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**COMMISSION STAFF WORKING DOCUMENT**

**Analysis of the Draft Budgetary Plan of Slovakia**

*Accompanying the document*

**COMMISSION OPINION**

**on the Draft Budgetary Plan of Slovakia**

{C(2020) 8518 final}



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## Table of Contents

Executive summary ..... 2
1. Introduction ..... 3
2. Macroeconomic developments underlying the draft budgetary plan ..... 4
3. Recent and planned fiscal developments ..... 5
3.1 Deficit developments ..... 6
3.2 Debt developments ..... 8
4. Measures underpinning the Draft Budgetary Plan ..... 10
4.1 Measures in 2020 ..... 10
4.2 Measures in 2021 ..... 12
5. ANNEXES ..... 14



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## EXECUTIVE SUMMARY

- After growth of 2.4% of GDP in 2019, economic activity is set to contract sharply in 2020 due to the COVID-19 crisis in 2020 by 6.7% according to the Draft Budgetary Plan and by 7.5% according to the Commission 2020 autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to expand by 5.5%. In turn, the Commission projects GDP to grow by 4.7% in 2021. The macroeconomic scenario underlying the Draft Budgetary Plan is less conservative compared to the Commission´s projection.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020 to reach a deficit of 9.7% of GDP and fall to 7.4% of GDP in 2021. According to the Commission, Slovakia is projected to have a headline deficit of 9.6% of GDP in 2020 and 7.9% of GDP in 2021. For the time being, since the submission of the Recovery and Resilience Facility and subsequent approval are only expected to take place in 2021, the Commission forecast includes only 0.7% of GDP pre-financing of RRF grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.
- The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic. Deficit-increasing measures adopted in 2020 to fight the pandemic and to alleviate its adverse socio-economic effects amount to 3.1% of GDP. They encompass, among others, funding of short-term working schemes; subsidies for self-employed persons, small and medium-sized enterprises; sickness and nursing benefits; and subsidised rents. Liquidity measures and public guarantees aimed to support firms, amount up to 2.4% of GDP and do not have an immediate budgetary impact. While Covid-19 related measures are of a temporary nature, there are also other discretionary measures, including the doubling of Christmas bonuses, the cancellation of the bank levy, the establishment of a new ministry and a lower motor vehicle tax (0.4% of GDP). Moreover, the Draft Budgetary Plan includes higher expenditure not classified by the Plan as discretionary measures with an estimated budgetary impact of around 2.8% of GDP that is mostly permanent. While the Commission estimates that the discretionary measures amount to 5.8% of GDP, the Plan reports them at around 4.9% of GDP (3.3 and 1.9% of GDP are permanent, respectively). Overall, the measures taken by Slovakia in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- The discretionary measures planned in 2021 are expected to reduce the deficit by 0.8% of GDP according to the Draft Budgetary Plan. Those can be divided into permanent measures amounting to -0.4% of GDP and temporary measures amounting to 1.2% of GDP based on the Commission estimate.
- Public debt stood at 48.5% of GDP at the end of 2019. According to the Draft Budgetary Plan, it is planned to rise to 62.2% of GDP in 2020 and to further increase to 65% in 2021. In its autumn forecast, the Commission projects the public debt-to-GDP ratio to reach 63.4% of GDP in 2020 and 65.7% in 2021. On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU



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analysing whether Slovakia was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

- Most of the measures set out in the Draft Budgetary Plan of Slovakia are supporting economic activity against the background of considerable uncertainty. However, some measures appear not to be temporary or matched by offsetting measures,  At the same time, it is useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

## 1. Introduction

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plans of the Slovak Republic, which was submitted on 14 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020, the Ministers of Finance agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of EUR 672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU

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[1] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en



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Member States. The 2021 Draft Budgetary Plan of the Slovak Republic does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU as Slovakia´s general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

