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Slovakia Economy briefing:

State budget draft for 2019

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State budget draft for 2019

The Ministry of Finance has published a draft of the public administration budget for the next three years. According to the expectations, the government deficit should fall to a historic 0.1 % of GDP for the first time next year. The result is set to achieve a medium-term budgetary target. In 2020, the state budget should remain balanced. However, in 2021, for the first time a surplus of 0.2 % of GDP is predicted. Considering the gross debt of the government, the situation also appears to be favorable. The expected numbers should continue to decline in 2019, falling to 47.3 % of GDP.

Based on the parameters of the fiscal framework for the general government budget in the following three years, the gross general government debt is projected to fall to 44.8 % of GDP at the very end of the budgetary period.

Referring to the published draft by the Ministry of Finance, the Slovak economy is expected to grow by 4.5 % next year. The state budget is reported to manage next year a cash deficit of €2.138 billion. The total revenues are projected at €15.497 billion; and expenditures should reach €17.635 billion. The expenditures next year should total €420 million, which is up 15.3 % from the figure approved for this year. In case of personnel expenditures for the next year, an increase is expected in the amount of €35.1 million compared to the previous year, as the Finance Ministry also reflected the impacts of the Financial Administration's reform in the draft budget. Expenditures on information technologies financed from the state budget should increase to €80.4 million, which would represent a drop to data obtained this year.[1]

The Finance Ministry has submitted the draft state budget to the tripartite meeting to be held on 8 October. Considering the presented data Slovakia

[1] --, “Ministerstvo financií zverejnilo návrh rozpočtu na budúci rok,“ *SME Ekonomika*, 4 October 2018, <https://ekonomika.sme.sk/c/20929736/kazimir-rozpocet-financie-buduci-rok-deficit.html>.

continues with the revitalization of public finances in order to achieve long-term sustainability.

On the contrary, the proposed budget draft should bring some negatives in terms of impacting the railway transportation. The introduced numbers for 2019 will have a devastating effect for the state-owned railway company ŽSR (Railways of Slovakia), while the draft fails to meet requirements of a balanced management under the current Railway Infrastructure Operation Agreement. According to the company, operating subsidies will continue to decrease despite requirements for a higher transport performance, the restoration of passenger transport on the Šahy (Nitra region) - Zvolen (Banska Bystrica region) line, obligations to fund increased bonuses for night-time, weekend and public-holiday work, inflation and salary growth in the national economy.[2]

Referring to a recently published Finance Ministry report, the state budget recorded a deficit of €609.5 million at the end of September. The obtained data resulted in an amount lower by 44% or €478.3 million than the deficit reported last year. State budget incomes went up by €950.6 million, with expenditures recording an increase of €472.3 million per annum. A positive development was showed in incomes from the EU budget, which equaled to €304 million. Other state budget incomes increased by €4.5 million year-on-year. Expenditures on servicing the state debt decreased by €79.2 million per annum, while state budget expenditures related to drawing EU funds saw a year-on-year rise of €193.7 million. The increase was related to a rise in drawing funds for co-financing, which amounted to €40.5 million.

The GDP should grow by 4% this year, 4.5 % next year, and slow down to 4% in 2020, TASR learnt from the mid-term prognosis of the Slovak central bank (NBS). Slovakia's GDP developed in line with expectations in the second quarter of 2018. According to the NBS governor, Slovakia's economy is in "good shape" and therefore it's necessary to use these "good times" to implement

[2] --, "ŽSR: Návrh rozpočtu na budúci rok je pre železnice likvidačný," *TASR*, 8 October 2018, <https://www.teraz.sk/najnovsie/zsr-navrh-rozpoctu-na-buduci-rok-je/353231-clanok.html>.

structural reforms aimed at increasing the growth potential of the economy and creating a scope for setting fiscal policies to cover future risks.[3] One of the future risks is dependency on one production sector. Slovakia is highly dependent upon the automobile industry to a large degree and, therefore, it should promptly follow innovation trends in the sector, Prime Minister Peter Pellegrini said at the GLOBSEC Summit 2018. According to Pellegrini, batteries are at the center of the ongoing industrial revolution, in terms of clean energy commitment but also other aspects. Earlier at the GLOBSEC Summit 2018, European Commission Vice-President Maros Sefcovic announced the founding of the Slovak Battery Alliance, which could enable Slovakia to become a leader not only in the automobile production but also in electromobility.[4]

Finance Ministers of the Visegrad Group signed a memorandum on financing the European budget

The Slovak Finance Minister Peter Kazimir together with the finance ministers of the Visegrad Group countries have agreed on and signed a memorandum on financing the European budget. Moreover, the Minister described the meeting as a historic point for the country. "It really is a historic meeting of the V4 finance ministers in a way, and this historic nature was also caused by the fact that we've signed a declaration on using our own resources, which is an attempt to form a synthesis of national positions from individual finance ministries," declared Kazimir at a press conference following the signing of the memorandum.

