,4	11,5	9,2	6,7	5,6	4,3
5. Investment deflator		1,2	9,5	7,5	4,6	4,1	2,2
6. Export price deflator (goods and services)		1,2	14,7	5,5	3,6	3,3	2,5
7. Import price deflator (goods and services)		1,3	19,3	6,2	3,3	3,5	2,4

Source: MoF SR

TABLE 20 (Table 1c): Labour market development (ESA2010)

	ESA code	2022 Level	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change	2026 Rate of change
1. Employment, persons (thousands) [1]		2 428	1,8	0,5	0,5	0,6	0,4
2. Employment, hours worked (thousands) [2]		3 937	4,3	-0,4	-0,9	-0,4	-0,9
3. Unemployment rate (%) [3]		6,2	6,2	5,8	5,4	5,2	5,2
4. Labour productivity per persons (EUR) [4]		37 371	-0,1	0,8	1,3	2,1	1,5
5. Labour productivity per hours worked (EUR) [5]		23,0	-2,5	1,6	2,7	3,0	2,9
6. Compensation of employees (EUR mill.)	D.1	46 737	8,1	9,6	8,1	6,8	4,4
7. Compensation per employee (EUR)		22 395	6,4	8,9	7,8	6,4	4,2

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

[2] National accounts definition

Source: SO SR, MoF SR

[3] Harmonised definition according to Eurostat; levels
[4] Real GDP per person employed
[5] Real GDP per hour worked

TABLE 21 (Table 1d): Sectoral balance (ESA2010, % of GDP)

	ESA code	2022	2023	2024	2025	2026
1. Net lending / borrowing vis-à-vis the rest of the world	B.9	-5,8	-5,1	-4,5	-3,8	-3,0
of which:						
- Balance on goods and services		-6,2	-8,2	-7,4	-6,3	-4,7
- Balance of primary incomes and transfers		-0,7	1,8	1,6	1,2	0,5
- Capital account		1,1	1,3	1,3	1,3	1,3
2. Net lending / borrowing of the private sector	B.9	-2,0	-6,3	-4,7	-5,2	-4,9
3. Net lending / borrowing of general government (budgetary target)*	EDP B.9	-2,0	-6,3	-3,9	-3,2	-2,2
4. Statistical discrepancy						

Source: MoF SR

TABLE 22 (Table 2a): General government budgetary prospects

	ESA code	2022 level	2022 % of GDP	2023 % of GDP	2024 % of GDP	2025 % of GDP	2026 % of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-2 233,8	-2,0	-6,3	-4,7	-5,2	-4,9
2. Central government	S.1311	-1 951,0	-1,8	-6,1	-4,8	-5,3	-5,6
3. State government	S.1312						
4. Local government	S.1313	-419,5	-0,4	-0,1	-0,2	-0,3	-0,1
5. Social security funds	S.1314	136,7	0,1	-0,1	0,3	0,4	0,7
General government (S13)							
6. Total revenue	TR	44 126,3	40,2	42,4	39,4	38,9	38,6
7. Total expenditure	TE [1]	46 360,1	42,3	48,7	44,1	44,0	43,5
8. Net lending/ borrowing	EDP B.9	-2 233,8	-2,0	-6,3	-4,7	-5,2	-4,9
9. Interest expenditure	EDP D.41	1 131,8	1,0	1,0	1,2	1,4	1,5
10. Primary balance	[2]	-1 102,0	-1,0	-5,3	-3,5	-3,8	-3,4
11. One-off and other temporary measures	[3]	-1 668,1	-0,9	-1,5	0,0	0,0	0,0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		21 842,4	19,9	20,0	19,4	18,9	18,6
12a. Taxes on production and imports	D.2	13 000,9	11,9	12,2	11,8	11,4	11,1
12b. Current taxes on income, wealth, etc	D.5	8 841,5	8,1	7,8	7,6	7,5	7,5
12c. Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	16 388,5	14,9	15,4	15,7	15,6	15,8
14. Property income	D.4	735,2	0,7	0,5	0,4	0,4	0,4
15. Other	[4]	5 895,4	5,4	7,0	4,4	4,4	4,2
16=6. Total revenue	TR	44 126,3	40,2	42,4	39,4	38,9	38,6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	38 230,9	34,9	35,4	35,0	34,5	34,4
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	18 174,7	16,6	16,0	16,0	15,4	15,1
17a. Compensation of employees	D.1	11 651,9	10,6	10,3	10,3	9,9	9,6
17b. Intermediate consumption	P.2	6 522,8	5,9	5,7	5,7	5,6	5,4
18. Social payments (18=18a+18b)	D.6	19 646,1	17,9	19,5	19,5	19,2	19,5
of which Unemployment benefits	[6]	239,2	0,2	0,2	0,2	0,2	0,2
18a. Social transfers in kind - purchased market production	D.632	3 727,8	3,4	3,6	3,6	3,6	3,6

