



Reforming national fiscal framework – lessons learned and way forward





Constitutional Law nr. 493/2011 S.b. of budgetary responsibility

- adopted on 8th December 2011 by National Council with effect from 1st March 2012
- long-term sustainability of public finances is the primary objective of fiscal policy in Slovakia (wide political consensus)
- neutrality towards differing views on the role of state in the economy and the way how to achieve that objective





Constitutional Law nr. 493/2011 S.b. of budgetary responsibility

New legislation

- establish a Fiscal Responsibility Council as an independent body to monitor and evaluate the Government's budgetary targets,
- enact the maximum limit on the ratio of public debt to GDP, including the measures which have to be implemented in the event that the reported levels of debt reached a certain limit,





Constitutional Law nr. 493/2011 S.b. of budgetary responsibility

- establish the rules of transparency in process of preparation of the public sector budget,
- establish the rules of transparency through mandatory disclosure of certain data and extension of the content of the public sector budget and final account of the state as basic budget documents,





Constitutional Law nr. 493/2011 S.b. of budgetary responsibility

- tightening of the budgetary rules for local government, which is included in the public sector budget as it is a separate entity and its management significantly affects profit or loss of the entire public sector.





Fiscal Responsibility Council

- independent body for monitoring and evaluating the development of the economy of Slovak Republic and evaluation of the fulfillment of the rules of budgetary responsibility
- has three members (elected for the first time this year by the National Council by three-fifths majority of its members)





Fiscal Responsibility Council

- produces and publishes a report on long-term sustainability, including a baseline scenario and determine indicator of the long-term sustainability annually by April 30th and always within 30 days after approving of the government manifesto
- prepares and submits to the National Council a report evaluating the implementation of the rules of financial responsibility under this Act for the preceding financial year annually by August 30th





Government debt ceilings

- is determined as 50% of GDP
- if the public sector debt reach threshold of 40% GDP, government has to implement measures depending on the actual debt level (actual debt level is public debt published by Eurostat in the spring and autumn notification)





Government debt ceilings

- when crossing the border 50% debt to GDP, there is the obligation of the Government to ask the National Council for a vote of confidence



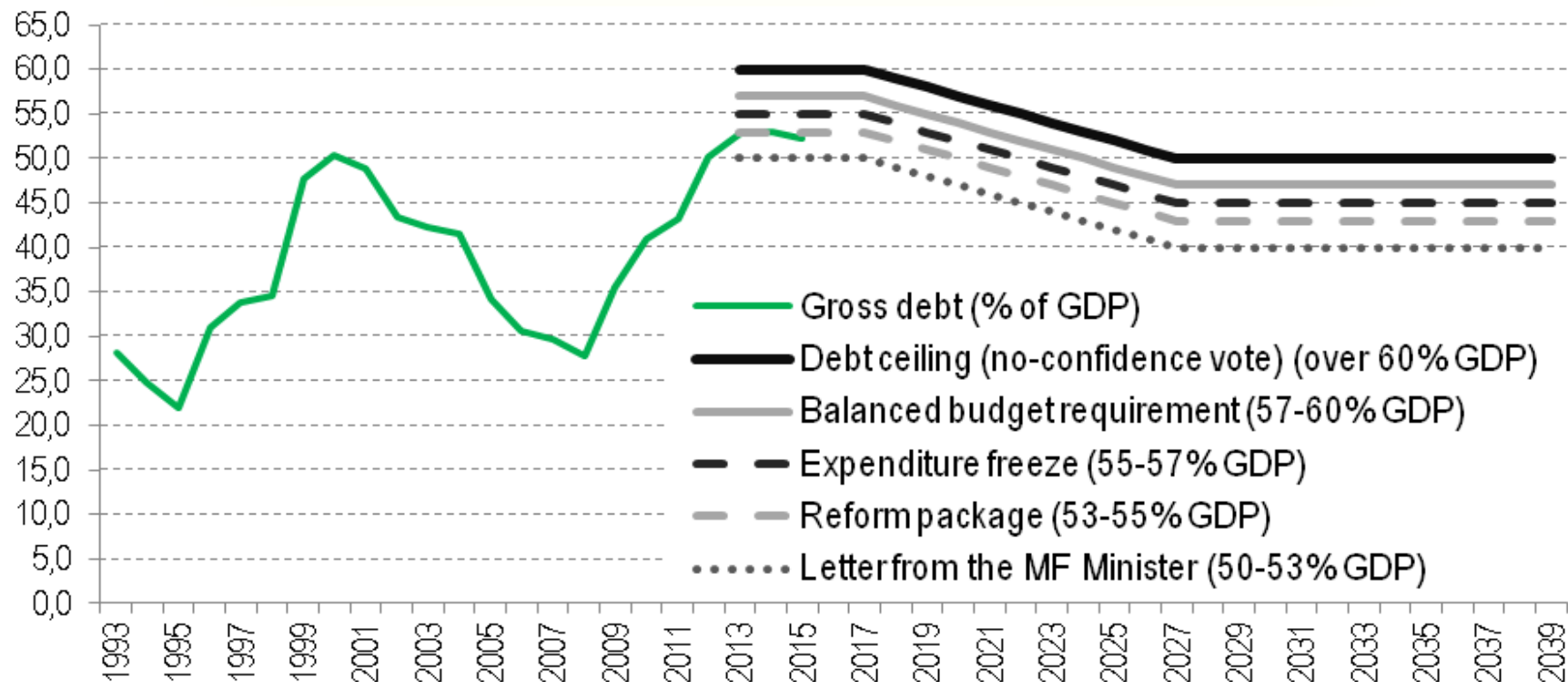


Government debt ceilings

- By 2017, the maximal limit of government debt is fixed at 60% share of GDP, and starting in 2018 until the end of 2027, the maximal limit of government debt decrease each financial year by one percentage point lower than the maximal government debt limit established for the previous financial year
- The debt ceiling, which will apply from 2028 is therefore 50% of GDP



Government debt ceilings





Escape clauses

The law includes several escape clauses which will suspend major sanctions for 3 years:

- major recession
- banking system bailout
- natural disaster
- international guarantee schemes
- declaration of war or declaration of hostility





Conclusion

- The main weaknesses of the current fiscal institutes and instruments are particularly tendency to shortfall, absence of a mechanism ensuring the countercyclical nature of fiscal policy, information asymmetry and lack of credibility, inflexibility, lack of transparency and still considerable room for "creative" accounting.





Conclusion

- The new legislation together with expenditure ceilings (under preparation) aims as far as possible to eliminate these deficiencies and set such a regulation by which it will be possible to reach the level of long-term sustainable management of economy of the Slovak Republic through respect the rules laid down therein.





Thank you for your attention