The ministers in the meeting also discussed the revenue side of the budget and its efficiency. "The European budget is a key and important investment tool in Europe and we're now partners," said minister Kazimir. From regional aspects

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[3] --, “NBS: HDP by v roku 2018 mal dosiahnuť 4 %, v budúcom roku 4,5 %,“ *TASR*, 25 September 2018, <https://www.teraz.sk/ekonomika/nbs-hdp-by-v-roku-2018-mal-dosiahnut-4/350772-clanok.html>.
[4] --, “Peter Pellegrini vystúpil na medzinárodnej konferencii Globsec 2018,” *YouTube*, 18 May 2018, <www.youtube.com/watch?v=YUkfvX_lqcw>.

and from the point of view of other member states, possible new EU budget resources should meet several criteria. According to agreed terms they should be fair, sustainable and motivational and linked to European goals.

The V4 finance ministers concurred on the multiannual financial framework that the EU's main revenues should continue to appear in the contributions of states based on their economic performance, supplemented by revenues from the collection of duties. In relation to Brexit, relief for other states should also be abolished.

The idea of digital tax considered within the EU has also been discussed. The representatives of V4 in this matter expressed full support the European Commission's proposal for an EU-wide 3 % tax on digital revenues of large firms that would be introduced before a global overhaul of tax rules. In line with the Commission's proposal, only firms with a global annual turnover of 750 million euros and the EU revenue of at least 50 million euros a year would be taxable. Some 200 companies would fall within the scope of the new tax proposed by the Commission, European officials said, estimating additional annual revenues of about 5 billion euros ($5.7 billion) at the EU level.

Moreover, the Visegrad Group countries have decided to jointly build a high-speed railway track connecting Budapest, Bratislava, Brno and Warsaw. The ambitions of mutual cooperation were confirmed by the Hungarian Foreign Minister right after talks with the transport ministers of the other three members. The decision coincides with the political interests of all four members of the group, Peter Szijjarto told the Hungarian public media. The public procurement tender for drawing up a feasibility study for the project will be called this month in October.

In addition, a Slovak representative has signed a bilateral agreement with their counterpart from the Czech Republic on automatic exchanges of information on value-added tax. Cooperation between Slovakia and the Czech Republic should also be strengthened in combating tax evasion. They said that this was another step in joint activities aimed at eliminating VAT fraud cases.

Furthermore, referring to the agreement, the exchange of information regarding financial statements between both countries should be more effective and direct and will be applied to assess cross-border risk trading transactions.[5]

Conclusion

The Ministry of Finance presented a state budget draft for the next three years period. Based on the numbers it should meet historical milestones referring to its deficit calculation for 2019, or even surplus 0.2 % for the end of the period in 2021. The predictions for the gross debt are also very positive, as the state owned amount should decline to 47.3 % of GDP. The Finance Ministry has submitted the draft state budget to the tripartite meeting to be held in October. Referring to the presented data Slovakia continues with the revitalization of its public finances so to achieve sustainability. On the other hand, there is also a negative side of the published budget draft. The numbers calculated by the Ministry of Finance may have prejudicial impact for state-owned railway company ŽSR.

The finance ministers of the Visegrad Group countries have signed a memorandum on financing the European budget, which was considered as an important milestone for Slovakia. Also, the representatives has discussed the EU's proposal on taxation of digital revenues, which should be applied against transnational companies.

Furthermore, Slovakia has signed a bilateral agreement with the Czech Republic on automatic exchanges of information related to value-added tax, which should help to fight against and eliminate tax fraud actions.

[5] --, "Tatry hostia ministrov financií," *Ministerstvo Financií Slovenskej republiky*, 5 October 2018, <http://www.finance.gov.sk/Default.aspx?CatID=38&id=1005>.