18b. Social transfers other than in kind	D.62	15 918,2	14,5	15,9	15,9	15,6	15,9
19.=9. Interest expenditure	EDP D.41	1 131,8	1,0	1,0	1,2	1,4	1,5
20. Subsidies	D.3	1 196,4	1,1	0,7	0,7	0,7	0,7
21. Gross fixed capital formation	P.51	3 618,1	3,3	4,0	4,0	3,8	2,9
22. Capital transfers	D.9	358,0	0,3	0,1	0,1	0,2	0,2
23. Other	[7]	2 235,0	2,0	2,5	2,6	3,4	3,6
24=7. Total expenditure	TE [1]	46 360,1	42,3	48,7	44,1	44,0	43,5
p.m.: Government consumption (nominal)	P.3	22 602,1	20,6	23,1	20,2	19,7	19,3

Source: MoF SR

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9

[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 23 (Table 2b): No-policy-change scenario

	2022	2022	2023	2024	2025	2026
	level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies				39,4	38,9	38,6
2. Total expenditure at unchanged policie				44,1	44,0	43,5

Note: The base for the NPC purposes for 2022 to 2024 is the actual estimate for 2021.

Source: MoF SR

TABLE 24 (Table 2c): Amounts to be excluded from the expenditure benchmark

	2022	2022	2023	2024	2025	2026
	level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1218	1,1	3,3	0,9	1,2	1,1
1.a. of which investment fully matched by EU funds revenue	679	0,6	2,0	0,6	0,4	0,2
2. Cyclical unemployment benefit expenditure	16	0,0	0,0	0,0	0,0	0,0
3. Effect of discretionary revenue measures	358	0,3	0,0	-0,4	0,0	0,0
4. Revenue increases mandated by law	0	0,0	0,0	0,0	0,0	0,0

Source: MoF SR

TABLE 25 (Table 3): General government expenditure (% GDP)

	COFOG code	2021	2026
1. General public services	1	5,8	6,4
2. Defence	2	1,3	1,5
3. Public order and safety	3	2,2	1,9
4. Economic affairs	4	6,7	4,1
5. Environmental protection	5	0,9	0,7
6. Housing and community amenities	6	0,5	0,5
7. Health	7	6,9	6,7
8. Recreation, culture and religion	8	1,0	0,9
9. Education	9	4,3	4,0
10. Social protection	10	15,9	16,8
11. Total expenditure	**TE**	**45,5**	**43,5**

Source: Eurostat, MoF SR

TABLE 26 (Table 4): General governement debt development (% of GDP)

	ESA code	2022	2023	2024	2025	2026
1. Gross debt		57,8	58,7	59,3	59,8	63,1
2. Change in gross debt ratio		-3,2	0,9	0,6	0,5	3,3
Contributions to change in gross debt						
3. Primary balance		1,0	5,5	3,5	3,8	3,4
4. Interest expenditure		1,0	1,0	1,2	1,4	1,5
5. Stock-flow adjustment		-0,1	-0,8	-0,1	-0,8	0,9
of which:						
- differences between cash and accruals		-2,3	-1,0	-0,6	-0,7	-0,1
- net accumulation of financial assets		1,6	-0,8	-0,4	-0,4	0,4
of which: revenues from privatisation		0,0	0,0	0,0	0,0	0,0
- valuation effects and others		0,7	1,0	1,0	0,2	0,6
p.m. implicit interest rate on debt		1,8	1,8	2,2	2,4	2,7
Other relevant variables						
6. Liquid financial assets		10,1	8,5	7,5	6,7	6,8
7. Net financial debt (7=1-6)		47,7	50,2	51,8	53,2	56,3
8. Debt repayment (existing debts) from previous year		1,3	3,8	3,9	4,4	2,1
9. Share of debt denominated in foreign currency*		0,9	0,6	0,4	0,3	0,0
10. Average maturity (years)**		8,5	8,5	8,5	8,3	8,6

Source: MoF SR

TABLE 27 (Table 5): Cyclical developments

(% of GDP)	ESA code	2022	2023	2024	2025	2026
1. Real GDP growth (%)		1,7	1,3	1,8	2,7	1,9
2. Net lending of general government*	B.9	-2,0	-6,3	-4,7	-5,2	-4,9
3. Interest expenditure	D.41	1,0	1,0	1,2	1,4	1,5
4. One-off and other temporary measures	[1]	-0,9	-1,5	0,0	0,0	0,0
Of which:		0,0	0,0	0,0	0,0	0,0
One-offs on the revenue side: general government		0,6	1,2	0,0	0,0	0,0
One-offs on the expenditure side: general government		-1,4	-2,7	0,0	0,0	0,0
5. Potential GDP growth (%)		1,3	1,5	1,7	1,5	1,4
contributions:		0,0	0,0	0,0	0,0	0,0
- labour		-0,1	-0,2	-0,2	-0,2	-0,2
- capital		0,6	0,9	1,1	1,1	1,0
- total factor productivity		0,8	0,8	0,8	0,6	0,6
6. Output gap		-1,0	-1,2	-1,2	-0,1	0,5
7. Cyclical budgetary component		-0,4	-0,5	-0,5	0,0	0,2
8. Cyclically-adjusted balance (2 - 7)		-1,7	-5,8	-4,3	-5,1	-5,1
9. Cyclically-adjusted primary balance (8 + 3)		-0,6	-4,9	-3,1	-3,8	-3,6
10. Structural balance (8 - 4)		-0,8	-4,3	-4,3	-5,1	-5,1

[1] A plus sign means deficit-reducing one-off measure
* * For 2022, we give the expected reality.

