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Delegations will find attached document C(2015) 8113 final.

EUROPEAN
COMMISSION

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COMMISSION OPINION

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on the Draft Budgetary Plan of SLOVAKIA

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVAKIA

3. On the basis of the Draft Budgetary Plan for 2016 submitted on 14 October 2015 by Slovakia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Slovakia is subject to the preventive arm of the Pact and should ensure sufficient progress towards its medium term budgetary objective (MTO).

5. After picking up in 2014, economic growth in Slovakia has further accelerated in 2015. According to the Draft Budgetary Plan, real GDP is set to increase by 3.2% in 2015, with a significant boost from an intensified drawing on residual EU funding available under the 2007-2013 programming period. While the exceptional investment growth in 2015 is expected to level off in 2016, higher household consumption and strong positive contribution of net exports are expected to ensure that the Slovak economy expands by 3.1% in 2016. Inflation is expected to remain negative in 2015, dragged down by falling energy prices, before turning positive in 2016 driven by robust domestic demand and solid wage growth. Compared with the 2015 Stability Programme, real GDP growth was revised upwards in 2015 and downwards in 2016, owing to a more accentuated investment profile. The outlook of the Draft Budgetary Plan is broadly in line with the Commission 2015 autumn forecast, notwithstanding a weaker contribution of net exports to GDP growth in 2016 in the latter. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan appear to be plausible in both years.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the Institute for Financial Policy (IFP) of the Ministry of Finance and have been endorsed by the Macroeconomic Forecasting Committee (MFC). The independence of the MFC from government influence is anchored in its statutes.

7. The Draft Budgetary Plan projects a deficit of 2.7% of GDP in 2015, after which the deficit is planned to fall to 1.9% of GDP in 2016. Compared to the 2015 Stability Programme, the deficit in the Draft Budgetary Plan is 0.2% of GDP higher in 2015 and unchanged in 2016. The difference in 2015 is largely explained by higher-than-budgeted spending and financial corrections related to projects financed through EU funds, which outweigh the impact of more positive tax revenue developments. In 2016, the significantly lower drawing on EU resources reduces revenue and expenditure aggregates in the same way. In addition, it also entails a decline in the national part of co-financing which impacts the general government balance. The (recalculated) structural balance is set to improve in 2016.

   The public finances of Slovakia have benefitted from interest rate windfalls (0.2% of GDP) over the period 2012-2015, which contributed to only a very small part of the cumulative adjustment of the structural balance planned in this period (1.9% of GDP). No additional interest windfalls are expected for 2016.

8. The Commission 2015 autumn forecast expects general government deficits of 2.7% of GDP in 2015 and 2.4% of GDP in 2016. The latter is 0.5pp higher than expected in the Draft Budgetary Plan because of higher assumed government intermediate consumption, public wage bill and healthcare expenditure. These expenditures therefore represent the main risk factors to the achievement of the Draft Budgetary Plan's targets, all the more as they are not fully underpinned by substantive and detailed policy measures. Further downside risks to the budgetary projection relate to an announced 'third social package' and up-front costs for a large PPP project, the Bratislava motorway ring. The structural balance in the Commission 2015 autumn forecast is set to remain broadly stable mirroring the modest improvement in the headline deficit.

9. The Draft Budgetary Plan shows government debt falling to from 53.5% of GDP in 2014 to 52.1% of GDP in 2016. This is a slightly more favourable debt trajectory than expected in the Stability Programme or in the Commission 2015 autumn forecast; the latter expects debt levels to reach 52.6% of GDP in 2016. The difference with the Draft Budgetary Plan appears to be largely attributable to a weaker primary balance for the year 2016 expected by the Commission.

10. For 2016, the adjustment in the Draft Budgetary Plan takes place predominantly on the expenditure side, notably in the area of government intermediate consumption and investment (including capital transfers). Measures underpinning the reduction of intermediate consumption are not adequately specified and are therefore not reflected in the Commission 2015 autumn forecast. The Draft Budgetary Plan also contains several expenditure-increasing measures linked to the public sector wage bill and social policy. It does not include significant measures on the revenue side.

11. Slovakia is required to avoid a deterioration in the structural balance in 2015. The (recalculated) structural effort underpinning the Draft Budgetary Plan shows some deviation compared to the requirement in 2015. Moreover, it shows a significant deviation from the requirement over two years for 2014-2015. As the expenditure benchmark shows compliance with the requirements in 2015 and over 2014-2015, according to the Draft Budgetary Plan, an overall assessment is required. Besides the fact that the change in the recalculated structural balance is considered to be underestimated due to differences in the assessment of one-offs, the expenditure

benchmark appears to better reflect the fiscal effort as it is less affected by the surge in EU-related investment spending. Hence, based on the Draft Budgetary Plan, Slovakia would respect the required adjustment towards the MTO in 2015. The Commission 2015 autumn forecast suggests compliance with the required effort in 2015, while pointing to a risk of some deviation for the two-year average for 2014 and 2015. With the expenditure benchmark complied with both in 2015 and over two years, an overall assessment is required. As mentioned above, the expenditure benchmark appears to better reflect the fiscal effort. Overall, the Commission forecast thus also points to compliance with the preventive arm in 2015.

For the year 2016, both the (recalculated) structural balance of the Draft Budgetary Plan and the expenditure benchmark point to adherence to the required adjustment of 0.25% of GDP. However, the Commission 2015 autumn forecast indicates a risk of some deviation from the requirement in 2016, based on both the structural balance pillar (gap of 0.2% of GDP) and the expenditure benchmark (gap of 0.3% of GDP). An overall assessment based on the Commission 2015 autumn forecast points to a risk of some deviation from the required adjustment path towards the MTO in 2016.

Based on its assessment of further information provided by the Slovak authorities and published on the website of the Ministry of Finance, the Commission considers that the projected change in the structural balance in 2016 is in line with the requirement. The expenditure benchmark still points to a risk of some deviation (gap of -0.1% of GDP). This calls for an overall assessment. As the deviation from the expenditure benchmark is caused by swings in EU-funded investments, the overall assessment points to compliance.

12. The Draft Budgetary Plan discusses several policy measures related to the country-specific recommendations issued by the Council in July 2015 in the area of fiscal governance, covering the areas of tax evasion, as well as various education and labour-market related measures. However, the Draft Budgetary Plan does not refer to possible measures related to the recommendation to reduce healthcare expenditure.

13. Overall, after taking into account the additional information provided by the Slovak authorities, the Commission is of the opinion that the Draft Budgetary Plan of Slovakia, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2016 budget rigorously.

The Commission is also of the opinion that Slovakia has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission