Peter Kažimír

Deputy Prime Minister and Minister of Finance
of the Slovak Republic

MF/072092/2015-11
Bratislava, 10 November 2015

Dear Mr. Commissioner,

I would like to inform you about the new circumstances that have come to our attention only recently, and which are relevant for the assessment of the Draft Budgetary Plan of Slovakia for 2016 submitted on October 15.

After taking into account the revised Commission's treatment of the EU structural funds corrections as one-off and temporary in their nature[1] for 2014 and 2015, Slovakia's fiscal outcomes and targets are fully in line with the SGP requirements. Over the whole period, consolidation effort does not deviate from the required path to the MTO. The expenditure aggregate is projected to grow in line with the expenditure benchmark with a marginal difference in 2015 amounting to 0.1% of GDP. This is mainly an artifact of the quirk in the standard methodology that does not take into account measures that have successfully and demonstrably increased tax collection effectiveness in a durable way.

Structural balance and consolidation effort (% GDP)

	2014	2015	2016	2017	2018
Net borrowing/ lending	-2.8	-2.7	-1.9	-0.4	0.0
Structural balance	-2.1	-2.1	-1.6	-0.5	-0.4
Consolidation effort	**- 0.2**	**0.0**	**0.5**	**1.1**	**0.1**
Required consolidation	-0.4*	0.0	0.25	0.5	-

**For 2014, investment clause is reflected in the required consolidation effort*

Expenditure benchmark (% GDP)

	2014	2015	2016	2017	2018
Expenditure aggregate (% growth)	0.2	3.3	-0.7	-0.7	0.3
Expenditure benchmark(% growth)	4.1	2.9	2.2	1.4	2.7
Deviation (in % GDP)*	**1.5**	**-0.1**	**1.1**	**0.8**	**0.8**

** A positive value represents compliance*

There are differences of views between the Commission staff and Slovak authorities on the fiscal outcome in 2016, mainly because of the uncertainty about our ambitious expenditure savings plan, especially in the intermediate consumption[2]. With due regard for the independence of the staff forecast, we consider their assessment to be overly conservative. Public administration reform program ESO is in its third year, with material results. Further measures are being implemented and will contribute to government consumption savings worth 0.1 % GDP in 2016, mainly in priority sectors such as healthcare and public administration. A targeted program of savings in pharmaceuticals and other healthcare goods (curbing induced prescription and introducing price benchmarking[3]) will bring additional 0.15 % GDP within next year, while safeguarding the quality of and access to healthcare. In a similar vein, a major expenditure review program based on value-for-money analyses will be rolled out early next year. It will become standard part of the budgetary process and quick wins of the review will be implemented with an effect already in 2016.

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[1] We welcome this economically appropriate interpretation.

2 The approved budget counts with a year-on-year decline in intermediate consumption of about 0.6 % of GDP.

[3] New legislation on transparency of payments between pharmaceutical suppliers and physicians will be effective since January 2016.

In addition to the draft budget baseline, we have identified further positive risks stemming from better than expected general government revenues. In August through October this year, actual cash tax and social security revenues, mainly from VAT and social security contributions, exceeded our forecast by more than 0.1 % of GDP. This indicates that 2015 tax and social security revenues would be by 0.2 % GDP higher than assumed in the forecast underlying our budget. The positive risk for 2016 is even more pronounced, not only due to the carry-over, but because we will introduce additional measures to continue our fight against tax evasion.

Actual tax and social security revenues in 3Q 2015, difference to the DBP forecast (mil. eur)

Income tax	-45
Value-added tax	85
Excise taxes	7
Total taxes	**48**
Social security contributions	34
Health insurance contributions	7
Total revenue	**88**
p.m. as % of GDP	**0.11**

Along with the reasoning above, I would like to emphasize that I am strongly committed, on both personal and political level, to meeting our fiscal balance target of -1.9 % GDP in 2016. I would very much appreciate if you could take into account all this up-to-date information, and confirm full compliance with the SGP in the assessment of our Draft Budgetary Plan.

Sincerely Yours,

Cc: Jeroen Dijsselbloem, President, Eurogroup

Pierre Moscovici
European Commissioner
for Economic and Financial Affairs,
Taxation and Customs