Source: MoF SR

TABLE 28 (Table 6): Comparison between the previous forecast and the updated forecast

	ESA code	2022	2023	2024	2025	2026
Real GDP growth (%)						
Previous update*		2,1	5,3	1,8	1,8	-
Current update		1,7	1,3	1,8	2,7	1,9
Difference		-0,4	-4,0	0,0	0,9	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-5,1	-3,3	-3,2	-3,5	-
Current update		-2,0	-6,3	-4,7	-5,2	-4,9
Difference		3,0	-3,0	-1,5	-1,7	-

General government gross debt (% of GDP)					
Previous update*	61,6	58,0	58,2	57,3	-
Current update	57,8	58,7	59,3	59,8	63,1
Difference	-3,8	0,7	1,1	2,5	-

*Note: * Stability Programme for 2022 – 2025*
*** For 2023 we give the expected reality*

Source: MoF SR

TABLE 29 (Table 7): Long-term sustainability of public finances (% of GDP)

	2023	2030	2040	2050	2060	2070
Total expenditure	**49,6**					
Of which: Age-related expenditures	**20,7**	**22,2**	**23,6**	**25,1**	**26,4**	**25,6**
A. Pension expenditure**	9,9	10,5	11,1	11,9	12,4	11,4
a) Old-age and early pensions	7,5	7,7	8,3	9,3	9,9	9,2
b) Other pensions (disability, survivors)	2,4	2,8	2,9	2,6	2,5	2,3
B. Health care	6,4	6,9	7,4	7,8	8,0	7,9
C. Long-term care	1,0	1,2	1,6	2,0	2,4	2,7
D. Education expenditure	3,3	3,6	3,4	3,4	3,6	3,5
E. Other age-related expenditures						
Of which: Interest expenditure	1,0	1,3	1,1	3,8	4,0	4,0
Total revenue	**43,2**					
Of which: Property income (D.4)	0,5	0,8	0,7	0,7	0,6	0,6
Of which: Pensions contributions	7,1	6,8	6,7	6,5	6,2	6,0
Pension reserve fund assets						
Of which: Consolidated public pension fund assets						
Systematic pension reforms						
Social contributions diverted to voluntary private scheme	0,9	1,0	0,8	0,7	0,6	0,6
Pension expenditure paid by voluntary private scheme	-	-	-	-	-	-
Assumptions						
Labour productivity growth	2,5	2,5	2,2	2,1	1,8	1,5
Real GDP growth	5,3	2,5	1,6	1,3	1,3	1,6
Participation rate males (aged 20-64)	88,1	89,7	90,2	91,7	92,4	92,3
Participation rate females (aged 20-64)	74,4	77,0	78,0	78,8	79,9	80,3
Total participation rate (aged 20-64)	81,3	83,4	84,3	85,4	86,3	86,4
Unemployment rate (aged 20-64)	5,8	6,0	6,2	6,2	6,3	6,3
Population aged 65+ over total population	17,8	20,4	23,7	28,4	31,1	29,9

Source: MoF SR

TABLE 30 (Table 7a): Contingent liabilities

	2022 % GDP	2023 % GDP
Public guarantees	**11,8**	
of which: linked to EFSF and ESM	7,7	7,1
of which: linked to international financial institutions	1,3	
of which: linked to anti-COVID19 guarantees	2,6	2,5
of which: linked to state-owned financial institutions (other than anti-COVID19)	0,2	

Note: Preliminary data.

Source: MoF SR

TABLE 31 (Table 8): Basic assumptions

	2022	2023	2024	2025	2026
Short-term interest rate €str (annual average)	0,0	2,6	2,3	2,1	1,9
Long-term interest rate 10Y-SLOVGB (annual average)	2,0	3,4	3,2	3,3	3,4
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,1	1,1	1,1	1,1	1,1

Nominal effective exchange rate	0,6	-0,4	0,4	0,5	0,2
World excluding EU, GDP growth					
EU GDP growth	3,5	-	-	-	-
Growth of relevant foreign markets	3,6	0,6	1,7	1,9	1,7
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	98,9	79,5	76,3	73,4	71,1

TABLE 32 (Table 9a): RRF impact on program (grants)*

	ESA Code	2020	2021	2022	2023	2024	2025	2026
		% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Revenue from RRF grants								
1. RRF GRANTS as included in the revenue projections			0,0	0,0	1,2	0,7	0,5	0,3
2. Cash disbursements of RRF GRANTS from EU			0,8	1,0	1,3	1,2	0,8	0,2
Expenditure financed by RRF grants								
3.TOTAL CURRENT EXPENDITURE				**0,0**	**0,2**	**0,1**	**0,1**	**0,1**
of which:								
- Compensation of employees	D.1			0,0	0,0	0,0	0,0	0,0
- Intermediate consumption	P.2			0,0	0,1	0,1	0,1	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	0,0	0,0	0,0
- Current transfers	D.7			0,0	0,0	0,0	0,0	0,0
4. TOTAL CAPITAL EXPENDITURE				**0,0**	**1,0**	**0,6**	**0,4**	**0,2**
of which:								
- Gross fixed capital formation	P.51g			0,6	1,0	0,6	0,4	0,2
- Capital transfers	D.9			0,0	0,0	0,0	0,0	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**

