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Slovak Republic

**Council for Budget Responsibility
(Rada pre rozpočtovú zodpovednosť)**

Established: 27 June 2012.

Enabling legislation: Constitutional Law on Budgetary Responsibility (Ústavný zákon o rozpočtovej zodpovednosti), 8 December 2011.

Mandate: Publish a report on fiscal sustainability; submit to the parliament an evaluation of fiscal policy in relation to fiscal rules and transparency rules; on its own initiative, publish costings of draft legislation; monitor and evaluate fiscal performance; and perform related activities prescribed by law.

Budget: EUR 1.3 million (2015).

Staff: Three council members, 11.5 analysts and two secretariat staff (2015).

1. Context

The idea for an independent fiscal watchdog in the Slovak Republic originated with a working paper by the National Bank of Slovakia (Horváth and Ódor, 2009). This gave rise to discussions with the various political parties prior to the elections scheduled for June 2010, and the idea was included in the government programme of the centre-right coalition published in August 2010. During 2011, a cross-party parliamentary committee developed the draft legislation, which was presented in September 2011. The draft legislation was signed by a member of the parliament from each of the political parties represented in the National Council of the Slovak Republic. In December of the same year, by a majority of 146 out of 147 parliamentarians the National Council passed the Constitutional Law on Budget Responsibility, including provisions for the establishment of a Council for Budget Responsibility (CBR) (Ódor, 2012).

The negotiations leading up to the adoption of the legislation took place in the context of a fundamental economic crisis in Europe and sovereign debt crises in a number of countries.[1] The Slovak Republic's fiscal position was affected by these developments, which led to rising debt levels, although still within the European Union's official limit of 60% of gross domestic product. Despite this international dimension, the process remained grounded in domestic politics. However, the resulting legislation is compatible with the new fiscal treaty adopted by some European governments, which promotes domestic fiscal rules and independent fiscal institutions.

The main comparative reference during the drafting of the provisions on the Council for Budget Responsibility in the Slovak Republic was the experience of Hungary's Fiscal Council (Porubský, 2011). The initial idea was to create a fiscal watchdog under the parliament, which was thought to protect its independence. However, when the Hungarian government replaced its original Fiscal Council, with had been under the authority of the Hungarian parliament, with a much weaker body in 2011, it was felt in the Slovak Republic that institutional independence along with financing from the central bank might offer greater protection from potential political interference. The latter arrangement resembles the institutional set-up of Austria's Government Debt Committee (and to some degree the newly established Portuguese Public Finance Council), although this example did not play a major role in the discussions leading up to the creation of the Council for Budget Responsibility.

The creation of the council is part of a broader set of measures. These include: a constitutional debt limit, expenditure ceilings, strengthened fiscal rules for municipalities and enhanced fiscal transparency. The council is seen as the watchdog that works to enforce this fiscal framework. The debt limit is set at 60% of gross domestic product and relates to the official Eurostat figure. From 2017, the debt limit will gradually decrease until it reaches 50% of gross domestic product from the 2028 fiscal year onwards. Several fully automatic sanction mechanisms are triggered at different levels below the limit. The debt limits are subject to four numerically defined escape clauses relating to: major recessions, banking system bailouts, natural disasters, and international guarantee schemes.

The statutory debt limit is not the operational target; expenditure ceilings are expected to play this role and underpin the implementation of the debt limit. The Constitutional Law on Budgetary Responsibility also contains a no-bailout clause and automatic financial sanctions for municipalities breaching a debt threshold of 60% of their revenues. With regard to fiscal transparency, the law provides a statutory basis for two independent committees responsible for macroeconomic and tax forecasts for the budget. There is also a requirement to include several important pieces of information in the budget and the accounts. These relate to: consolidated budget figures, tax expenditures, implicit and contingent liabilities, net worth, one-off effects, financial results of state companies, and a debt management strategy.

2. Relationship with the executive and the legislature

The council is an independent institution. The National Bank of Slovakia provides funding for its operation. Initially, the idea was to place the council under the authority of the parliament; but institutional autonomy along with financing from the central bank was thought to be a better guarantee of its independence. It was thought that the governor of the central bank would arguably suffer higher reputational costs than the government from any attempt to eliminate an independent fiscal watchdog since fiscal stability directly supports monetary policy. The European Central Bank would also likely question such an attempt and thus exert peer pressure. The parliament has a role in appointing members of the council, and is also a statutory recipient of one of the council's required reports. The council may be asked to participate in hearings of the Budget and Finance Committee.

