Budgetary Governance in Practice: Slovak Republic

Economic context

The Slovak economy will maintain its rapid expansion and growth and is projected to exceed 4% in 2018 and 2019. Low interest rates and strong labour market outcomes will fuel consumer spending. Unemployment has already fallen to record lows, and intensifying labour shortages will boost wage growth. Investment should pick up, supported by an improving business climate and new infrastructure investment. Exports will continue to benefit from the expansion in the automotive sector, allowing the current account to reach a modest surplus.

Fiscal policy plans

In line with the government’s manifesto, balanced budget is to be achieved by 2020. The Budgetary rules Act was amended in line with Stability and Growth Pact and Two Pack. This act contains corrective mechanism in case of deviation from the trajectory of achieving the MTO. The Constitutional Act on budget responsibility also includes automatic corrective mechanisms if the debt exceeds the set levels.

A: Fiscal Balance and Public Debt

B: Fiscal Policy Plans

C: Public Investment

D: Expenditure by function (2016)

Note: The graph is referring to government investment as a percentage of GDP and as a share of total government expenditures.

Source: OECD National Accounts Statistics (database); Eurostat Government finance statistics (database).

Note: The graph is referring to general government fiscal balance and general government gross debt as defined in the OECD National Accounts Statistics.

Source: OECD National Accounts Statistics (database); Eurostat Government finance statistics (database).

Note: The graph is referring to Fiscal Policy Plans that are implemented and/or officially announced as of November 2017 and as indicated by the country. Actual results in graph A may differ as the Fiscal Policy Plans are prepared by the country beforehand and as the Debt and Balance Plan reported by the country are based on the country’s own definition; Data are referring to general government.

Developments in budgetary governance

In 2017, the Slovak Government significantly reformed the investment assessment process. The “Value for Money Project” introduced spending reviews and a new evaluation procedure for major investment projects (above EUR 40 million, or above EUR 10 million for digitalisation projects) in accordance with value for money principles as defined in the Public Investment Project Assessment Framework. In the upcoming period, 124 transport projects amounting to EUR 32.5 billion, are expected to be assessed. The development is closely related to the Slovak Republic’s current plans for developing a national infrastructure and investment plan.

The Slovak Republic has a programme budgeting framework in place, which includes budgetary allocations with information about performance, objectives and results. However, the use of the performance information is only included as background information for the purposes of accountability and information and is not significantly involved in any decision-making process on allocations. Closer reflections on how to more formally integrate SDGs in the budgeting process are underway.

There are still relatively low levels of budget transparency and parliamentary engagement in the budget process. Although most core budget reports are publically available, budget impact analyses or additional citizen’s guides are usually not published, and access to open data is limited. There is also limited citizen engagement in the budget process.

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Central Budget Authority

| Ministry of Finance |

Weblink: www.finance.gov.sk/

Legal Framework

The legal and constitutional grounding for the Slovak budget process is provided by the Act on the General Government Budgetary Rules, by the Constitutional Act on Fiscal Responsibility and the Act on Budgetary rules on the municipalities. The budget process is also regulated by Government resolutions on the general government budget.

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| Budget coverage |

The executive’s budget proposal applies to central government. Only the State budget (which includes central government) is approved by Parliament as a Budget law. The Budget of other subjects of the public administration includes mainly health insurance, social security, municipalities, and state-owned companies. Regions and municipalities have limited revenue-raising power and must run balanced budgets.

| Budget cycle |

| Budget circular | April |

| Pre-budget fiscal policy statement\(^{28}\) | April |

| Negotiations with line ministries | April-Oct. |

| Executive budget proposal | 15 October |

| Parliamentary vote on budget | December |

| Start of financial year | 1 Jan. |

| In-year budget execution reports | regularly |

| Mid-year implementation report | October |

| End of financial year | 31 Dec. |

| Year-end financial statement | April |

| Audited financial report | n/a\(^{29}\) |

| Parliamentary accounting | November |

\(^{28}\)The EU-related Stability Programme Update (SPU) currently serves as the main pre-budget fiscal report.

\(^{29}\) Consolidated financial reports in public sector are audited by commercial auditors.
1. Fiscal policy objectives

Fiscal rules are in compliance with SGP and Two Pack. This contains corrective mechanism in case of deviation from the trajectory of achieving the MTO. The Constitutional Act on budget responsibility (493/2011) includes automatic corrective mechanisms if the debt exceeds the set level. A balanced budget is to be achieved by 2020.

2a. Strategic alignment

The CBA takes the lead promoting the alignment between the annual budgetary allocations, and the medium-term strategic plans and priorities of the government that are set out in the stability programme. Systematic linkages of SDG targets and performance information are weak.

2b. MTEF

3-year rolling ceilings; creation of a MTEF legally-grounded, whereby annual budgets are managed in line with indicative medium-term ceilings. The expenditure ceilings are binding for the first budgetary year of such three-year budgetary framework and not for the two subsequent years.

3. Capital and infrastructure

Capital expenditures are included in the General Government Budget the same way as other expenditures. The Ministry of Finance must additionally approve infrastructure projects that involve large costs. The budget requests funding for the entire cost of multi-year projects up-front. The first national infrastructure plan is being prepared by the Deputy Prime Minister for Investments and Information.

4. Transparency and accessibility

7 of the core budget reports are publicly available; 8 of 9 ancillary reports, of which 7 are publicly available. There is a user friendly on-line budget data portal, but open data is limited. There are no budget impact analyses published, and no citizen's guides are available.

5a. Parliamentary engagement

Power to amend the State budget. A vote on the budget is however not considered a vote of confidence. Specialised staff of the Budget Committee offer advice on the budgetary issues to parliamentarians.

5b. Inclusive public / civic debate

There are no formal or informal mechanisms for citizen and stakeholder participation.

6. Budget accounting and financial reporting

Cash and accrual budgeting and reporting, initiated by the Public Finance Management Reform (Accounting Law 431, 2003). Accrual accounting was introduced 2008 and is applied for the whole public sector, including governmental institutions, municipalities as well as public organisations financed from the state budget.

7. Budget execution

Line ministers can re-allocate funds within their own budget envelope during the course of budget execution, except for binding indicators, which require the CBA’s approval. Supplementary budgets are produced and publically available.

8a. Performance budgeting

The national performance budgeting framework includes information about performance, objectives and results and is compulsory for line ministries and agencies. In practice performance information is not evaluated or used.

8b. Evaluation and VFM

There are legally binding requirements for ex ante evaluation of all programmes over a certain estimated cost. Spending reviews are an annual exercise and are closely linked to the newly introduced “Value for Money Project”.

9. Fiscal risk and long-term sustainability

The Council for Budget Responsibility (CBR) was formed in 2012 as an independent fiscal institution of the Slovak Republic. It’s main objective is to monitor and evaluate the fiscal performance of the Slovak Republic. The IFI produces long-term fiscal projections that cover a 50 years horizon and are updated every year. Contingency funds are in place.

10. Quality assurance and audit

Supreme Audit Office of the Slovak Republic provides compliance control on public spending, but has a limited role on and financial and performance audit. Its independence is based on primary legislation.

Note: Rows in bold represent notable international practice.