Note: Breakdown within the general government sector

Source: MoF SR

TABLE 33 (Table 9b): RRF impact on program (loans)

	ESA Code	2021	2022	2023	2024
		% of GDP	% of GDP	% of GDP	% of GDP
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU					
2. Repayments of RRF LOANS to EU					
Expenditure financed by RRF loans					
3.TOTAL CURRENT EXPENDITURE					
of which:					
- Compensation of employees	D.1				
- Intermediate consumption	P.2				
- Social Payments	D.62+D.632				
- Interest expenditure	D.41				
- Subsidies, payable	D.3				
- Current transfers	D.7				
4. TOTAL CAPITAL EXPENDITURE					
of which:					
- Gross fixed capital formation	P.51g				
- Capital transfers	D.9				
Other costs financed by RRF loans					
5. Reduction in tax revenue					
6. Other costs with impact on revenue					
7. Financial transactions					

Source: MoF SR

TABLE 34: Stock of guarantees adopted/announced

Measures		Date of adoption	Maximum amount of contingent liabilities	Estimated take-up
In response to COVID-19	anti-Covid19 guarantees (cumulative 2020 and 2021)	2020	2,5	0,8
	Subtotal		2,5	0,8
Others	EFSF and ESM		7,7	
	International financial institutions		1,3	
	State-owned financial institutions			0,2
	Subtotal		9,0	0,2
	Total		**11,5**	**1,0**

Source: MoF SR

Annex 2 - Discretionary measures adopted to address pandemic COVID-19

TABLE 35 – List of measures taken to combat the COVID 19 pandemic (2023 is an estimate at the end of the year)

			2020		2021		2022		2023		Total	
	EKRK	**ESA**	**v mil.**	**% GDP**	**v mil.**	**% GDP**	**mil.**	**% GDP**	**mil.**	**% GDP**	**mil.**	**% GDP**
Direct support together			**2185**	**2,34**	**3385**	**3,37**	**894**	**0,82**	**155**	**0,13**	**6618**	**6,66**
Support for maintaining employment			**1151**	**1,23**	**1506**	**1,50**	**253**	**0,23**			**2910**	**2,96**
Total measures 1 to 4B (Kurzarbeit)	640	D.75	997	1,07	1266	1,26	174	0,16			2438	2,49
Kurzarbeit for kindergartens and schools of the arts	640	D.75	59	0,06	18	0,02					77	0,08
Entrepreneurship promotion in tourism and hospitality sector	644	D.3p	6		120	0,12	65	0,06			191	0,18
Entrepreneurship promotion in culture and creative industry	644	D.3p			8	0,01					8	0,01
Reimbursement of rents	644	D.3p	40	0,04	94	0,09	14	0,01			148	0,15
Support for job applicants	642	D.62	49	0,05							49	0,05
Social assistance (including pandemic allowance for care of a family member and sick pay)			**301**	**0,32**	**485**	**0,48**	**62**	**0,06**			**848**	**0,86**
SOS allowance	642032	D.62	15	0,02	66	0,07	11	0,01			92	0,09
Parental allowance (extension of the period of receipt)	642041	D.62	13	0,01	49	0,05		0,00			62	0,06
Unemployment benefit (extension of the acquisition period)	642033	D.62	32	0,03	40	0,04					73	0,07
One-off parental allowance	642	D.62			76	0,08					76	0,08
Humanitarian aid	642	D.62			8	0,01					8	0,01
Sick pay - paid above the level of 2019 (indexed)	642015	D.62	106	0,11	211	0,21	42	0,04			359	0,36
Allowance for care of a family member - paid above the level of 2019 (indexed)	642015	D.62	133	0,14	35	0,04	9	0,01			178	0,19
Remission of taxes and levies			**90**	**0,10**	**17**	**0,02**	**2**				**108**	**0,11**
Remission of social security contributions for April		D.61	57	0,06							57	0,06
Deduction of company losses from 2015-18		D.51B	28	0,03							28	0,03
Unpaid part of deferred levies		D.61	5	0,01	7	0,01	2	0,00			13	0,01
Zero value added tax on FFP2/3 respirators		D.211			10	0,01					10	0,01
Increased healthcare expenditures			**377**	**0,40**	**834**	**0,83**	**337**	**0,31**	**155**	**0,13**	**1703**	**1,67**
Rewards for healthcare employees	610, 620	D.1	13	0,01	54	0,05	9	0,01			75	0,08
Payment to medical specialists		D.99	138	0,15							138	0,15
Increased expenditures - ventilators and other	630	P.2	39	0,04	25						64	0,04
Testing expenditures	630, 710	P.2, P.51	124	0,13	332	0,33	84	0,08			540	0,54
Costs of medicines and vaccination	630	P.2		0,00	162	0,16	245	0,22	155	0,13	562	0,38
Equipment and other expenditures of healthcare facilities	630	P.2	63	0,07	261						323	0,07
Other measures			**266**	**0,28**	**544**	**0,54**	**239**	**0,22**			**1049**	**1,04**
Creation of emergency stocks (excluding tests)	630	P.2	33	0,04	15	0,02	65	0,06			113	0,11
Rewards to frontline workers (excluding the Ministry of Health)	610, 620	D.1	64	0,07	9						73	0,07
Goods and services related to COVID-19 (disinfection, other)	630	P.2	22	0,02	17						39	0,02
Subsidy schemes for various sectors / entities	644	D.3p	16	0,02	76	0,08					92	0,09
Economic mobilization measures	630	P.2	24	0,03	112	0,00	80	0,07			105	0,10
Contribution to the capital of the Slovak Guarantee and Development Bank		D.99	50	0,05							50	0,05
Contribution to the capital of Air Traffic Services		D.99	13	0,01							13	0,01
Vaccination premium and negotiation bonus	640	D.7			28						28	0,00
Financial aid to vaccinated seniors	642	D.62			216	0,22	65	0,06			282	0,28
Others	630	P.2	43	0,05	70	0,07	29	0,03			142	0,14