Since the council is tasked with assessing the government's compliance with the debt limit, it has a potential role in triggering the sanctions outlined in Articles 5 and 12 of the law. These depend on various thresholds in relation to the debt limit and increase in severity: first, an open letter by the Minister of Finance to the National Council; then reform proposals from the government; an expenditure freeze, including politician's salaries; a balanced budget requirement; and ultimately a vote of no-confidence in the government once the debt limit has been reached or exceeded.

Article 8 of the law provides a statutory basis for two complementary institutions, which are already operational: the Committee on Tax Revenue Forecasts and the Macroeconomic Forecasting Committee. These committees are advisory bodies to the Minister of Finance and produce their forecasts twice a year, which inform the budget preparation process. The existence of these institutions limits the need to give such forecasting responsibilities to the council, which is left with a more focussed mandate.

Box 1. **Role of the legislature in the budget process**

The Slovak Republic is a parliamentary republic. The government is led by the Prime Minister and exercises executive power. The President is the head of state and the formal head of the executive, though with very limited powers. The President is elected by direct, popular vote for a five-year term. The National Council of the Slovak Republic is a unicameral legislature with 150 seats. Members are elected for four-year terms on the basis of proportional representation.

The draft budget has to be presented to the National Council by 15 October, two and a half months prior to the start of the fiscal year. The constitution does not impose constraints

Box 1. **Role of the legislature in the budget process** *(cont.)*

on the powers of the National Council to amend the budget proposal. The 13-member Committee on Finance and Budget plays the central role in examining the budget, with input from other parliamentary committees. In practice, parliamentary amendments to the budget are not uncommon, but their overall impact is typically limited. The National Council does not have a budget research unit to support its scrutiny of the budget.

3. Legal basis for establishment

The legal basis for the establishment of the council is the Constitutional Law on Budgetary Responsibility (Ústavný zákon o rozpočtovej zodpovednosti), which received parliamentary approval on 8 December 2011. Hereafter, it is referred to simply as "the law".

4. Mandate

Article 4(1) of the law spells out five specific duties of the council. It must:

a) Develop and publish a report on sustainability, including the baseline scenario and the determination of sustainability indicators, annually by 30 April and always within 30 days after consideration of a government programme and expressed confidence in government.

b) Prepare and submit to the National Council a report evaluating the implementation of the fiscal rules and fiscal transparency rules established in the law with reference to the previous fiscal year, each year by 31 August.

c) Prepare and publish at its own initiative opinions on draft legislation submitted to the National Council, particularly in terms of implications for the general government budget and long-term sustainability. Such advice may also develop at the instigation of a parliamentary group. This does not include normative advice.

d) Perform other activities related to monitoring and evaluating fiscal development in the Slovak Republic and the assessment of compliance with the rules of budgetary responsibility.

e) Perform other activities prescribed by law.

The mandate is clear and provides a relatively narrow primary focus on fiscal sustainability analysis and the assessment of compliance with fiscal and transparency rules. These two items are linked to specific reporting deadlines. Costing activities are also possible, but not required. The potential to carry out "other activities" related to the mandate provides flexibility and appears to allow the council to engage in a range of complementary activities – as long as they do not distract from its core mandate. Institutional coverage is comprehensive, including general government and other entities as well if their operations may affect public finances. The law does not specify any particular limitations.

5. Functions

The mandate of the council requires it to conduct analyses of long-term fiscal sustainability, which the law defines as a situation where general government revenues and expenditure under a baseline scenario for the next 50 years will not increase public debt above the upper limit of public debt enshrined in the legislation. Article 2 of the law provides precise definitions of a range of related concepts, including: the long-term baseline, the indicator of fiscal sustainability, the structural primary balance, net wealth of the Slovak

Republic, public enterprises, commitments and tax expenditures. The second core function of the council is to assess compliance with the fiscal and transparency rules contained in the legislation. Finally, the council can choose to cost individual pieces of legislation.[2]

The nature of the council's work is positive, or descriptive, rather than normative. It has no mandate to formulate explicit policy recommendations. Its mandate calls for a high level of expertise in fiscal analysis. The council has no role in macroeconomic forecasting for the government, which is the task of a separate body. Moreover, it has no mandate to cost the election platforms of political parties. Its functions are both prospective, when analysing long-term fiscal sustainability or the draft budget, and retrospective, when assessing the government's compliance with fiscal and transparency rules. The legal mandate of the council prioritises these two functions, leaving the third function, costing of legislation, as optional.

