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COVER NOTE

From: Peter Palus, Financial Counsellor, Permanent Representation of the Slovak Republic to the EU

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To: Mr Carsten PILLATH, Director General, Council of the European Union

Subject: Slovakia:
Draft Budgetary Plan of Slovakia for 2015, as laid down in Article 6(1) of Reg. (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

Delegations will find attached the third part of Draft Budgetary Plan of Slovakia for 2015 in English.

This document is aimed for discussion in the **Eurogroup**.



IV. Linking the budgetary plan with the objectives of the Growth and Employment Strategy and Country-specific Recommendations of the European Commission

The government prepared a set of structural measures focused on supporting economic growth and employment. Measures with a quantified impact on the budget are described in Chapter III.4. Tables 6a and 6b in Annex 5 respond to the specific recommendations for the Slovak Republic (CSR) and the goals of the EU's growth and employment strategy (Europe 2020).

Primary structural and expenditure measures are focused on supporting growth and employment while increasing the efficiency of public expenditure. Among the most significant from the perspective of expenditures include ESO public administration reform, increasing efficiency in the healthcare sector and the construction of new nurseries. A majority of structural measures are focused on the labour market, as the greatest current challenge of the Slovak economy. The health contribution allowance and concurrence of material need benefits and wages should help increase employment among low-income employees. The minimum pension and Christmas bonus contribute to a decrease in social differences.

IV.1. Employment

The government is planning significant reforms on the labour market and in social areas. The health contribution allowance and concurrence of material need benefits and wages should help increase employment among low-income employees. The minimum pension, Christmas bonus and more targeted social benefits contribute to greater fairness in the social system. Increasing the discounts on travel expenses for work purposes increases the mobility of residents and decreases regional differences.

The **health contribution allowance** covering health insurance deductions is designed to increase the supply of and demand for labour by increasing net wages and decreasing the cost of labour. This tax deduction will be gradually phased out as income increases (the complete loss of such claim will depend on the final health contribution tax deduction parameters). The estimated number of affected employees as well as the fiscal effects will also depend on the configuration of the final parameters.

In order to support the long-term unemployed, **concurrence of material need benefits and wages will be introduced in 2015**. Long-term unemployed individuals or inactive job seekers will be eligible for this benefit after taking up a job (with at least half-time employment) if they are also the member of a household that receives material need assistance or that no longer receives such assistance as a result of being employed. Income from employment has to be at least at the amount of the minimum wage and at the maximum amount of two times the minimum wage. Such an employee will receive €126.44 over the first six months with this amount dropping to €63.07 for the later half year. Currently single individual loses claim to material need assistance immediately after being employed, even at the level of minimum wage.

Social security contribution discounts for students working on the basis of a simple work agreement **will be expanded**. The maximum monthly income for which social insurance contributions would not be paid on the basis of a temporary work agreement for students would thereby be increased to €200. Currently two limits are in place, €68 and €169, depending on the age of the student. The proposed simplification of the current system offers the same advantage to all students. A total of 185,000 temporary work agreements for students are



registered based on current data provided by the Social Insurance Agency (2013). A fiscal impact of €2.2 million is estimated in the first year that this measure is in place.

Beginning in November 2014 several groups of residents **will be afforded free travel on railways**. Free travel ticket will be provided to children, pupils, students under the age of 26 and pensioners. The estimated cost of this measure equals to €13 million.

IV.2. Education and support for research and development

Education and support for research and development remain priority areas for the government. The objective is primarily to expand capacities in preschools and to gradually increase teachers' wages. The already proven system of teacher assistants assigned to disadvantaged students will be expanded. More complex support for research and development and a set of instruments for technology start-ups should reduce lagging in innovation performance in Slovakia.

Following **wage increases in regional education** by 5% in 2013 and 2014, the issue of wage increases in the following years has not yet been closed. Negotiations on a collective bargaining agreement of a higher degree for 2015 are currently under way.

The government has also committed to expanding **capacity in preschool facilities** with the objective of increasing the employment of women and integrating children from socially-disadvantaged environments.

A component of the new Specialised Education Act will include the introduction of **dual education**. Employers will also receive tax breaks when providing students of specialised schools with opportunities to earn practical experience. This will increase the motivation of employers to provide practical experience and create better prerequisites for the employment of graduates in fulltime jobs.

The allocation for **teacher assistants** in regional education will be increased by €7 million in 2015. Such funds are to cover wage expenses for new teacher assistants who will be assigned as needed to schools with disadvantaged children. This should completely cover demand from schools.

The introduction of a deduction for research and development costs from the tax base will have a positive effect on **investments into research** and development in Slovakia. Measures include a direct deduction of 25% of the total amount of such expenditure, along with 25% of the year-on-year increase in expenditure and 25% of the expenditure on wages for newly hired graduates.

IV.3. Support for the business environment and growth

The government has prepared a comprehensive **set of instruments to support technology start-ups** to support the development and commercialisation of cutting edge technologies and highly innovative products and services. The focus is on ideas and solutions that are the result of innovations and business ideas from individual, whereby support is limited to the period just before the establishment of a company on through the third year following its establishment. New and existing instruments for improving cash flows, access to financing and supporting services (consulting, mentoring, incubators and co-working spaces) are also made available to companies through these measures. Likewise state support should be made more transparent to render it more administratively accessible and less burdensome for entrepreneurs who are just getting started.