Financing from EU resources			**413**	0,44	**381**	0,38	**196**	0,20			**990**	**1,02**
Direct support together without EU funds			**1771**	**1,90**	**3004**	**2,99**	**698**	**0,64**			**5474**	**5,53**
											0	**0,00**
p.m. Deferment of taxes and levies (without impact on the deficit)			**489**	**0,52**	**30**	**0,03**	**7**	**0,01**			**526**	**0,56**
Postponement of DPPO tax return			187	0,20							187	0,20
Deferral of income tax advance payments in case of a decrease in revenues exceeding 40%			249	0,27							249	0,27
Postponement of health contributions			6	0,01							6	0,01
Postponement of social security contributions			47	0,05	30	0,03	7	0,01			84	0,09
p. m. Bank guarantees (without direct effect on the deficit)			**645**	**0,64**	**187**	**0,19**					**831**	**0,83**
SZRB - contracted de minimis scheme			112	0,12	63	0,06					175	0,18
Eximbanka - contracted de minimis scheme			44	0,05	28	0,03					71	0,07
SIH - contracted de minimis scheme			0	0,00	0	0,00					0	0,00
Great scheme			489	0,52	96	0,10					584,9	0,62
p.m. Deferred installments (banking sector measure)			**489**	**0,52**	**96**	**0,10**					**585**	**0,62**
p.m. Transfers within public administration			**979**	**1,05**	**334**	**0,33**					**1 313**	**1,38**
Transfers to ŽSR, ŽSSK and NDS			120	0,13							120	0,13
Returnable fin. assistance to municipalities			152	0,16							152	0,16
Contribution to General Health insurance company			198	0,21							198	0,21
Transfer to Social Insurance company			459	0,49	300	0,30					759	0,79
Various increased current transfers for other public administration entities			50	0,05	34						84	0,05
All measures together			**4 786**	**5,07**	**4 032**	**4,02**	**900**	**0,82**	**155**	**0,13**	**9873**	**10,04**

** The impact of PN and OČR is quantified through the increase in benefits compared to 2019, when indexing the basis for the calculation for 2021 and 2022. Thus, some PN and OČR, which were not classified as pandemic, are also included.

Source: MoF SR

Annex 3 - One-off and temporary measures

The Stability Programme envisages the following one-off and temporary measures over the horizon 2021-2026.

TABLE 36 – List of one-off and temporary measures

	(ESA 2010, mil. eur)	2021	2022	2023	2024	2025	2026
1	Government measures against the COVID-19 pandemic	-3385	-894	-155	-	-	-
2	Financing measures related to the pandemic from EU sources	381	196	-	-	-	-
3	Special levy to the EU - undervalued customs clearance of goods from III. countries	-527	-	-	-	-	-
4	Expenses caused by the war in Ukraine	-	-194	-100	-	-	-
5	One-off support for people at risk of inflation	-	-112	-	-	-	-
6	Payment of 14th pensions	-	-208	-	-	-	-
7	Subsidies for social services		-20				
8	Capping electricity and gas prices for unregulated businesses		-77	-165			
9	Capping electricity and gas prices for regulated businesses		-	-235			
10	Support of energy-intensive businesses		-40	-40			
11	Agricultural support primary production and storage of agricultural products. primary production		-11	-50			
12	Capping gas prices for households			-1462			
13	Capping heat prices for households			-329			
14	Capping electricity prices for households (distribution and system fees)			-379			
15	Support of selected vulnerable customers (gas + electricity)			-347			
16	Other, as yet unspecified measures			-24,5			
17	Reimbursement of scheme costs from unused EU funds			1000			
18	Temporary income from the EU regulation on excessive profits		412	209			
19	Price ceilings for electricity producers			107			
20	Temporary income from a special levy for Water management construction			150			
21	Payment of VAT to the construction concessionaire D4/R7	130	-	-	-	-	-
	Total	**-3402**	**-948**	**-1820,5**	**0**	**0**	**0**

Source: MoF SR

Discretionary revenue measures

Discretionary revenue measures are defined by the EC methodology as measures of a legislative nature with an impact on government revenue. They are evaluated using the additional impacts (marginal changes) of these measures. A distinction is made as to whether the measure is permanent or one-off. Permanent structural measures are recorded with an impact in the first year (at the time of entry into force) and without impact in the other years. Macroeconomic developments in subsequent years are not taken into account. If there are differential impacts due to a postponement of the measure, only a marginal, year-on-year change is recorded.[77] For one-off revenue measures, an impact in one year and a shortfall of the same amount in the following year is recorded - the total impact in two consecutive years is zero. A similar methodology is used for general government expenditure.