## 2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Slovak economy is deeply impacted by the COVID-19 pandemic, and both the macroeconomic and fiscal outlook continue to be surrounded by high uncertainty. To contain the pandemic, the government introduced generalised lockdown measures on March 16. The measures began to be gradually relaxed between 22 April and 3 June. The second wave of the COVID-19 pandemic escalated in October. The government again imposed curfew measures, closed the majority of schools and decided on mass COVID-19 testing. The restrictions are expected to have a large impact on economic activity. After expanding by 2.3% of GDP in 2019, the 2021 Draft Budgetary Plan forecasts a GDP contraction of 6.7% in 2020. For 2021, the Draft Budgetary Plan projects GDP to expand by 5.5%, driven by drawing on savings and the recovery of foreign demand. The rebound in investment activity is expected only with the drawdown of EU funds. However, the economy is projected to remain subdued with a lot of unused capacity and new jobs will be created only slowly.

Under the alternative scenario presented in the Draft Budgetary Plan, the economy would fall by 8.4% in 2020 and grow by 4.3% in 2021. Additional shortfalls in tax revenue and social contributions would amount to approximately 1% of GDP per year.

The macroeconomic scenario underlying the Draft Budgetary Plan is less conservative compared to the Commission´s projection. According to the Commission autumn 2020 forecast, GDP is projected to decline by 7.5% in 2020, before rebounding by around 4.7% in 2021. Private consumption is expected to recover in 2021 and 2022 and to reach or even surpass its pre-crisis level. The uncertainty, liquidity constraints and restrictions to business activity are projected to weigh heavily on investment growth in 2020. Investment is expected to grow strongly in 2021. Trade activity is also projected to decrease sharply in 2020, but to recover swiftly.

The Institute for Financial Policy (IFP), under the Ministry of Finance, is responsible for preparing the macroeconomic forecasts for the Slovak economy underpinning the budget. The forecast was endorsed by the Macroeconomic Forecasting Committee at



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its meeting of 16 September 2020 and assessed as plausible.[3] The members of the Committee made the following main comments on the forecast. The Slovak National Bank expects lower economic performance in 2020. The second wave of the pandemic may bring a slowdown in the economy and a deeper decline than IFP predicts. Consequently, the labour market would be more affected and the number of jobs could decline in the coming quarters. The Institute of Informatics and Statistics pointed out that Slovakia has the smallest share of exports to Germany compared to other neighbouring countries. VÚB Banka is more pessimistic about developments in the foreign environment. According to the Council for Budget Responsibility, the biggest differences stem from the significantly higher government consumption compared to the IFP.

**Table 1. Comparison of macroeconomic developments and forecasts**

| | 2019 | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | COM | SP | DBP | COM | SP | DBP | COM |
| Real GDP (% change) | 2.3 | -7.2 | -6.7 | -7.5 | 6.8 | 5.5 | 4.7 |
| Private consumption (% change) | 2.3 | -8.4 | -1.2 | -2.4 | 7.8 | 3.0 | 2.2 |
| Gross fixed capital formation (% change) | 5.8 | -20.3 | -9.9 | -12.6 | 17.0 | 7.6 | 9.2 |
| Exports of goods and services (% change) | 0.8 | -21.4 | -9.3 | -11.4 | 17.6 | 9.7 | 8.6 |
| Imports of goods and services (% change) | 2.1 | -25.5 | -7.9 | -10.2 | 19.0 | 8.3 | 6.8 |
| *Contributions to real GDP growth:* | | | | | | | |
| - Final domestic demand | 3.4 | -8.7 | -3.1 | -2.3 | 7.5 | 3.3 | 3.2 |
| - Change in inventories | 0.2 | -1.8 | -2.2 | -4.1 | -0.7 | 1.4 | 0.0 |
| - Net exports | -1.2 | 3.3 | -1.6 | -1.1 | 0.0 | 1.4 | 1.5 |
| Output gap[1] | 3.9 | -5.5 | -5.7 | -4.6 | -1.2 | -2.9 | -1.4 |
| Employment (% change) | 1.0 | 0.0 | -1.5 | -1.6 | 0.0 | 0.6 | -1.0 |
| Unemployment rate (%) | 5.8 | 0.0 | 1.1 | 6.9 | 0.0 | 0.0 | 7.8 |
| Labour productivity (% change) | 1.3 | 0.0 | -5.2 | -6.0 | 0.0 | 4.9 | 5.8 |
| HICP inflation (%) | 2.8 | 1.7 | 2.0 | 2.0 | 0.2 | 1.1 | 0.7 |
| GDP deflator (% change) | 2.5 | 1.9 | 1.9 | 3.3 | 0.2 | 1.1 | 0.6 |
| Comp. of employees (per head, % change) | 6.6 | 0.0 | 1.7 | 1.5 | 0.0 | 4.2 | 3.5 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | -1.8 | 0.0 | -2.5 | -3.2 | 0.0 | -1.6 | -1.8 |

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

## 3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020, the Council addressed recommendations to Country in the context of the European Semester. In the area of public finances and *in line with the general escape clause*, the Council recommended Slovakia to take all necessary measures

[3] https://www.mfsr.sk/sk/financie/institut-financnej-politiky/ekonomicke-prognozy/makroekonomicke-prognozy/makroekonomicke-prognozy.html



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to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Slovakia should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

### 3.1 Deficit developments

The Draft Budgetary Plan projects a headline deficit at 9.7% of GDP in 2020. This projection embeds a sizeable revision with respect to the Stability Programme of May 2020, where the deficit was planned at 8.4% of GDP. Only around 0.1 percentage point of the downward revision is explained by a deeper GDP contraction than expected in spring, whereas the remaining 1.1 percentage points are due to additional fiscal measures adopted by the government to contain the economic effects stemming from the lockdown and other measures in the budget. The European Commission also predicts a higher deficit of 9.6% of GDP in the autumn forecast compared to spring.

The revenue-to-GDP ratio is 0.4 percentage points higher in the Commission forecast, resulting from a slightly different composition of revenue categories. In particular, the Draft Budgetary Plan assumes a lower drawdown rate of EU funds, which is partially compensated by the stronger increase in direct taxation revenue, based on the expectation of more stable developments in the labour market.

Due to the lower EU funds drawdown rate, the Draft Budgetary Plan forecasts lower investment. Furthermore, because of a stronger implicit cyclical reaction of expenditure, the Commission forecast projects slightly higher social transfers and both other current and capital transfers. Interest expenses are also expected to be higher based on the different debt forecast. On the other hand, the Draft Budgetary Plan assumes slightly higher expenditure on intermediate consumption.

Both the Commission forecast and the recalculated[4] structural balance from the Draft Budgetary Plan point to a deterioration (between 2019 and 2020) of 2.4 and 5 percentage points, respectively. The main reason for the difference in the structural balance change is the fact that the latter considers that the measures adopted to offset the effects of the COVID-19 pandemic are one-offs.[5]

For 2021, the Draft Budgetary Plan projects a deficit at 7.4% of GDP. This does not include assumed Recovery and Resilience Facility grants within the revenue projections. The expected economic rebound and the phasing out of the temporary

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[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[5] The Commission has not classified COVID-19-related measures as one-off in its autumn 2020 forecast because the one-off classification does not appear to be the best suited for several of the measures taken in response to the COVID-19 pandemic. The Commission has a well-developed set of principles for defining what is a one-off measure for the purpose of fiscal surveillance. That methodology is relatively restrictive, for example excluding compensatory payments to households or businesses not directly triggered by the pandemic and for which the government has a larger degree of discretion. Moreover, given the large uncertainties on the duration and the impact of certain measures, most measures would not qualify as one-off in an ex ante assessment. The Commission favours taking into account such measures as part of its application of the Stability and Growth Pact under the activation of the General Escape Clause.



