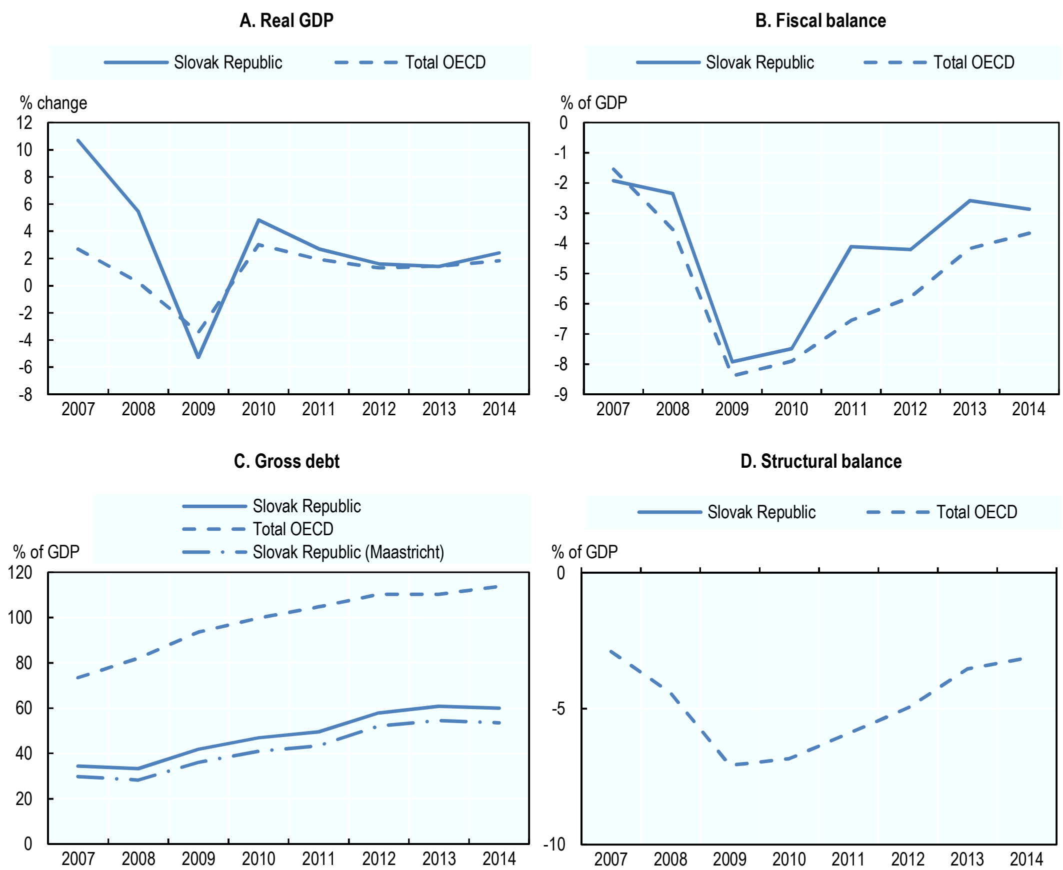
Slovak Republic

1. Economic situation

Economic growth is projected to accelerate further in 2015. Labour-market performance will continue to improve and increasingly confident households should spend more out of rising real incomes. Export markets are set to recover, raising business sentiment and investment.

The slowdown in the pace of fiscal consolidation in 2014 was appropriate, given the economic slack. Nevertheless, budgeted further consolidation efforts are welcome to build fiscal buffers. In that regard, implementing multi-annual binding spending ceilings will reinforce budget discipline, while improving the efficiency of tax administration will support revenue collection.

Key economic indicators: Slovak Republic



Source: OECD (2015a), "OECD Economic Outlook No. 97 (Edition 2015/1)", *OECD Economic Outlook: Statistics and Projections* (database), http://dx.doi.org/10.1787/data-00759-en.

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Investment is still well below the pre-crisis level. Foreign investment, which has been an important driver of capital accumulation (the foreign direct investment [FDI] stock is

60% of GDP), has been subdued due to the sluggish growth of the Slovak Republic's trading partners and competition from low-cost countries in the region. Policies to improve business climate, infrastructures, innovation and skills can give impetus to more broad-based FDI. Strengthening administrative capacities and expanding the use of simplified procedures will help to increase the use of EU structural funds.

2. Fiscal policy and budgetary governance

The fiscal deficit in the Slovak Republic, which was already high at -1.9% of GDP before the crisis in 2007, reached -7.9% of GDP in 2009, but after significant consolidation efforts this was reduced to 2.6% of GDP in 2013. The next year, the Slovak Republic successfully exited the EU's Excessive Deficit Procedure. The Government has since relaxed the pace of fiscal consolidation, and indeed the budget deficit increased to 2.9% GDP in 2014. This is expected to be compensated for by a stronger consolidation effort in 2015. The primary objective of fiscal policy in the Slovak Republic is to ensure effective and sustainable public finances that facilitate further improvement in the quality of life in the Slovak Republic, which demands continued efforts towards revitalising public finances in the next years.