TABLE 37 – Discrecionary revenue measures - yoy incremental changes (mil. euros, ESA2010)

Description of the measure	2021	2022	2023	2024	2025	2026
Introduction/amendment of 13th and 14th salary	20,6	0,0	0,0	0,0	0,0	0,0
Change of VAT collection efficiency	341,0	-99,0	0,0	0,0	0,0	0,0
Measures related to tobacco products	120,5	75,6	63,2	0,0	0,0	0,0
Fully-funded pension pillar (II. pension pillar) and its temporary pause	-27,8	-90,2	0,0	0,0	-44,4	0,0
Reform of the second pension pillar	0,0	0,0	-11,0	-31,5	0,0	0,0
Special levy rate in regulated sectors	-16,9	0,0	0,0	0,0	0,0	0,0
Special levy in banking sector and his abolition in mid 2020	-120,2	0,0	0,0	0,0	0,0	0,0
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	-11,0	0,0	0,0	0,0	0,0	0,0
Carry-forward tax losses for other non-microcompanies (max. 50 % tax base in 5 years)	36,0	-6,0	0,0	0,0	0,0	0,0
Individual volume of depreciation of assets for microcompanies	-15,0	0,0	0,0	0,0	0,0	0,0
15 % rate of corporate income tax for companies with turnover up to 100 th., 21% for others	19,2	0,0	0,0	0,0	0,0	0,0
Non-cash benefit for employees for transport (100 euro)	-12,5	0,0	0,0	0,0	0,0	0,0
Changes of tax rates of Property taxes	12,6	2,3	42,4	0,0	0,0	0,0
Suspension of tax audits and tax proceedings	13,0	0,0	0,0	0,0	0,0	0,0
General pardon on social and health contributions (closed business)	57,4	0,0	0,0	0,0	0,0	0,0
Possibility to include losses from 2014 (loss-carry forward) already in the current 2019 tax returns	27,6	0,0	0,0	0,0	0,0	0,0
Deffered of social insurance in 2020 and 2021	13,6	26,9	4,8	-0,9	-4,6	0,0
Temporary exemption of respirators FFP2 and FFP3 from VAT	-10,3	10,3	0,0	0,0	0,0	0,0
Abolition of the VAT exemption for shipments up to 22 euros from third countries	11,0	12,0	0,0	0,0	0,0	0,0
Changes in R&D tax incentives	0,0	14,8	-14,9	0,0	0,0	0,0
Implementation of accounting standard IFRS 17 for insurance companies	0,0	0,0	23,2	0,0	0,0	0,0
Introduction of a seasonal contribution-deductible item for social contributions	0,0	0,0	-11,5	0,0	0,0	0,0
Temporary revenue from the EU Excess Profits Regulation	0,0	411,8	-202,8	-209,0	0,0	0,0
Temporary revenue from the special levy for "Vodohospodárska výstavba	0,0	0,0	150,0	-150,0	0,0	0,0
Price caps for electricity producers	0,0	0,0	106,8	-101,1	-5,7	0,0
Abolition of "RTVS" licence fees	0,0	0,0	-34,8	-41,3	0,0	0,0
Reduced VAT on catering, sports venues, ski lifts, indoor and outdoor sports and fitness facilities	0,0	0,0	-205,1	0,0	0,0	0,0
Increase in excise duty on alcohol	0,0	0,0	51,2	27,3	0,0	0,0
Increase in gambling levy	0,0	0,0	19,9	0,0	0,0	0,0
Increase in the price of motorway vignettes	0,0	0,0	20,7	0,0	0,0	0,0
Minimum health levy premiums	0,0	0,0	13,9	0,0	0,0	0,0
Prohibition of landfilling of municipal waste without pre-treatment	0,0	0,0	0,0	-15,1	0,0	0,0
Increased waste tax	0,0	0,0	38,3	0,0	0,0	0,0
Modification of the motor vehicle registration fee	0,0	0,0	-13,0	-14,0	0,0	0,0
Total	**458,8**	**358,5**	**41,3**	**535,6**	**54,7**	**0,0**

Source: MoF SR

[77] Illustration of the impact of marginal changes: the total impact of the measure is 200. Since it is introduced in the middle of the year, the impact in that year is 100. In the following year the impact increases to 200, only the difference of the two impacts, i.e. 100, is marginally recorded. Cumulatively, the total impact is 200, it is just spread over two years.

Discretionary expenditure measures

TABLE 38 – Discretionary expenditure measures - yoy incremental changes (mil. euros, ESA2010)

Description of the measure	2021	2022	2023	2024	2025	2026
Slowdown in growth of retirement age	12	2	16	-18	-2	0
Minimum pensions freeze (2021), unfreezing in 2023	-59	-18	0	0	0	0
Introduction of mandatory education in kindergartens for children above 5	47	0	0	0	0	0
Increase of maintenance funds of 1st class roads managed by Slovak Road Administration	60	-10	0	-10	0	0
Early retirement for persons who raised children (born in 1957-1965)	105	31	-48	1	-7	-14
Introduction of a new pregnancy allowance and pregnancy scholarship	33	21	0	0	0	0
Cancellation of supplementary payments for medicines for children, pensioners and people with disabilities	37	0	0	0	0	0
COVID expenditure	1278	-2263	-541	-155	0	0
Introduction of permanent kurzarbeit scheme	0	37	*-17*	*0*	*0*	*0*
Establishment of SLOVAKIA TRAVEL agency	5	16	0	0	0	0
Increase in defence expenditure to 2% GDP from 2023	*0*	*0*	*299*	*0*	*0*	*0*
Time mismatch of deliveries (accrual) of military equipment	*0*	*-574*	*23*	*412*	*890*	*11*
Increase in reimbursement of long-term care by the Social Insurance Institution	0	11	14	0	0	0
Expenditure caused by the war in Ukraine	0	215	-115	-100	0	0
Changes in the I. pillar of the pension system	0	0	271	0	0	0
Increased child allowance	0	24	373	0	0	0
Doubling of tax credit for parents with children below 15 years of age	26	73	0	0	0	0
Increase of the tax bonus to €100 and temporarily to €140	0	115	657	0	-373	0
Introduction of subsidy promoting extra-curricular activities for children	0	0	0	0	480	0
100 EUR transfer to families (one-time increase of child allowance)	0	23	-23	0	0	0
100 EUR transfer to citizens in material need (one-time transfer)	0	83	-83	0	0	0
Increased transfer from HIC to social service facilities	0	20	-20	0	0	0
14th pension (one-time transfer)	0	208	-208	0	0	0
Total compensation for rising energy prices	0	128	1904	-2032	0	0
Collective bargaining for healthcare workers	0	25	398	-25	0	-39
Additional financing of the outpatient sector	0	0	190	0	0	0
Introduction of two weeks' paternity leave	0	3	16	0	0	0
Stabilisation allowance for social services workers	0	0	60	-60	0	0
Judicial reform and administrative courts	0	0	33	0	-13	0
Law on construction, spatial planning and the establishment of a central construction authority	0	0	68	2	0	0
Measure to introduce free lunches	0	0	100	107	0	0
Costs associated with the Valaliky industrial park	0	58	75	-38	-94	0
Total	**1546**	**-1773**	**3444**	**-1916**	**881**	**-43**

Source: MoF SR

Annex 4 - Forecast of general government gross debt by cash flow

In terms of cash developments, gross debt will be under pressure by 2026, driven by the need to finance government budget deficits. The main driver of nominal debt growth in the coming years will be the ever-present cash deficits. To cover them, the government's cash reserve will be used according to the current issuance plan. However, without the necessary measures, debt will increase and return to above 60% of GDP by the end of the forecast horizon. Other government entities, in particular local government and railway companies, will also contribute to debt growth. Methodological adjustments, in particular the discount on bond issuance, will also negatively affect the value of debt at the budget horizon. Indeed, the current environment of higher interest rates, with low sovereign bond coupons, increases the pressure on the required issuance discounts, which has a negative impact on gross debt. Conversely, slowing but still present inflation will contribute positively to debt-to-GDP over the entire horizon via nominal economic growth.

TABLE 39 – Cash developments in nominal gross public debt (mil. euros)

	2021	2022	2023	2024	2025	2026
A. GG gross debt (as of 1.1.)	**54 993**	**61 237**	**63 379**	**70 227**	**76 175**	**82 080**
B. y-o-y gross debt change	6 244	2 141	6 848	5 948	5 905	8 334
- state budget deficit (cash accounting)	7 014	4 525	6 659	5 702	6 788	8 142
- of which SR contribution to ESM	0	0	-1	0	0	0
- State Treasury funds used to finance state needs	-2 365	-954	-942	-999	-1 180	-631
- indebtedness of other GG entities	-153	117	38	144	109	136
of which: municipalities	18	149	7	42	33	33
of which: NDS	-43	-29	0	0	0	0
of which: Railways of the SR (ŽSR) and ŽSSK	-140	-62	-42	66	67	100
of which: municipal public transportation companies	-6	44	35	13	10	3
- change in guarantees within EFSF	0	0	0	0	0	0
- issuance discount	18	542	1 179	1 116	241	721
- discount at maturity	-2	-11	-49	-15	-53	-33
- others*	1 732	-2 078	-38	0	0	0
C. Gross debt of general government (as of 31 December) (A+B)	**61 237**	**63 379**	**70 227**	**76 175**	**82 080**	**90 414**
in % of GDP	**61,0**	**57,8**	**58,7**	**59,3**	**59,8**	**63,1**

Source: MoF SR

Note: Positive items increase the gross debt as of 31.12. of the respective year, negative items reduce the debt.

