



# The new fiscal responsibility in Slovakia

by

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# The new fiscal responsibility in Slovakia



## I. Background

- SK & EU public deficits and debts
- EU anti-crisis measures

## II. Fiscal Responsibility Act

- Major goals
- Basic pillars

## III. Conclusion

# I. Background

## Slovak and EU-27 public deficits and debts 1 of 2

### The development of gross domestic product and general government deficit

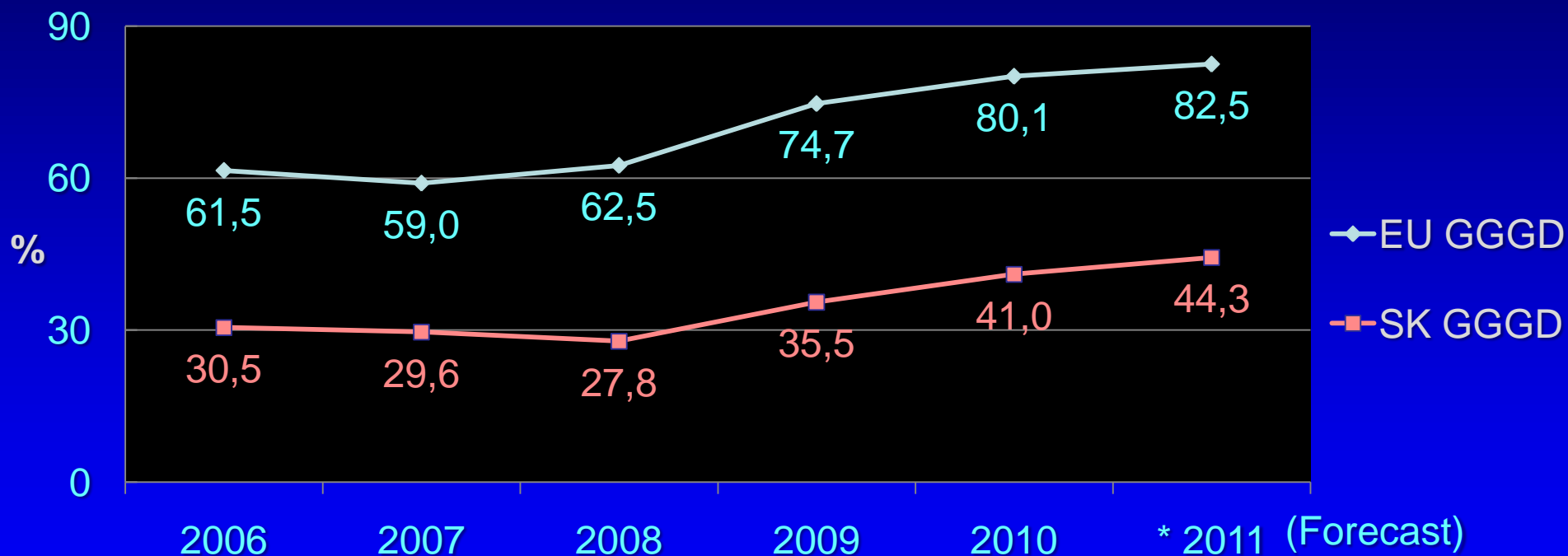


**Crisis hit and surprised the established budgets**

## I. Background

### Slovak and EU-27 public deficits and debts 2 of 2

#### The development of general government gross debt



**EU started addressing a problem of debt growth.  
EU is implementing the series of rescue measures and guarantees**



# I. Background

## EU anti-crisis measures for fiscal policy

**What did propose the European Union in the 2011 ?**

**The area of fiscal policy**

**Amendments to the  
Stability and Growth Pact**

**Defining a minimum  
requirements for  
national fiscal frameworks**

**Slovak government initiated a fiscal framework reform**



# I. Background



**I. The fiscal framework reform in Slovakia is compatible with EU initiatives concerning crisis management**

## **II. Fiscal Responsibility Act**

- Major goals
- Basic pillars

## **III. Conclusion**



## II. Fiscal Responsibility Act Major goals



Enhance credibility  
on financial markets

Long - term  
sustainability

Penalise irresponsible  
budgetary conducts

*Goals  
scheme*

## II. Fiscal Responsibility Act

### The basic pillars



Which are the basic pillars of Fiscal Responsibility Act?

Fiscal Responsibility Council

Transparency rules

Tighter rules for  
local governments

Aggregate  
nominal expenditure  
ceilings

Upper limit on  
general government  
gross debt

Emphasis on  
country's  
net worth



I  
II  
III

## II. Fiscal Responsibility Act

### I. Pillar – Fiscal Responsibility Council



#### Competencies

#### Drawing up & publishing

Report on the long-term sustainability

Evaluation report on the fulfilment of fiscal responsibility and transparency rules

Opinions on the legislative proposals

Other activities

**Fiscal  
Responsibility  
Council**

#### Roles

#### Evaluating

Economic development

Fiscal responsibility rules

## II. Fiscal Responsibility Act

### I. Pillar – Example 1 of 2



#### Report on the long-term sustainability

**Long-term sustainability indicator =  $X - Y$**

**X = current value**  
of structural primary general government balance

**Y = required value**  
of structural primary general government balance

Detailed methodology is published by  
Fiscal Responsibility Council  
before issuing a report on the long-term sustainability.