Fiscal objectives

The Government has set a medium-term target for the fiscal balance to be 0.5% of GDP in 2017, confirmed in the Stability Programme 2015-18. The latest government estimate is that the budget deficit will be 2.55% of GDP in 2015, slightly above approved budget (2.49% of GDP) but still within EU fiscal limits. The targets for ongoing years were set at 1.93% of GDP in 2016, 0.88% of GDP in 2017 and 0.53% GDP in 2018. Nearly three-quarters of the consolidation efforts in 2015 are focused on the expenditure side of the budget.

Spending-side measures

The majority of expenditure reductions will be achieved through ESO public administration reforms (effective, reliable and open public administration). In particular, the Government is looking to rationalise the number of state organisations, improve their service processes and increase their effectiveness. Other measures include increasing efficiency in the healthcare sector.

Tax-side measures

The Government is making efforts to improve the efficiency of tax collection. This will partly be achieved through introducing an obligation to record revenues in electronic cash registers into new economic sectors. Efforts will also extend to evasion relating to corporate income taxes. In addition, VAT will be maintained at the current rate of 20% from 2015 and the Income Tax Act is being amended to broaden the tax base and eliminate various exceptions.

Budget costings and execution

The planned expenditure savings are not specified in detail and cannot be expected to be implemented in full. Additional measures are expected in the context of the state administration reform (ESO), which according to the Draft Budgetary Plan would yield savings mainly from freezing wage bill growth. Savings from planned efficiency increases in the healthcare sector may be overestimated in the short-term.

Protecting economic growth

Fiscal consolidation in 2015 is expected to slow GDP growth down by 0.5 percentage points. However, the Government has prepared a set of structural measures focused on supporting economic growth and employment. The labour market is the greatest challenge for the Slovak economy and the Government is planning significant reforms. For example, the health contribution allowance and concurrence of material need benefits and wages should help increase employment among low-income employees.

Policy priorities

Government priorities include:

1. state administration reform (ESO programme)
2. improved efficiency of tax administration and collection
3. implement structural reform to improve functioning of the labour market.

Long-term sustainability and fiscal risks

The risks to the macroeconomic scenario underpinning the Draft Budgetary Plan appear to be balanced and the scenario is deemed realistic. The budget which was adopted for 2015 included a reserve of EUR 155 million in case the macroeconomic scenario worsens.

Sub-national budgeting

Overall, the government budget proposal for 2015 is expected to worsen the fiscal performance (net of taxes) of local governments by EUR 28 million. For example, significant savings in public expenditure are expected from capital expenditures where the primary source of savings is expected to come from local governments.

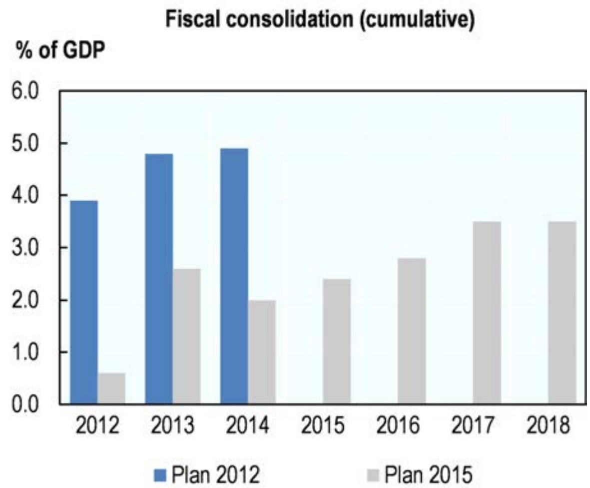
Economic forecasting

Forecasting is completed by the Ministry of Finance and approved by the Macroeconomic Forecasting Committee. This committee was established under the constitutional Fiscal Responsibility Act (Act No. 493/2011) as an advisory body to the Minister of Finance. The role of the committee is to ensure greater transparency, objectiveness and quality of macroeconomic forecasts. The committee consists of representatives of private banks, the central bank, the fiscal council and independent economic analysts. Its independence from government influence is anchored in the committee's statutes.

Engagement of parliament and citizens

The Government has created a web portal to show the general government budget and explain how it is compiled. The website is managed by the Ministry of Finance and also acts as a source of information on the budget and its regulatory framework.

The government's planned fiscal consolidation: Slovak Republic



Source: OECD (2015b), *OECD State of Public Finances Survey 2015*; OECD (2011), *Restoring Public Finances,* www.oecd.org/gov/budgeting/47558957.pdf.

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