** In 2021 and 2022, in particular, changes in the deposits of entities outside the GG sector in the State Treasury, accrual items and differences between the analytical forecast and the notified Maastricht debt in the ESA 2010 methodology.*

Annex 5 - Assumptions for calculating sustainability indicators

In analysing medium- and long-term sustainability, the MoF worked with the current data from the Stability Programme for 2023-2026 (for the estimation of the general government balance and the general government debt in the base year 2023) and the latest update of age-sensitive expenditure projections for 2021, updated to include the pension reform. In projections the MoF includes the impact of Pillar II not only on the expenditure side but also on the revenue side.[78] The calculation assumptions and the analytical analysis of the contributions of the individual factors to the resulting S1 and S2 values are presented in the tables below.

TABLE 40 – MoF SR assumptions for calculation of S1 indicator

	Baseline (t_0)	Primary structural balance	Debt (t_0)	Consolidation period*	End year (t_1)	Debt (t_1)	2nd pillar	S1 outcome	Sustainability assesment
Expected 2023	2023	-3,4	58,7	2024 to 2028	2036	60	**YES**	**3,5**	**high**
Scenario after completing the objectives	2026	-0,9	57,7	2027 to 2031	2039	60	**YES**	**0,7**	**medium**
Fiscal framework	2026	-3,6	63,1	2027 to 2031	2039	60	**YES**	**4,2**	**high**

Source: MoF SR

TABLE 41 – S1 indicator breakdown

	E 2023	Scenario after completing the objectives	Fiscal framework
S1 Indicator (% of GDP)	**3,5**	**0,7**	**4,2**
of which:			
Initial budgetary position	1,4	-0,6	2,0
Cost of delaying adjustment	0,5	0,1	0,6
Debt requirement	-0,1	-0,2	0,3
Long-term care expenditure	1,8	1,4	1,4
Second pillar	0	0,0	0

Source: MoF SR

TABLE 42 – MoF SR assumptions for calculation of S2 indicator

	Baseline (t_0)	Primary structural balance	Debt (t_0)	2nd pillar	S2 outcome	Sustainability assesment
Expected 2023	2023	-3,4	58,7	**YES**	**9,2**	**high**
Scenario after completing the objectives	2026	-0,9	57,7	**YES**	**6,1**	**high**
Fiscal framework	2026	-3,6	63,1	**YES**	**8,9**	**high**

Source: MoF SR

TABLE 43 – S2 indicator breakdown

	E 2023	Scenario after completing the objectives	Fiscal framework
S2 Indicator (% of GDP)	**9,2**	**6,1**	**8,9**
of which:			
Initial budgetary position	3,4	1,2	4,0
Pension expenditures	3,0	2,5	2,5
Health & Long-term care expenditures	3,0	2,8	2,8
Education & Unemployment expenditures	0,1	0,0	0,0
Second pillar	-0,3	-0,4	-0,4

Source: MoF SR

[78] The overall impact of Pillar II revenues on the sustainability assessment is slightly negative until 2032. In the long run, it is slightly positive. The MoF considers this approach to be more correct, as changes to the funded schemes have an impact on both pension expenditure and income.

Annex 6 - Update of the target balance corresponding to the fulfilment of the expenditure limits

In December 2022, the Council for Budget Responsibility (CBR) calculated the spending limits for the years 2023 to 2025. From them, the nominal deficits corresponding to the fulfillment of these limits were derived (line 1). Considering the proceedings of the Committee for Tax Forecasts (VpDP), as well as the adoption of legislative measures affecting the amount of public revenues, the Ministry of Finance of the Slovak Republic estimated the updated balance corresponding to the fulfillment of expenditure limits. The recalculation is only indicative, as an entry into the discussion on setting the budgetary deficit targets. The balance estimated in this way (line 6) was used for the forecast of gross debt on the budget horizon and compared with the request of the EC to ensure the downward trajectory of gross debt, or keeping it below 60% of GDP. According to the legislation, CBR will officially update the limit by June 30. At the same time, for the new government that will emerge from the September elections, the spending limit will be recalculated completely, taking into account the current state of long-term sustainability at that time.

TABLE 44 – Update of the targeted balance corresponding to the fulfillment of expenditure limits (in % of GDP)

	2023	2024	2025	2026	Note
1) Balance corresponding to the fulfillment of spending limits	-6,49	-4,04	-3,42	-3,35	Calculated by RRZ in December 2022. For 2026, the balance is estimated based on the year on year development of the NPC scenario
2) Update of the Committee for Tax Forecasts (VpDP) - all impacts	-0,29	-0,25	-0,42		Difference in forecasts between April 2023 and September 2022 (tax and non-tax revenues)
3a) VpDP update - effects of legislation	0,25	-0,03	-0,1		Difference in forecasts between April 2023 and September 2022 (tax and non-tax revenues)
3b) Updating legislation save the VpDP	-0,01	-0,02	-0,02		Adopted legislation affecting public administration revenues save the VpDP.
4) Updating the forecast of interest	0,12	0,04	0,05		Difference in forecasts between April 2023 and September 2022
5) New targeted balance corresponding to the fulfillment of spending limits (without updating the limit) = 1+2+4		-4,26	-3,79		
6) New targeted balance corresponding to the fulfillment of ex. limits (updated by new legislation) = 1+2+4-3	-6,49	**-4,21**	**-3,67**	-3,61	

Source: MoF SR