V. Comparison with the Stability Programme

The Stability Programme is based on data from the Ministry of Finance's official macroeconomic forecast from January 2014, which anticipated economic growth of 2.3% in 2014. The updated forecast from September 2014, which was used to compile the general government budget proposal, considers slightly higher economic growth in 2014 and lower growth in 2015. Additionally, the forecast from September 2014 was completed using the 2010 methodology for national accounts.

No.	Indicator	Unit of measure	Forecast (Stability Programme)*		Forecast (Budget proposal)	
			2014	2015	2014	2015
1	GDP, at current prices	€ billion	74.5	77.8	75.1	77.9
2	GDP, at constant prices	%	2.3	3.0	2.4	2.6
3	Final consumption of households and non-profits institutions serving households (NPISH)	%	1.2	2.2	2.9	2.4
4	Final general government consumption	%	1.9	-1.4	2.0	-3.8
5	Gross fixed capital formation	%	1.8	2.4	4.8	2.7
6	Exports of goods and services	%	4.0	4.5	4.6	4.3
7	Imports of goods and services	%	3.6	3.6	5.7	3.4
8	Average monthly wage in the economy (nominal growth)	%	2.5	3.5	4.2	3.3
9	Average employment growth, Labour Force Sample Survey (LFSS)	%	0.3	0.9	0.8	0.5
10	Average employment growth, ESA 2010	%	0.3	0.6	1.1	0.4
11	Average unemployment rate, LFSS	%	14.0	13.2	13.5	13.0
12	Average registered unemployment rate	%	13.7	13.0	12.8	12.3
13	Harmonised index of consumer prices (HICP)	%	0.8	2.1	0.1	1.0
14	Current account balance (percentage of GDP)	%	4.5	5.3	0.7	1.2

*) In ESA 95 methodology.

Source: MoF SR

An improvement was noted in the general government balance in 2013 with unchanged budget targets for 2014 and 2015 in comparison with the Stability Programme. In the no-policy-change scenario, the difference is negligible and is caused by changes in macroeconomic assumptions.

	ESA Code	2013	2014	2015
		% of GDP	% of GDP	% of GDP
Target general government balances	B.9			
Stability Programme		-2.8	-2.6	-2.5
Draft Budgetary Plan		-2.6	-2.6	-2.5
Difference		0.1	0.0	0.0
General government balances based on no-policy-change scenario	B.9			
Stability Programme		-2.8	-2.8	-3.7
Draft Budgetary Plan		-2.6	-2.9	-3.5
Difference		0.1	-0.1	0.1

Source: MoF SR



ANNEXES

Annex 1: One-off measures for the purposes of calculating the structural balance

Based on the definition provided in the General Government Budgeting Rules Act, a one-off and temporary effect is understood as any such revenue or expenditure that is not permanent or recurrent in nature and that has a limited impact on the general government's budget balance. The Ministry of Finance of the Slovak Republic published a manual³³ defining detailed rules for the recording of individual measures pursuant to European Commission methodology. In the future the Ministry of Finance plans to cooperate with the Council for Budgetary Responsibility (RRZ) in preparing unified national methodology for identifying one-off and temporary effects.

A reassessment of one-off measures took place this year due to the change in ESA 2010 methodology. The change affected the transfer of accumulated assets into the 2nd pillar into a pay-as-you-go system, which is no longer considered government revenues. The following one-off measures were identified for 2013 to 2017:

1. In 2014 the Telecommunications Office reported an extraordinary revenue from the proceeds of the electronic auction of available frequency bands to operators known as the digital dividend. The final revenue from the digital dividend was €164 million.
2. A repayable financial assistance was granted to the Cargo Slovakia, a. s. railway company from state financial assets in 2009. This transaction had an impact on the deficit and general government debt in 2009. Completed instalments, pursuant to ESA 2010 methodology, are considered a capital transfer with a positive effect on the general government budget deficit. Only extraordinary extra instalments on a provided repayable financial assistance (Resolution of the Government of the Slovak Republic No. 390/2013) are considered one-off effects given their extraordinary amount and the lack of recurrence in other years.
3. The legal action conducted by the Antimonopoly Office against construction companies suspected of operating a cartel came to a close at the beginning of 2014. The verdict was upheld by the Supreme Court of the Slovak Republic.

	2013	2014 B	2014 E	2015	2016	2017
	-	-	-	-	-	-
Digital dividend	-	250	164	-	-	-
Repayment of Cargo repayable financial assistance (capital transfer in 2009)	-	78	78	-	-	-
Antimonopoly Office fine - construction cartel	-	-	45	-	-	-
TOTAL	-	328	287	-	-	-

(+) improvement in the balance, (-) worsening of the balance

Source: MoF SR

³³ <https://www.finance.gov.sk/Default.aspx?CatID=9595>



Annex 2: Investment clause

The table below provides a current estimate of expenditure for co-financing the Operational Programmes included in the investment exception.

Table A: Co-financing expenditures by Operational Programme (€ million)		
	2014 E	2015
2nd programming period, of which	361.1	312.6
ERDF	169.1	109.1
ESF	48.9	44.5
Cohesion Fund	105.3	114.2
EAGF	1.1	0.0
EAFRD	36.0	44.5
EFF	0.7	0.3
3rd programming period, of which	71.8	261.7
ERDF	0.1	94.0
ESF	0.6	33.5
Cohesion Fund	0.0	55.9
EAGF	54.0	25.3
EAFRD	17.1	52.6
EMFF	0.0	0.3
Structural and Cohesion Funds, total	324.0	451.3
Agricultural funds, total	108.9	123.0
Other co-financing to EU funds	15.6	98.6
National co-financing, total	448.4	672.8
% of GDP	0.6	0.9

Source: MoF SR

Annex 3: Assumptions for the quantification of revenue measures**Changes in depreciation of property***Introduction of a new, 6th depreciation group with a depreciation period of 40 years*

Quantification is based on the annual data provided by the Statistical Office of the Slovak Republic on the consumption of fixed capital (depreciation) indexed for 2015 - 2017. The distribution of the overall level of depreciation into individual depreciation groups is based on data from international comparison (CBT - Corporate Tax Ranking, Oxford University). Another reference material is the share of office buildings in the total number of buildings within the depreciation group with a depreciation period of 20 years.