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measures implemented to contain the economic effects of the pandemic explain the improvement with respect to 2020. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in its budgetary projection for 2021, the 10% pre-financing of Recovery and Resilience Facility grants[6] as a financial transaction with no impact on the budget balance in 2021, but a public debt-reducing impact.

The Plan projects the re-calculated structural balance to improve slightly (0.2 percentage points). However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.[7]

In contrast, the Commission 2020 autumn forecast projects a higher headline deficit, of 7.9% of GDP. This partially reflects a higher cyclical sensitivity of public revenues and expenditure in the Commission projections. The revenue-to-GDP ratio in 2021 is higher in the Commission forecast, by 0.8 percentage points. The higher revenue-to-GDP ratio is explained by different assumptions in relation to EU flows in both forecasts. Furthermore, there are some differences in underlining revenue elasticities, thus leading to higher proceeds from direct taxation and social contributions and lower proceeds from indirect taxation in the Draft Budgetary Plan than in the Commission´s projections.

The expenditure-to-GDP ratio in 2021 declines more sharply in the projections in the Draft Budgetary Plan. The analysis according to individual expenditure categories is partially affected by the different recording of reserves included in the DBP: while in the DBP these reserves are classified as intermediate consumption, the Commission forecast includes the majority of them as other current transfers and expects higher intermediate consumption regardless these reserves. In connection with a faster acceleration in the use of EU funds, the European Commission assumes higher investment, social payments and interest expenditure, each by 0.2 percentage points in 2021. In addition, the Commission projects slightly higher compensation of employees. Finally, there is a lower contribution over GDP of subsidies in the Commission forecast.

The important risk to the budgetary targets for 2021 stems from the assumed cyclical response of the different budgetary items. Another significant risk underlying the projections in the Draft Budgetary Plan relates to the sizeable amount of public guarantees announced in response to the crisis.

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[6] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament



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## Table 2. Composition of the budgetary adjustment

| (% of GDP) | 2019 | | 2020 | | | 2021 | | | Change: 2019-2021 |
|---|---|---|---|---|---|---|---|---|---|
| | COM | DBP | SP | DBP | COM | SP | DBP | COM | DBP |
| **Revenue** | **41.4** | **41.4** | **41.4** | ***42.1*** | **42.5** | **0.0** | ***41.4*** | **42.2** | **0.0** |
| *of which:* | | | | | | | | | |
| - Taxes on production and | 12.0 | 12.0 | 12.0 | *12.4* | 12.5 | 0.0 | *12.0* | 12.2 | 0.0 |
| - Current taxes on income, | 7.2 | 7.2 | 6.6 | *6.7* | 6.6 | 0.0 | *6.6* | 6.5 | -0.6 |
| - Capital taxes | 0.0 | 0.0 | 0.00 | *0.0* | 0.0 | 0.0 | *0.0* | 0.0 | 0.0 |
| - Social contributions | 15.3 | 15.3 | 16.1 | *16.0* | 15.8 | 0.0 | *15.9* | 15.7 | 0.6 |
| - Other (residual) | 6.9 | 6.9 | 6.7 | *7.0* | 7.6 | 0.0 | *6.9* | 7.8 | 0.0 |
| **Expenditure** | **42.7** | **42.7** | **49.8** | **51.8** | **52.1** | **0.0** | **48.8** | **50.0** | **6.1** |
| *of which:* | | | | | | | | | |
| - Primary expenditure | 41.5 | 41.5 | 48.6 | 50.7 | 50.8 | 0.0 | 47.8 | 48.9 | 6.3 |
| *of which:* | | | | | | | | | |
| Compensation of employees | 10.2 | 10.2 | 11.3 | 11.6 | 11.6 | 0.0 | 10.8 | 10.9 | 0.6 |
| Intermediate consumption | 5.6 | 5.6 | 6.4 | 7.9 | 7.8 | 0.0 | 7.8 | 7.5 | 2.2 |
| Social payments | 18.6 | 18.6 | 23.4 | 22.4 | 22.5 | 0.0 | 21.1 | 21.3 | 2.5 |
| Subsidies | 1.0 | 1.0 | 1.2 | 1.4 | 1.4 | 0.0 | 1.5 | 1.4 | 0.5 |
| Gross fixed capital formation | 3.6 | 3.6 | 3.2 | 3.8 | 3.9 | 0.0 | 3.4 | 3.6 | -0.2 |
| Other (residual) | 2.5 | 2.5 | 3.1 | 3.6 | 3.6 | 0.0 | 3.2 | 4.1 | 0.7 |
| - Interest expenditure | 1.2 | 1.2 | 1.2 | 1.1 | 1.3 | 0.0 | 1.0 | 1.2 | -0.2 |
| **General government balance (GGB)** | **-1.4** | **-1.4** | **-8.4** | **-9.7** | **-9.6** | **-4.9** | **-7.4** | **-7.9** | **-6.0** |
| **Primary balance** | **-0.1** | **-0.1** | **-7.2** | **-8.5** | **-8.3** | **0.0** | **-6.4** | **-6.7** | **-6.3** |
| One-off and other temporary measures | 0.0 | 0.0 | 0.00 | -2.0 | 0.0 | n.a. | -1.0 | 0.0 | -1.0 |
| **GGB excl. one-offs** | **-1.4** | **-1.4** | **-8.4** | **-7.7** | **-9.6** | **-4.9** | **-6.4** | **-7.9** | **-5.0** |
| Output gap[1] | 3.9 | 4.7 | -5.5 | -5.7 | -4.6 | -1.2 | -2.9 | -1.4 | -7.6 |
| Cyclically-adjusted balance[1] | -2.8 | -3.1 | -6.3 | -7.5 | -7.8 | -4.4 | -6.3 | -7.3 | -3.1 |
| **Structural balance (SB)[2]** | **-2.8** | **-3.1** | **-6.3** | **-5.5** | **-7.8** | **-4.4** | **-5.3** | **-7.3** | **-2.1** |
| Structural primary balance[2] | -1.6 | -1.9 | -5.1 | -4.4 | -6.5 | -4.4 | -4.3 | -6.2 | -2.3 |

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

*Source:*

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

### 3.2 Debt developments

In the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise by 13.7 percentage points, to reach 62.2% of GDP at the end of 2020. The snowball effect will entail a sizeable debt-increasing impact with respect to 2019, driven by the considerable contraction in nominal GDP. Likewise, the primary deficit will add almost 8.5 percentage points to the debt ratio, partly due to the measures adopted to counter the impact of the COVID-19 pandemic. The stock-flow adjustments will also contribute to increasing the debt, mainly because of the cash/accruals difference and pre-financing in the State Treasury reflected in the net accumulation of financial assets.



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For 2021, the Draft Budgetary Plan projects the debt ratio to increase further by 2.8 percentage points, to 65% of GDP. The debt-increasing effect stems from the elevated primary deficit, which is partly offset by the projected economic rebound through the snowball effect and a debt-slowing contribution of stock-flow adjustment. The net accumulation of financial assets is expected to be impacted, among other factors, by an advance on the grant from the RRF. The debt-increasing contribution of interest payments is projected to decrease with respect to 2020.

The debt projections in the Plan are somewhat higher than in the Stability Programme due to the higher primary deficits projected in the Draft Budgetary Plan and the downward revision to the macroeconomic scenario.

The Commission 2020 autumn forecast projects a higher dynamics in the debt ratio evolution for both years. The main difference between the two sets of projections stems mostly from the higher expected accumulation of financial assets due to higher state bond issuances in 2020 and a use of these funds in 2021. Weaker projected real growth and inflation are also factors driving the increase in the debt ratio in 2021.

**Table 3. Debt developments**

| (% of GDP) | 2019 | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | | SP | DBP | COM | SP | DBP | COM |
| **Gross debt ratio**[1] | **48.5** | **61.2** | **62.2** | **63.4** | **61.9** | **65.0** | **65.7** |
| Change in the ratio | -1.4 | 12.8 | 13.7 | 15.0 | 0.7 | 2.8 | 2.3 |
| Contributions[2]: | | | | | | | |
| **1. Primary balance** | **0.1** | **7.2** | **8.5** | **8.3** | **0.0** | **6.4** | **6.7** |
| **2. "Snow-ball" effect** | **-1.0** | **4.0** | **3.6** | **3.4** | **0.9** | **-2.9** | **-2.0** |
| *Of which:* | | | | | | | |
| Interest expenditure | 1.2 | 1.2 | 1.1 | 1.3 | 0.0 | 1.0 | 1.2 |
| Real growth effect | -1.1 | 3.7 | 3.4 | 3.8 | -3.9 | -3.2 | -2.8 |
| Inflation effect | -1.2 | -0.9 | -1.0 | -1.7 | -0.1 | -0.7 | -0.4 |
| **3. Stock-flow adjustment** | **-0.4** | **1.6** | **1.6** | **3.1** | **-0.2** | **-0.7** | **-2.4** |
| *Of which:* | | | | | | | |
| Cash/accruals difference | | 0.1 | 1.1 | | 1.0 | 0.9 | |
| Net accumulation of financial | | 2.0 | 0.5 | | -1.4 | -1.7 | |
| of which privatisation | | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Valuation effect & residual | | 0.0 | 0.0 | | 0.0 | 0.0 | |

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

*Source:*

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

## 4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the Slovak authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

### 4.1 Measures in 2020

According to the Draft Budgetary Plan, total discretionary measures in 2020 amount to 4.9% of GDP (worsening the deficit). They are reported both on the expenditure (4.5% of GDP) and the revenue (0.5% of GDP) side of the general government budget. Approximately 1.9% of GDP of those measures are permanent.

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Slovakia adopted in 2020 timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Draft Budgetary Plan, those direct COVID-19 measures amount to 3.1% of GDP. They include the funding of short-time work schemes for almost 1% of GDP; nursing and sickness benefits for 0.8% of GDP; support to self-employed and microenterprises for 0.2% of GDP; subsidized rentals to retail for 0.2% of GDP and 0.4% of GDP of additional expenditure to strengthen healthcare services, purchase healthcare material and for the compensation of healthcare and emergency staff. Other measures, including the extension of unemployment benefits, remission of levies for closed businesses and temporary suspension of tax controls, are each not higher than 0.1% of GDP. By the end of September 2020, less than 40% of the budget allocation has been spent. Hence, there is a reserve for the impact of the second wave of the COVID-19 pandemic.



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## Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the Draft Budgetary Plan

| List of measures | Description | ESA Code (Expenditure / Revenue component) | Adoption Status | Budgetary impact (% of GDP - change from previous year) | | |
|---|---|---|---|---|---|---|
| | | | | | 2020 | 2021 |
| 1 | Measures related to tobacco | D.2 | Adopted | | 0 | -0.1 |
| 2 | Special levy in banking sector - abolition | D.5 | Adopted | | 0 | 0.1 |
| 3 | Increase of the non-taxable part of the tax base | D.5 | Adopted | | 0.1 | 0 |
| 4 | Other revenue discretionary measures (less than 0.1% of GDP) | | Adopted | | 0.3 | 0 |
| 5 | 10% increase in wages (2020) | D.1 | Adopted | | 0.6 | 0.1 |
| 6 | Increase of parental allowances | D.6 | Adopted | | 0.2 | 0 |
| 7 | Provision for the negative effects of the pandemic (COVID-19) | P.2 | Not yet adopted | | 0 | 1.1 |
| 8 | Provision for EU correction settlement | P.2 | Adopted | | 0.4 | -0.4 |
| 9 | Provision for additional payment to the EU budget | Others | Adopted | | 0.1 | 0.4 |
| 10 | Sickness benefits and nursing benefits - employees (COVID-19) | D.6 | Adopted | | 0.4 | -0.3 |
| 11 | Contribution to maintain employment for enterprises, 80% of gross wages (COVID-19) | D.6 | Adopted | | 0.8 | -0.8 |
| 12 | Allowance for self-employed and micro-enterprises, lump sum/decrease in sales (COVID-19) | D.6 | Adopted | | 0.2 | -0.2 |
| 13 | Subsidised rentals for businesses (COVID-19) | D.3 | Adopted | | 0.2 | -0.2 |
| 14 | Provision for the 2nd wave of the COVID-19 pandemic | P.2 | Not yet adopted | | 0.2 | -0.2 |
| 15 | Purchase of medical supplies related to the COVID-19 pandemic | P.2 | Adopted | | 0.1 | -0.1 |
| 16 | Freezing 10% of operating expenditure in ministries | P.2 | Not yet adopted | | 0 | -0.2 |
| 17 | Freezing 10% of wages in ministries | D.1 | Not yet adopted | | 0 | -0.2 |
| 18 | Support of regional education, science and research | D.3 | Adopted | | 0 | 0.1 |
| 19 | Adjustment of Christmas bonus - the 13th pension reintroduced | D.6 | Adopted | | 0.2 | 0 |
| 20 | Early retirement for some people who raised children | D.6 | Adopted | | 0 | 0.1 |
| 21 | Necessary operating costs for selected medical facilities | Others | Adopted | | 0 | 0.1 |
| 22 | Other expenditure discretionary measures (loss than 0.1% of GDP) | | Adopted | | 1.1 | -0.3 |
| | | | | **Total** | **4.9** | **-0.8** |

In addition, Slovakia announced measures that, while not having any direct impact on the deficit, contributed to providing liquidity support to businesses, which the Draft Budgetary Plan estimates at more than 0.5% of GDP. Those measures include tax advances deferrals if entrepreneurs´ sales decreased more than 40%, social charges deferrals for employers on the same basis as in the previous measure, and postponement of the deadline for submission of income tax returns. Although the Draft Budgetary Plan estimates that bank loan guarantee schemes amount to 1.9% of GDP, their current take-up is estimated to be much lower.

Moreover, other discretionary measures[8] are included in the autumn Commission forecast – on the revenue side: for example, an increase of tax allowances (0.1% of GDP), VAT payment by the concessionaire in PPP project D4/R7 and; on the expenditure side: a 10% increase in wages (0.6% of GDP); higher expenditure of municipalities (0.5% of GDP); an increase in expenditure of enterprises[9] managed by the Ministry of Transport (for a total of 0.4% of GDP); higher expenditure of the Ministry of Interior (0.2% of GDP) and subsidies to green energy producers (0.2% of GDP).

[8] Only main measures with budgetary implications higher than 0.1% of GDP are mentioned.
[9] As the National Highway Company or the Railways of the Slovak Republic etc.



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The total impact of discretionary measures amounts to 5.8% of GDP (0.3% of GDP in revenues and 5.4% of GDP in expenditure) in the 2020 Commission autumn forecast in 2020. Measures are largely permanent (3.3% of GDP).[10]

Overall, some measures taken by Slovakia in 2020 are not temporary, which may affect fiscal sustainability in the medium term. They were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

### 4.2 Measures in 2021

For 2021, the Plan presents a set of measures aimed at supporting the envisaged recovery. The measures are on both the revenue and expenditure side, although primarily related to the latter.

On the revenue side, measures are focused on ensuring sufficient liquidity in the banking sector – for instance, the abrogation of the bank levy (0.1% of GDP); and mitigating negative externalities – for instance, the increase of the excise tax on tobacco (0.1% of GDP).