## II. Fiscal Responsibility Act

### 1st pillar – Example 2 of 2



## Development of long-term sustainability indicator

### Slovakia in 2008 to n + x



**Natural long-term sustainability = 0**

## II. Fiscal Responsibility Act

### 2nd pillar – Transparency rules



### Data publishing

#### The general government entities

**Budgetary data**

**to publish 30 days  
after budget approval**

**to publish 60 days  
after the end of budgetary year**

#### The Ministry of Finance

- **Macro-economic forecast**
- **Tax revenue and social contributions forecast**

**to publish before  
February 15 & June 30**



## II. Fiscal Responsibility Act

3rd pillar – The tighter rules for local governments

### The main rules for municipalities and higher territorial units

State budget

1. Zero participation in ensuring a solvency

2. Only for new roles within the legislative changes

3. Total debt > 60 % GDP

Penalty imposed by Ministry of Finance

Penalty = 5 % of (A – B)

A = total debt

B = 60 % actual revenues of previous budgetary year



## II. Fiscal Responsibility Act

4th pillar – Aggregate nominal expenditure ceilings

**Fiscal rule for government**

3-year basis

**Aggregate nominal expenditure ceilings**

**Ensuring**

**Long-term sustainability**

**Acceptable general  
government gross debt ratio**

**The procedure for  
determining the expenditure ceilings is established by an act**



## II. Fiscal Responsibility Act

5th pillar – Upper limit on general government debt 1 of 2



**Upper limit on  
general government debt = 60 % of GDP  
until 2017**

**What happens until 2017 when the debt is**

50 %	>	53 %
53 %	>	55 %
55 %	>	57 %
57 %	>	60 %
60 %	>	60+ %

**Automatical  
political  
sanctions**

**There are possibilities for  
the government to defend  
its position vs sanctions**



## II. Fiscal Responsibility Act

5th pillar – Upper limit on general government debt 2 of 2



**Upper limit on  
general government debt = 50 % of GDP  
after 2017**

**What happens after 2017 when the debt is**

40 %	>	43 %
43 %	>	45 %
45 %	>	47 %
47 %	>	50 %
50 %	>	50+ %

**Automatical  
political  
sanctions**

**There are possibilities for  
the government to defend  
its position vs sanctions**





## II. Fiscal Responsibility Act

6th pillar – Emphasis on state's net worth



### Calculation and goals

$$\text{State's net worth} = A - L$$

A = total assets of public sector balance

L = total liabilities of public sector balance

**Benchmark for  
transparency**

**Starting point for  
expenditure ceilings**

## II. Fiscal Responsibility Act

### 6th pillar – Example 1 of 3



### The simplified general government balance

Assets	Liabilities
A1 Buildings	L1 Explicit debt
A2 Infrastructure	L2 Implicit debt
A3 Capital stock	L3 Contingent debt
A4 Deposits	L4 Other liabilities
A5 Net worth of the Central Bank	<b>Net Worth</b>
A6 Net worth of the state enterprises	
A7 Natural resources	
A8 Ecological worth	
A9 Other assets	

## II. Fiscal Responsibility Act

### 6th pillar – Example 2 of 3



### Government privatized



Assets		Liabilities	
A1 State-owned enterprises net worth	A1 - Y	L1 - Y	L 1 Explicit debt
	A1 - Y	L1 - 1/2 Y	
		Net worth - 1/2 Y	Net worth

## II. Fiscal Responsibility Act

### 6th pillar – Example 3 of 3



### Government mines



Assets		Liabilities
A4 Deposits	$A4 + Y$	
	↑	
A7 Natural resources	$A1 - Y$	Net Worth
	$A7 - Y$	
	→	Net worth – Y

## II. Fiscal Responsibility Act



I. The fiscal framework reform in Slovakia is compatible with EU initiatives concerning crisis management

II. New act is liable towards future generation and has a counter-cyclical effect

III. Conclusion



### III. Conclusion



**Fiscal Responsibility Act  
is built to penalise irresponsible budgetary conduct as follows:**

**Informing the public about covert or cryptic deficits and debts**

**revealing reputational costs as long as the Government's  
failing to accomplish its own objectives**

**applying pre-agreed political sanctions, if the country's debt is  
approaching or exceeding a critical value**



### III. Conclusion



Thank you for your attention

Спасибо за ваше внимание