Retention of accelerated depreciation for the 2nd and new 3rd depreciation group

Quantification is based on the difference between technical straight-line and accelerated depreciation in the configured parameters according to the amended legislation. Calculation is based on the annual data provided by the Statistical Office of the Slovak Republic on the consumption of fixed capital (depreciation) indexed for 2015 - 2017. The distribution of the overall level of depreciation into individual depreciation groups is based on data from international comparison and an expert estimation from the Ministry of Finance.

Unification of the depreciation of fixed assets acquired through financial lease with other forms of acquiring fixed assets.

Quantification is based on the differences between the means of depreciating financial leases and standard forms of depreciation while accepting additional assumptions regarding the share of leasing depreciation. The calculation uses annual data from the Statistical Office of the Slovak Republic on the consumption of fixed capital (depreciation) indexed for 2015 - 2017.

Introduction of the obligation to include undeducted VAT for taxpayers who apply claim to deduct such amounts using a coefficient into the input price of fixed and intangible assets.

The calculation is based on the use of individual VAT tax declarations for 2013 and specifically data on the share of the output of firms subjected to VAT on total output. The share of depreciation attributed to the individual depreciation groups was defined on the basis of an expert estimation using data from an international comparison of depreciation groups.

Thin capitalisation rules

Quantification is based on currently available individual tax declarations for the 2012 tax year. It uses data on the amount of interest from loans and borrowings in transactions involving foreign dependants and data on EBITDA (earnings before interest, taxes, depreciation and amortisation) from individual income statements.

Measures to increase tax collection effectiveness*Expansion of obligation to maintain records of revenues in electronic cash registers (ECR)*

Quantification of the effects of the expanded obligation to use ECR on VAT and corporate income tax revenues is based on the following assumptions:

- The introduction of ECR in individual sectors shall contribute to decreasing the VAT shortfall by 10% (the sector tax shortfall was estimated by the Institute for Financial Policy in cooperation with the International Monetary Fund)



- In selected sectors with a lower number of transactions and higher amounts, for instance architectural services, the decrease in the tax shortfall is expected at a level of 5%. The lower estimate is also based on the assumption that the service users for these sectors will not have the obligation to furnish a cash register receipt (or proof of payment) in the case of administrative activities connected to the given service (e.g. building permission).
- Additional corporate income tax revenues are based on the estimate of expected VAT revenues. These revenues were estimated as a multiple of the share of corporate income taxes in VAT and the expected VAT revenues as a result of ECR introduction.
- The differences in the reporting from relevant medical offices and household expenditures on these services were the driving reason for the introduction of ECR for out-patient services provided by general practitioners, specialised physicians and dentists. The difference between household expenditure for health services (according to the Statistical Office of the Slovak Republic) and revenues reported by relevant medical offices (according to Ministry of Health data) represented approximately €214 million in 2011.

The estimated positive effect of expanding the obligation to maintain records of revenues in electronic cash registers with full-year applicability is expected to generate €72 million.

Introduction of a withholding tax for pharmaceutical companies on financial considerations provided to physicians.

Quantification of the effect is based on data from pharmaceutical companies regarding financial and non-financial considerations from 2011 to 2013 taking into account the actual amounts of tax exempt considerations (registration fees for education, etc.).

Deduction of research and development expenditure

The calculation is based on the current level of applying domestic expenditure on research and development indexed for 2015 - 2017 on the basis of available Eurostat data for the Slovak Republic.



Annex 4: Application of the constitutional Fiscal Responsibility Act

The following section describes the calculation of consolidated general government expenditures based on the Act on Budgetary Responsibility.

Given current assumptions, expenditure shall increase in 2015 compared to the approved budget for 2014 given **the addition of new entities into the public sector**. Reclassification of the Railways of the Slovak Republic (ŽSR) occurred in the spring of 2014. The general government budget proposal for 2015 - 2017 includes new general government entities that will be reclassified into this sector in the autumn of 2014 for the first time. Such entities include the National Motorway Company (NDS), the transportation companies in Bratislava, Košice, Banská Bystrica and Žilina, the Emergency Oil Stock Agency (EOSA) and Exim Banka. This methodology change automatically increases the level of consolidated general government expenditure in 2015 compared to the approved budget for 2014 without any government interference into budgetary policy. The total effect on the consolidated expenditures from these entities totals €625 million in 2015. Given to the on-going autumn Eurostat notification round based on the new methodology and the lack of financial statements for healthcare facilities, the government's budget proposal anticipates negative fiscal performance from healthcare facilities amounting to €50 million in 2015.

The second important factor in increasing consolidated expenditures is the transition to ESA 2010 methodology and the resulting **differences in reporting of specific items** with a total effect of €496 million in 2015. This total of €496 million includes tax credits amounting to €257 million. The remainder includes research and development expenditure amounting to €218 million. Another methodology change is the change in the calculation of imputed social contributions amounting to €17 million and the redirection of contributions to the Deposit Protection Fund amounting to €3 million through state budget revenue and expenditure (without any effect on the general government budget deficit).