On the expenditure side, measures to contain the COVID-19 pandemic are still the most prevalent – e.g. the provision for the unfavourable course of the pandemic (1.1% of GDP),[11] the provision for the long-term effects of the pandemic (0.1% of GDP) or additional funding for the operating costs of medical facilities (0.1% of GDP). Some measures also support vulnerable groups in society such as the abolition of co-payments for medicines for children, the seriously disabled and pensioners (0.1% of GDP); the introduction of a pregnancy benefit or earlier retirement for some individuals who raised children (0.1% of GDP).

The Draft Budgetary Plan also incorporates measures aimed at enhancing potential growth such as support of regional education, science and research (0.1% of GDP).

Liquidity measures, namely in the form of guarantees on loans are also expected to continue to play an important role as support to businesses.

The Draft Budgetary Plan also includes measures aimed at achieving budgetary targets and ensuring the long-term sustainability of public finances such as a 10% reduction in wages of selected central government employees (-0.2% of GDP) and expenses for the purchase of goods and services (-0.2% of GDP).

According to the Draft Budgetary Plan, total discretionary measures in 2021 amount to 4.1% of GDP, which reduces the deficit. They are reported both on the expenditure (3.7% of GDP) and the revenue (0.4% of GDP) side of the general government budget. Approximately 0.4% of GDP of those measures are permanent in nature and worsen the deficit[12].

[10] The estimate for permanent measures refers to those permanent measures announced in 2020, including as part of the response to the COVID-19 pandemic or announced together with such measures. The estimate here does also include the impact from permanent measures announced before the outbreak of the COVID-19 pandemic in mid-March.

[11] Those reserves are recorded as other current transfers (D.75) in the Commission autumn 2020 forecast.

[12] Temporary measures amount to 1.1% of GDP and are deficit-decreasing in 2021.



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In contrast, the Commission autumn 2020 forecast includes a deficit-increasing impact of discretionary measures of 0.3% of GDP in 2021. It consists of deficit-increasing impacts on both the revenue (0.1% of GDP) and expenditure (around 0.3% of GDP) side. Finally, 0.6% of these measures are permanent and -0.4% of GDP temporary.

All the measures presented in the Draft Budgetary plan are included in the Commission 2020 autumn forecast. In contrast to the Draft Budgetary Plan, measures in the form of provisions are classified as other current transfers in the Commission 2020 autumn forecast and not as intermediate consumption. Because the final allocation of the expenditure is not known at present, this recording does not affect directly the estimate of government consumption and GDP. A part of the contribution to employers to maintain employment is recorded in 2021[13], while the Draft Budgetary Plan expects the measure only in 2020. The Commission forecast did not classify any measure as one-off. The Draft Budgetary Plan reported one-offs of 1% of GDP in 2021 (compared to 2% of GDP in 2020).

Based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Slovakia in 2021 are supporting the recovery of economic activity against the background of considerable uncertainty. However, some measures set out in the Draft Budgetary Plan appear not to be temporary or matched by offsetting measures. These measures are estimated to have the impact of 0.6% of GDP in 2021.

Moreover, it is useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them to changing circumstances.

It is anticipated that Slovakia will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

[13] Based on information provided in the formal application for funding from the SURE programme.



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## 5. ANNEXES

**Mandatory variables not included in the Draft Budgetary Plan**

The Draft Budgetary Plans does not include several mandatory variables for the basic assumptions including:

- Table 0a. Basic assumptions:
  - World excluding EU, GDP growth
  - EU GDP growth
  - World import volumes, excluding EU
- Table 1a. Macroeconomic prospects
  - Contributions to real GDP growth
    - 10. Final domestic demand
    - 11. Changes in inventories and net acquisition of valuables
    - 12. External balance of goods and services

Not included the mandatory variables do not impede the Commission’s ability to assess the Draft Budgetary Plan based on the plan’s assumptions.



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