6. Work programme

The work programme is guided by the mandate of the council. It establishes two specific annual reporting deadlines: 30 April for the report on fiscal sustainability, and 31 August for the report to the National Council on the government's compliance with fiscal and transparency rules. Parliamentary groups can request the council to cost particular pieces of legislation, but ultimately the council has discretion in whether to do so. As noted above, the mandate also provides a degree of flexibility in terms of the council's engagement in other activities that are related to its mandate. The legal framework allows it to determine its own work programme, within the requirements of its mandate.

7. Budget

Article 3(8) of the law stipulates that the expenditures for the office that supports the council are financed from the budget of the National Bank of Slovakia. The National Bank must be immediately reimbursed for these expenses from the state budget, if it makes such a request to the Ministry of Finance. The council has autonomy in determining the allocation of funds across various items of expenditure, within the overall spending limit established by the National Bank. According to the memorandum that accompanied the draft of the establishing legislation, the intention was to fund the council with approximately EUR 2 million in 2013, and to subsequently link its allocation to the nominal growth of the current budget of the National Bank. The budget was set at EUR 916 000 in 2014.

The envisaged funding process is rather unique among the independent fiscal institutions reviewed in this publication. When the initial proposals were being discussed, the European Central Bank objected that direct central bank funding for the council constituted monetary financing. As a result, the provision was inserted to allow the National Bank to immediately reclaim the money from the state budget. Interestingly, the Government Debt Committee in Austria is also attached to that country's central bank and funded directly from its budget, but apparently this has not given rise to similar concerns.

8. Staffing

8.1. Leadership

Article 3 of the law regulates membership of the CBR. The council has three members: one chair and two other members. The chair is elected (and can be recalled) by the National Council of the Slovak Republic with the support of at least a three-fifths majority vote of members, based on a proposal by the government. One council member is elected (and can be recalled) by the National Council with an absolute majority of members present, based on a proposal of the President of the Slovak Republic. Another member is elected (and can be recalled) by the National Council with an absolute majority of members present, based on a proposal by the Governor of the National Bank of Slovakia. Council members have the status of public officials.

At least one council member is expected to be full-time. The two other members could potentially be part-time, but at least half of their time should be spent on their council work. There are no statutory rules for remuneration. An earlier draft of the law set an exact figure for remuneration of the chair and members, but this provision was removed in the final approved legislation. It is expected that the chair's remuneration will be similar to that of the vice-governor of the central bank.

Council members serve seven year non-renewable terms. If a member's term expires, a member resigns, or dies or is declared dead, the relevant nominating body is entitled to propose a replacement to the National Council within one month. If a member becomes ineligible to serve on the council due to a conviction for an intentional crime, the National Council itself nominates a replacement within one month. A council member may be removed from office only if convicted of an intentional criminal act, if a court decision deprives them of their legal capacity, or if they are unable for a period of six months to carry out their functions.

Council members must have appropriate expertise and experience, at minimum a completed master's degree and at least five years of experience in public finance and macroeconomics. A person who has been convicted of an intentional crime is not eligible to be a member, and full legal capacity is required. Membership of the council is also incompatible with holding a position with a political party or political movement, or with a company. Also excluded are the President of the Slovak Republic, members of the parliament, members of the European Parliament, members of the government, members of the European Commission, mayors, governors of a region, members of a municipal or regional council, or individuals on the board of the National Bank of Slovakia. A former council member may not become a member of the government until more than three years have expired since the end of their membership. These provisions allow for the appointment of foreign nationals if they have sufficient knowledge of the Slovak economy, and officials involved in the process expect this possibility to be utilised in practice.

The first appointments fall under special provisions contained in Article 10 of the law. The National Council has to elect the first members of the CBR with a three-fifths majority of deputies present. Moreover, the start of the first term of each member will be staggered to avoid all terms expiring at the same time and thereby disrupting the work of the council. The CBR has to submit its first required report (on fiscal sustainability) 6 months after the election of all members, and the second required report (on the implementation of the fiscal and transparency rules) 12 months after the election of all members.

The first three council members were elected on 27 June 2012 by constitutional majority. They included an economist and, former Governor of the National Bank of Slovakia with a background in commercial banking and economists with experience working in the central bank, as advisors to the Prime Minister and the Minister of Finance, and in academia.

8.2. Staff

According to Article 3(7) of the law, the council has the support of a secretariat in an office located in the capital city. The staff is being recruited based on their ability to carry out the required analytical and administrative tasks to enable the council to fulfil its functions. The recruitment of about 15 to 20 analysts is planned in the medium-term. At the end of 2012, eight analysts were working for the council. These analysts are mainly economists with experience in the public sector (central bank, Ministry of Finance), although several junior analysts were recruited directly from university. Given the small pool of candidates in the Slovak Republic, there was some concern that the National Bank of Slovakia and the Ministry of Finance would lose staff to the council. While this did indeed happen, the council agreed not to hire more than one staff member from each institution for one year in order to allow them to prepare for possible staff changes in advance. The council is solely responsible for hiring the staff for its office and terms and conditions are along the lines of those of the central bank. While the council may hire outside consultants, there were no plans to do so at the time this note was written.

9. Access to information

According to Article 4(2) of the law, the council has the right to require government entities to provide data that are necessary to carry out its functions. Public entities must provide advice and the necessary assistance upon request. The law does not contain specific restrictions with regard to the council's access to relevant data held by government entities. The council has established a memorandum of understanding on information-sharing with the analytical unit of the Ministry of Finance, the National Audit Office and the National Bank of Slovakia. To date, access has generally been good. Should the council experience problems obtaining necessary information in the future, it would state this publically in its report.

10. Transparency

The mandate contained in Article 4(1) of the law prescribes the publication of the required reports. In addition, Article 7(1) requires the council to publish on its website its methodology and assumptions for analysing fiscal sustainability. In addition to its main reports, the council publishes on its website: data sets, procurement information and contracts, presentations, blogs, a citizens' budget or "budget for the people", and an annual report. The council also maintains an English version of its website.

11. Governance, advisory support, monitoring and evaluation

The law establishing the council does not make provision for an oversight board or advisory panels, other than the distinction that it makes between members of the council and the staff of its office. The law does not mention systematic peer review of the reports of the council, or any other monitoring and evaluation arrangements.

However, in line with the OECD's recommendations on external evaluation, the council members took the initiative to establish an Advisory Panel comprising five well-respected foreign experts on fiscal councils and rules. The first Advisory Panel includes the former head of the Hungarian Fiscal Council and a current member of the Portuguese Public Finance Council, the first Canadian Parliamentary Budget Officer, an executive director in the Italian central bank and two academics. The panel's main task is to provide advice on methodological issues. Its members work on a *pro bono* basis and are expected to meet at least once a year and to be available for consultation electronically.[3]

12. Concluding remarks

The Slovak Republic's Council for Budget Responsibility was created on the basis of a consensus that brought together all political parties in support of its legal framework. This approach has led to a solid statutory basis for this new institution. The funding and staff level have allowed the council to meet the requirements of its mandate and to undertake important work at their own initiative. Since 2013, the council has also played a leadership role among European independent fiscal institutions, creating a new informal network of EU IFIs to help share information and co-ordinate communication with relevant EU institutions.

Notes

1. The crisis directly affected the political situation within the Slovak Republic as a first vote to approve the expansion of the European Financial Stability Fund in October 2011, which was linked to a confidence motion, toppled the centre-right coalition government in power since June 2010. This triggered new elections in March 2012 that were won by the socialist Smer party. Smer pledged to stick with the previous government's policy of reducing the deficit.
2. The CBR published four reports in 2012: a discussion paper on evaluating fiscal sustainability, an ex-ante evaluation of the draft budget for 2013-15, a costing of the latest pension reform and a report on fiscal sustainability.
3. The first meeting of the Advisory Panel to the CBR took place on 4 October 2013, in Bratislava. The advisors discussed with the members of the Council for Budget Responsibility issues ranging from the fiscal framework of the CBR to its economic models, methods of measuring the output gap and structural balance of public finances, OECD principles for independent fiscal institutions as well as long-term sustainability of public finance.

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