The general government budgets for 2014 and 2015 are incomparable, however, due to the reclassification of several entities. For this reason the approved budget for 2014 can only be compared to the 2015 budget net of these entities and additional changes resulting from ESA 2010.

Table A: Consolidated general government expenditure pursuant to the Act on Budgetary Responsibility (€ million)

	General government budget 2014 - 2016	General government budget proposal 2015 - 2017		
	2014	2015	2016	2017
1 Nominal consolidated general government expenditures	28,050	29,622	29,363	30,107
2 Expenditures for servicing state debt	1,341	1,256	1,271	1,272
3 EU funds	1,198	1,682	1,117	1,389
4 State budget funds for co-financing Slovak and EU programmes	640	673	489	541
5 Transfers to the EU	683	738	750	746
6 Expenditures to remedy damages from natural disasters	11	11	11	11
7 Adjusted expenditures* (1-2-3-4-5-6)	24,177	25,262	25,725	26,148
8 Effect of reclassification of entities to the general government and ESA 2010 methodology	-	1,121	1,111	1,143
9 Volume of required decrease in consolidated expenditures (7(t)-7(2014))	0	1,086	1,548	1,971
10 Volume of required decrease net of ESA 2010 effects (9-8)		-35	437	828
11 in % of GDP		-0.04	0.5	1.0

Note: General government budget 2014-2016 in ESA 95 and general government budget proposal 2015-2017 in ESA 2010

Source: MoF SR

* Basis for blocking pursuant to Article 12 (5) (c)



Once the 55% debt threshold is exceeded, the individual **municipalities and higher territorial units are obliged to approve budget for the following year with expenditures capped at a maximum of the budgeted expenditures for the previous year** (except for EU funds and co-financing and expenditures to remedy damages caused by natural disasters). This means that municipalities and higher territorial units cannot approve expenditures in their 2015 budgets that are higher than the original budgets for 2014 approved at the end of 2013.

Anticipated local government expenditures based on the government's budget proposal respect the constitutional debt brake placed on the local governments as applied during their budget approval processes for 2014. Municipal expenditures on a consolidated basis in 2015 amounting to €3,047 million in 2015, €3,002 million in 2016 and €2,996 million in 2017 are included in nominal consolidated general government expenditures. Higher territorial unit expenditures amount €765 million in 2015, €759 million in 2016 and €756 million in 2017.



Annex 5: Required Tables

Table 0i - Basic assumptions			
	2013	2014	2015
Short-term interest rate (annual average)	0,2	0,2	0,1
Long-term interest rate (annual average)	2,6	2,1	2,3
USD/€ exchange rate (average)	1,328	1,340	1,271
World GDP growth	3,2	3,4	4,0
Nominal effective exchange rate (change in %)	-0,9	-1,5	0,3
EA GDP growth	-0,4	0,7	1,3
Growth of relevant foreign markets	0,5	2,0	1,8
World imports growth	3,0	4,4	6,1
Oil prices (Brent, USD/barrel)	108,8	107,3	108,8

Source: MoF SR

Table 0ii - Main assumptions			
	2013	2014	2015
1. External environment			
Oil prices (€)	81,9	80,1	84,0
2. Fiscal policy			
Net lending/net borrowing of the general government	-2,6	-2,9	-2,0
Gross debt of the general government	54,6	54,1	54,4
3. Monetary policy, financial sector			
Interest rates:			
3M Euribor (average)	0,2	0,2	0,1
Deposit rates	1,0	0,8	0,7
Yield to maturity of 10-year Slovak government bonds (average)	2,6	2,1	2,3
Evolution of deposits	3,1	4,8	5,0
4. Demographic trends			
Evolution of working-age population	0,3	-0,1	-0,1
Total dependency ratio	39,8	40,4	41,1

Source: MoF SR



Table 1.a - Macroeconomic overview					
	ESA Code	2013 Level	2013 rate of change	2014 rate of change	2015 rate of change
1. Real GDP	B1*g	66,9	1,4	2,4	2,6
of which					
1.1 Attributed to the estimated impact of aggregated budgetary measures on economic growth		-	-	-	0,5
2. Potential GDP		69,2	2,3	2,3	2,3
contributions:					
- labour		-	0,2	0,1	0,1
- capital		-	-0,1	0,1	0,2
- total factor productivity		-	2,2	2,1	2
3. Nominal GDP	B1*g	73,6	2,0	2,1	3,7
Components of real GDP					
4. Private final consumption expenditure	P.3	33,7	-0,7	2,9	2,4
5. Government final consumption expenditure	P.3	11,1	2,4	2,0	-3,8
6. Gross fixed capital formation	P.51g	14,4	-2,7	4,8	2,7
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-0,1	-0,1	0,5	0,4
8. Exports of goods and services	P.6	65,2	5,2	4,3	4,3
9. Imports of goods and services	P.7	56,7	3,8	5,7	3,4
Contributions to real GDP growth					
10. Final domestic demand		-	-0,6	2,8	1,2
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0,6	0,7	0,0
12. External balance of goods and services	B.11	-	1,8	-0,4	1,3

Source: MoF SR

Table 1.b - Price developments					
	ESA Code	2013 Level	2013 rate of change	2014 rate of change	2015 rate of change
1. GDP deflator		1,10	0,5	-0,4	1,1
2. Private consumption deflator		1,24	1,3	0,0	1,0
3. HICP		122,93	1,5	0,1	1,0
4. Public consumption deflator		1,2	1,1	0,4	1,5
5. Investment deflator		1,04	0,4	-0,7	1,3
6. Export price deflator (goods and services)		1,05	-1,9	-3,2	1,6
7. Import price deflator (goods and services)		1,15	-1,4	-3,5	1,8

Source: MoF SR



Table 1.c - Labour market developments

	ESA Code	2013	2013	2014	2015
		Level	rate of change	rate of change	rate of change
1. Employment, persons (thousands) [1]		2 192	-0,8	1,1	0,4
2. Employment, hours worked (million)[2]		3 881	-1,8	0,6	0,6
3. Unemployment rate (%) [3]			14,2	13,5	13,0
4. Labour productivity, persons (EUR) [4]		29 917	1,7	1,3	2,2
5. Labour productivity, hours worked (EUR) [5]		16,9	2,8	1,8	2,0
6. Compensation of employees (EUR million)	D.1	26 988	0,3	4,2	3,3
7. Compensation per employee (EUR)		12 311	1,1	3,2	2,8

[1] Occupied population, domestic concept national accounts definition.

Source: MoF SR

[2] National accounts definition.

[3] Harmonised definition, Eurostat; levels.

[4] Real GDP per person employed.

[5] Real GDP per hour worked.

Table 1.d - Sectoral balances (ESA 95, % of GDP)

	ESA Code	2013	2014	2015
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	3,5	2,4	2,9
of which:				
- Balance of goods and services		6,0	5,3	6,0
- Balance of primary incomes and transfers		-3,9	-4,5	-4,8
- Capital Account		1,4	1,6	1,7
2. Net lending/net borrowing of the private sector	B.9	6,1	5,3	4,9
3. Net lending/net borrowing of the general government	EDP B.9	-2,6	-2,9	-2,0
4. Statistical discrepancy		0,0	0,0	0,0

Source: MoF SR



Table 2a: General government budgetary targets broken down by subsector

	ESA code	2014 % GDP	2015 % GDP
Net lending (+) / net borrowing (-) (EDP B.9) by sub-sector			
1. General government	S.13	-2,9	-2,0
2. Central government	S.1311	-2,7	-2,4
3. State government	S.1312	-	-
4. Local government	S.1313	-0,1	0,3
5. Social security funds	S.1314	0,0	0,1
6. Interest expenditure	D.41	1,85	1,70
7. Primary balance (1+6)		-1,1	-0,3
8. One-off and other temporary measures		0,4	0,0
9. Real GDP growth (%)		2,4	2,6
10. Potential GDP growth (%)		2,3	2,3
contributions:			
- labour		0,1	0,1
- capital		0,1	0,2
- total factor productivity		2,1	2,0
11. Output gap (% of potential GDP)		-3,3	-3,0
12. Cyclical budgetary component		-1,3	-1,2
13. Cyclically-adjusted balance (1-12) (% of potential GDP)		-1,6	-0,8
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)		0,2	0,9
15. Structural balance (13-8) (% of potential GDP)		-2,0	-0,8

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

Source: MoF SR

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures of the general government

[5] Including those collected by the EU

Table 2b: General government debt development

	ESA code	2014	2015
1. Gross debt ¹		54,1	54,4
2. Change in gross debt		-0,5	0,3
Contribution to change in gross debt			
3. Primary balance		-1,1	-0,3
4. Interest expenditures	D.41	1,8	1,7
5. Stock-flow adjustment		-2,3	-0,2
of which:			
- Differences between cash and accruals ²		-0,1	0,0
- Net accumulation of financial assets ³		-2,4	-0,3
of which: privatisation proceeds		0,0	-1,3
- Valuation effect and other ⁴		0,1	0,0
p.m. Implicit interest rate on debt ⁵		3,4	3,3
Other relevant factors			
6. Liquid financial assets ⁶		3,7	4,5
7. Net financial debt (1-6)		50,4	49,8
8. Debt amortization (existing bonds) since the end of the previous year		4,8	3,8
9. Percentage of debt denominated in foreign currency		4,3	3,5
10. Average maturity [*]		6,7	6,8



Note: maturity of the government debt at the end of the year

Source: MvF SR

Table 2c: Contingent liabilities (% GDP)

	2013	2014	2015
Public guarantees	13,95	-	-
of which			
linked to the financial sector	0		

Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components

General government (S13)	ESA code	2014 % GDP	2015 % GDP
1. Total revenue at unchanged policies	TR	36,6	35,6
Of which			
1.1. Taxes on production and imports	D.2	10,5	10,0
1.2. Current taxes on income, wealth, etc.	D.5	6,5	6,3
1.3. Capital taxes	D.91	0,0	0,0
1.4. Social contributions	D.61	13,4	13,4
1.5. Property income	D.4	0,7	0,7
1.6. Other ¹		5,4	5,1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ²		30,4	29,8
2. Total expenditure at unchanged policies	TE	39,5	39,1
Of which			
2.1. Compensation of employees	D.1	7,2	7,1
2.2. Intermediate consumption	P.2	4,6	4,8
2.3. Social payments	D.62, D.632	18,4	18,0
of which Unemployment benefits ⁴		0,2	0,2
2.4. Interest expenditure	D.41	1,8	1,7
2.5. Subsidies	D.3	0,8	0,8
2.6. Gross fixed capital formation	P.51	3,5	3,3
2.7. Capital transfers	D.9	0,8	0,8
2.8. Other ⁵		2,4	2,6

Note.: Data for 2014 represent expected results



Table 4a: General government expenditure and revenue targets, broken down by main components			
General government (S13)	ESA code	2014 % GDP	2015 % GDP
1. Total revenue target	TR	36,6	36,0
Of which			
1.1. Taxes on production and imports	D.2	10,5	10,4
1.2. Current taxes on income, wealth, etc.	D.5	6,5	6,6
1.3. Capital taxes	D.91	-	-
1.4. Social contributions	D.61	13,4	13,2
1.5. Property income	D.4	0,7	0,7
1.6. Other ¹		5,4	5,1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ²		30,4	30,2
2. Total expenditure target	TE ³	39,5	38,0
Of which			
2.1. Compensation of employees	D.1	7,2	7,0
2.2. Intermediate consumption	P.2	4,6	4,6
2.3. Social payments	D.62 ⁴ , D.632	18,4	17,8
of which Unemployment benefits ⁴		0,2	0,2
2.4. Interest expenditure	D.41	1,8	1,7
2.5. Subsidies	D.3	0,8	0,8
2.6. Gross fixed capital formation	P.51	3,5	2,9
2.7. Capital transfers	D.9	0,8	0,7
2.8. Other ⁵		2,4	2,7

[1] P.11+P.12+P.131+D.39+D.7+D.9r (except D.91r)

[2] D.29p + D.4p (except D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.

Table 4b: Amounts to be excluded from the expenditure benchmark					
	ESA code	2013	2013	2014	2015
		mill. eur	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		957	1,3	1,9	2,2
2. Cyclical unemployment benefit expenditure		28	0,04	0,04	0,03
3. Effect of discretionary revenue measures		1272	1,7	0,1	0,4
4. Revenue increases mandated by law		0	0	0	0

Table 4c.i) General government expenditure on education, healthcare and employment				
	2014		2015	
	% GDP	% GG E	% GDP	% GG E
Education	3,9	9,8	3,7	9,8
Health	5,6	14,1	5,3	14,0
Employment	0,23	0,59	0,26	0,68

Note: TE – Total expenditures of general government.

Source: Eurostat



Functions	COFOG code	2014		2015	
		% of GDP	% TE	% GDP	% TE
1. General public services	1	6,7	16,8	5,5	14,3
2. Defence	2	0,9	2,4	0,9	2,5
3. Public order and safety	3	2,0	5,1	1,9	5,0
4. Economic affairs	4	4,4	11,1	5,0	13,1
5. Environmental protection	5	0,5	1,3	0,5	1,2
6. Housing and community amenities	6	0,6	1,4	0,4	1,1
7. Health	7	5,6	14,1	5,3	14,0
8. Recreation, culture and religion	8	1,1	2,7	0,9	2,3
9. Education	9	3,9	9,8	3,7	9,8
10. Social protection	10	14,0	35,3	13,9	36,6
Total expenditure	TE	39,5	100,0	38,0	100,0

Note: TE – Total expenditures of general government

Measures	Subsector	ESA2010	Budgetary impact
1. Keeping VAT rate at 20 %	S.1311	D.211R	0,3
2. Changes in tax depreciation methodology			0,2
- Longer depreciation period for administrative buildings (from 20 to 40 years)	S.1311	D.51R	0,09
- Limits to accelerated depreciation method	S.1311	D.51R	0,04
- Abolishing of favourable leasing amortization	S.1311	D.51R	0,02
- Amortization of certain expenditures with VAT coefficient	S.1311	D.51R	0,05
3. Measures for increased tax collection effectiveness (electronic cash registers and pharmaceutical companies)	S.1311	D.211R	0,07
- Compulsory use of electronic cash registers	S.1311	D.51R	0,07
- Withholding tax for fin. and non-financial benefits of pharmaceutical companies	S.1311	D.51R	0,00
4. Transfer pricing rules	S.1311	D.51R	0,07
5. Expenditure deductions for R&D	S.1311	D.51R	-0,03
6. Tax expenditure audit	S.1311	D.51R	0,02
of which: increase in contribution allowance for students	S13.14	D.61R	0,00
Other non-tax revenue			-0,07
- Lower fees from FOV and EOSA	S.1311	D.29A	-0,04
- Higher administrative fees of municipalities	S.1311	P.11	0,15
- Grants and transfers of state budget and public universities	S.1311	D.7R	-0,07
- Other lower revenues from refunds	S.1311	D.7R	-0,09
- Other non-tax revenue	S.1311	P.11	-0,02
1. Keeping VAT rate at 20 %	S.1311	D.211R	0,3
2. Changes in tax depreciation methodology			0,2
- Longer depreciation period for administrative buildings (from 20 to 40 years)	S.1311	D.51R	0,09
- Limits to accelerated depreciation method	S.1311	D.51R	0,04
- Abolishing of favourable leasing amortization	S.1311	D.51R	0,02
- Amortization of certain expenditures with VAT coefficient	S.1311	D.51R	0,05
3. Measures for increased tax collection effectiveness (electronic cash registers and pharmaceutical companies)	S.1311	D.211R	0,07
- Compulsory use of electronic cash registers	S.1311	D.51R	0,07



7. Savings in healthcare			0,13
- payment for persons insured by the state, pay	S.1311	D.6P	0,13
- payment for persons insured by the state, rec	S.1314	D.61R	-0,13
- transfer for healthcare facilities	S.1311	D.6P	0,13
Other changes against NPC, of which			0,64
- state budget	S.1311		0,1
- public universities	S.1311		0,05
- other general government entities	S.1311		0,07
- municipalities	S.1313		0,4
- healthcare providers and Social Insurance Agency	S.1314		0,03
Total			1,55
- tax and social contributions revenue			0,50
- non-tax revenue			-0,07
- current expenditure			0,62
- capital expenditure			0,50

Note (+) means increase in revenues or decrease in expenditures

Source: MoF SR

Table 6.a: NRP response to specific recommendations for Slovakia

CSR number	Measure	Objectives
1		Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.3% of GDP relative to the Stability and Growth Pact requirements based on the Commission 2014 spring forecast. In 2015, ensure the required adjustment of 0.1% of GDP towards the medium-term objective taking into account the expected weak economic conditions. Thereafter, until the medium-term objective is achieved, pursue an annual structural adjustment of 0.5% of GDP as a benchmark. Further strengthen the fiscal framework, also by introducing binding and enforceable expenditure ceilings. Improve the long term sustainability of public finance by increasing the cost-effectiveness of the health-care sector, in particular by rationalising hospital care and management and by strengthening primary care.
1	Consolidation of public finance	Planned measures include: maintaining the VAT revenue and increasing the collection efficiency, cash registers for doctors and other professions, withholding income tax and financial and non-financial considerations from pharmaceutical companies, annual account of the Social Insurance Company, savings in intermediate consumption (ESO).
1	Balanced financial management of faculty and university hospitals	On average, the health care facilities established by the Ministry of Health of the Slovak Republic will operate on a balanced budget without needing additional financial assistance from the state budget and that their indebtedness will be considerably reduced. The measures aimed at streamlining the use of financial resources from health insurance companies and own revenues will ensure a balanced performance of hospitals by 2015.
2		Improve the efficiency of the tax administration by strengthening its audit, risk assessment and debt collection capacity. Link the basis for real-estate taxation to the market value of the property.
2	Combating tax frauds	The third stage of the Action Plan in the form of measures to improve tax collection: in particular centralization of information from the toll system, motor vehicle and population register, access to information on accounts of investigated persons and companies. Introduction of the Electronic Registry of Insolvent Entities, Register of Disqualified Persons and rating of tax entities. In addition, specialized senates at regional courts focused on taxes will be established. Data about payment of the corporate income tax at the level of individual companies together with revenues, costs and profit/loss will be disclosed
2	Analytical capacities	Strengthening analytical capacities and building an analytical unit at the Financial Administration of SR
2	Real-estate taxation	Based on the data on prices of residential properties and their characteristics, an estimated model allows for the market value estimation of the property. The first steps of a new taxing system will be implemented after 2015.



3	More effectively address long-term unemployment through activation measures, second-chance education and tailored quality training. Enhance the capacity of public employment services for case management, personalised counseling and activation of jobseekers, and strengthen the link between activation and social assistance. Effectively tackle youth unemployment by improving early intervention, in line with the objectives of a youth guarantee. Improve incentives for women's employment, by enhancing the provision of child-care facilities, in particular for children below three years of age.	
3	Health contribution allowance and minimum wage increase to 380 EUR	An increase in minimum wage and simultaneous introduction of health contribution allowance will increase net wages without increasing labour costs.
3	In-work benefit within the system of assistance in material need	In-work benefit within the system of assistance in material need will be provided simultaneously up to a certain wage threshold, which will increase the disposable income of unemployed or inactive persons for several months after their hiring.
3	Contribution relief	The implemented contribution relief waived social contributions, applicable up to 67% of the average wage two years ago for a newly-hired employees, who were long-term unemployed for the period of one year.
3	Public employment services reform	Prioritisation of counselling and personalised public employment services, including an increase in their administrative capacities with the aim to improve the access to employment for long-term unemployed persons, low-skilled workers, older people and women. Centralisation of the database of job seekers and beneficiaries of social benefits, assembly and connection with relevant institutions. Analysis of net efficiency and effectiveness of expenditures of individual measures of the ALMPs.
3	Enhancing the provision of child-care facilities	Building of new child-care facilities, especially for children of aged 0 - 3. Extending the capacities of kindergartens, extending the existing forms of education by preparatory kindergarten classes and extending the time subsidy for pre-school education.
4	Take measures to increase the quality of teaching in order to raise educational outcomes. Reinforce the provision of work-based learning in companies in vocational education and training. Adapt accreditation, funding and governance measures to encourage the creation of profession-oriented bachelor-level programmes. Improve the quality and relevance of the science base and implement plans to foster effective knowledge transfer and co-operation between academia, research and business. Adopt systemic measures to improve access to high quality and inclusive pre-school and school education for marginalized communities, including Roma and take steps to increase their wider participation in vocational training and higher education.	
4	Practical training in VET education (dual education)	Firms participating in dual education system will receive financial benefits through tax system, which will increase placement of VET graduates on the labour market.
4	Higher wages for teachers	The wages of teachers in regional schools were increased in 2014 by 5% (42 eur).
4	Teacher's assistants	Within the inclusion of marginalized groups, the project of assistants in schools will be extended and the budget will increase by 6 million EUR by 2015.
4	Marginalized groups pre-school inclusion	The support of social inclusion and positive changes in communities specialized on marginalized Roma groups through community centres. Publishing textbooks and educational texts in the Slovak and Roma languages.
5	Step up efforts to make the energy market function better, in particular by increasing the public transparency of the regulatory framework and by exploring the determinants of the high electricity network charges, notably for industrial consumers. Building on the progress made so far, further develop interconnections with neighbouring countries, including with Ukraine, accordingly to the Memorandum of Understanding signed in April.	
5	Disclosure of an analysis of all major changes in the regulatory period policies	Publishing of papers and underlying analysis for all the changes in regulatory policy.
5	Data warehouse	Building a data centre on the web site of the Regulatory Office for Network Industries.
5	Interconnections of networks	Connection of gas networks with Poland and Hungary. Connection of electricity systems with Hungary.
6	Take measures, including by amending the Act on Civil Service, to increase the independence of the public service. Adopt a strategy to improve the management of human resources in public administration. Step up efforts to strengthen analytical capacity in key ministries with a view to adopting evidence-based policies, and improving the quality of policy impact assessment. Take steps to fight corruption and accelerate efforts to improve the efficiency and quality of the judicial system. Introduce measures to improve business environment including for SMEs. Step up efforts to improve the efficiency of public procurement.	
6	Public service reform	A public administration reform will bring its de-politicisation and more transparency at all levels, from



		hiring staff to remuneration.
6	Increasing efficiency of justice system	Shortening the length of legal proceedings, Electronic Case File, Introduction of the Electronic Legal Code
6	Improving business environment	Government will prepare measures to improve business environment with the aim to decrease the administrative burden, mainly in the areas of establishment of business companies, tax collection and cross-border trade.
6	Efficient, reliable and open state administration - ESO Reform	Improving the efficiency of the performance of the central government and other public administration bodies, improvement of management processes, review of functionalities, optimisation of organisational structure and a stronger focus on the needs of the citizens, savings in spending on the functioning of public administration and improvement of its outcomes without increasing funding. It is being implemented using a combination of higher revenues and lower spending. Reforms will continue in that part of the local government, which is not involved in the merger of offices. In 2015, 46 Labour offices will lose legal entity and pass under the direct regulatory responsibility of the Labour, Social Affairs and Family. Ongoing transformation state budgetary and subsidized organizations in order to reduce their number will continue also in 2015.

Table 6.b: EU targets for growth and jobs		
National 2020 headline target	Measure	Objective
Employment	Health contribution allowance and minimum wage increase to 380 EUR	An increase in minimum wage and simultaneous introduction of social security contribution allowance will increase net wages without increasing labour costs.
	In-work benefit within the system of assistance in material need	In-work benefit within the system of assistance in material need will be provided simultaneously up to a certain wage threshold, which will increase the disposable income of unemployed or inactive persons for several months after their hiring.
	Contribution relief	The implemented contribution relief waived social contributions, applicable up to 67% of the average wage two years ago for newly-hired employees, who were long-term unemployed for the period of one year.
	Public employment services reform	Prioritisation of counselling and personalised public employment services, including an increase in their administrative capacities with the aim to improve the access to employment for long-term unemployed persons, low-skilled workers, older people and women. Centralisation of the database of job seekers and beneficiaries of social benefits, assembly and connection with relevant institutions. Analysis of net efficiency and effectiveness of expenditures of individual measures of the ALMPs.
Research and development	Measures from the RIS3 Strategy Action Plan	The support of the key areas (material research and nanotechnology, information and communication technologies, biomedicine and biotechnology, industrial technology, power engineering, agriculture and environment) through stabilizing public resources and promoting private financing of R&D.



	Slovak Academy of Science transformation	Organizations of the Slovak Academy of Sciences will be transformed into a new form of independent legal entities - public research institutions. This will eliminate the barriers preventing more intensive cooperation with the private sector in R&D and enable to use private resources to finance their R&D activities.
	Start-ups support	Educative and networking activities for start-ups, organize start up events as well as a direct support of particular business plans and involvement of Slovak start-ups with the biggest potential in international start-ups networks. The state will also support implementation of educative and information activities for entrepreneurs, focused on increasing the use of different e-tools and services in enterprising which will help their companies increase the chance to be successful in the global market.
Climate change and energy	In 2012, greenhouse gas emissions outside the ETS sectors were 6,7% lower than in 2005. Hence, the Government is far exceeding its commitment to increase emissions by no more than 13%.	
	In 2012, energy from renewable sources accounted for 10,4% of gross final consumption. This means that at unchanged policies, Slovakia will most likely exceed the 14% target set for 2020.	
	Energy audits for SMEs	Support of the energy audits for SME and their implementation will increase energy their efficiency and increase the competitiveness.
	Higher energy efficiency of houses through innovative financial instruments (JESSICA - ŠFRB)	Since June 2013, the State Fund for Housing Development has been offering advantageous loans – through the JESSICA project – with a zero interest rate and 15-year repayment period for restoration of residential and non-residential buildings in urban areas. EUR 11,5 million were earmarked for this purpose in 2013. After meeting minimum thermal and technical requirements for the reconstruction quality, it is possible to fund even 80% of total costs.
Education	Enhancing the provision of child-care facilities	Building new child-care facilities, especially for children of aged 0 - 3. Extending the capacities of kindergartens, extending the existing forms of education by preparatory kindergarten classes and extending the time subsidy for preschool education.
	Higher wages for teachers	The wages of teachers in regional schools were increased in 2014 by 5% (42 eur). The increase will depend on various criteria including performance of a teacher.



	Practical training in VET education (dual education)	Firms participating in dual education system will receive financial benefits through tax system, which will increase placement of graduates on the labour market.
	Better quality of university education	Increasing quality of university education, changes making accreditation easier, change of rigid rules for guarantor selection.
Poverty and social inclusion	Teacher's assistants	Within the inclusion of marginalized groups, the project of assistants in schools will be extended by 6 million EUR by 2015.
	Marginalized groups preschool inclusion	The support of social inclusion and positive changes in communities specialized on marginalized Roma groups through community centres. Publishing textbooks and educational texts in the Slovak and Roma languages.