PUBLIC SECTOR BUDGETARY PERFORMANCE RESULTS OF THE SLOVAK REPUBLIC FOR THE YEAR 2001

Ing. Ján Sahaj, National Bank of Slovakia

Reform of the management of public finances continued in 2001. This concerned ensuring the steady progress of the state in implementing various reform measures of the government directed at gradually lowering or eliminating over the long term the deficit in the public sector budgetary performance. Included among these measures are the application of programme budgeting and classification by function, medium-term financial outlook, the introduction of a state treasury system and financial decentralisation linked to the decentralisation and modernisation of public administration.

Budgetary performance of the central government

The state budget for the year 2001 was based on the following macro-economic assumptions:

• Year-on-year growth of gross domestic product of 3.2% at fixed prices,

• Average rate of inflation 7%,

• Average rate of unemployment 16.3%,

• Gross domestic product at current prices of approximately SKK 960 billion.

Under these conditions Act no. 472/2001 was approved for a budgeted total income of SKK 180.6 billion, expenditures of SKK 217.8 billion and a state budget deficit of SKK 37.2 billion, where § 12 of the Act allowed this deficit to be increased by an issue of bonds in the amount of SKK 6.5 billion for financing the construction of motorways and SKK 9.8 billion for the purposes of restructuring banks. For the first time the budget deficit (which included other public sector items) was stipulated directly in the Act, in the amount SKK 37.8 billion.

Already at the stage of compiling the draft state budget we drew attention to the under-valuation of tax receipts and proposed these be increased alongside a concurrent lowering of the budget deficit, which would have had a favourable impact on the discharge of NBS monetary policy. Our proposal was accepted only partially and the actual outcome has confirmed these expectations.

The total income of the state budget reached SKK 205.3 billion, which was SKK 25 billion higher than the budget forecast. The overall level of income was influenced also by the item grants and transfers which have the nature of non-budget income, since these simply pass through the budget and therefore in order to achieve an objective view of total incomes it is necessary to deduct these from income as well as expenditures. Net income represented SKK 191.6 billion, exceeding the budgeted figure by SKK 11 billion.

This excess was to a large extent caused by value-added tax receipts totalling SKK 73.6 billion, which was SKK 8.6 billion above that budgeted one. A favourable outcome was recorded also in the case of corporation tax, exceeding the budget by SKK 1.6 billion. In comparison with previous year however the yield from this tax was SKK 4.8 billion lower as a consequence of the reduction in its rate from 40% to 29% (the Ministry of Finance SR originally quantified this impact at SKK 6-7 billion). Income tax from individuals reached the budgeted level, excise taxes reported a slight undershoot of SKK 0.3 billion.

Non-tax receipts represented SKK 26.5 billion comprising to a significant extent a transfer payment from the profit of the National Bank of Slovakia (SKK 5.3 billion) and the special transfer payment of SKK 5.0 billion from the profit of the Slovak Gas company, SPP.

Overall expenditures (excluding grants and transfers) were made in the volume of SKK 236.0 billion, exceeding the budgeted level by SKK 18.2 billion. This overrun was caused partially by banks restructuring costs of SKK 8 billion. The state budget deficit from current budgetary performance was SKK 36.4 billion, which was SKK 0.8 billion lower than that approved one. From the permitted increase (of SKK 9.8 billion) in the deficit pursuant to § 12 for bank restructuring SKK 8.0 billion was used and highways construction was financed within the framework of current budgetary performance.

The results of the budgetary performance of the central government were thereby slightly more favourable than those forecast. From the point of view of the National

Bank of Slovakia the deficit reached is however still high and we view negatively mainly the fact that the government receipts above those planned simply melted away in expenditures at the end of the year and were not used for lowering the budget deficit.

Budgetary performance of statutory institutions

The budget of the Sociálna poisťovňa (social insurance company) forecast total revenues of SKK 82.7 billion, expenditures of SKK 84.3 billion, which would have meant a deficit of SKK 1.6 billion. In actual fact a profit was achieved, with total income of SKK 84.7 billion and expenditure of SKK 84.6 billion. This extra income was partly caused by the unburdening of debt from the Železnice SR (Slovak Railways company) (SKK 1.2 billion) and from state health care facilities (SKK 1.4 billion).

The health insurance company reported a surplus of SKK 0.8 billion. After excluding borrowed income (repayable financial aid, non-pecuniary settlement of receivables and liabilities, incomes other than from insurance companies) this surplus according to IMF methodology decreases to SKK 0.3 billion.

The National Labour Office reported incomes of SKK 12.0 billion, expenditures of SKK 8.6 billion and thus a surplus of SKK 3.4 billion.

State funds

In 2001 twelve purpose-designated state funds operated in the SR, in the field of agriculture, water and forest economy, the environment, health care, physical and sports culture, apartment construction, transport, culture and economy (liquidation of nuclear power facilities). The total resources of state funds including loans received represented SKK 39.6 billion, and requirements of SKK 31.2 billion, thereby, according to the annual closing of accounts, representing a surplus of state funds in the amount of SKK 8.4 billion. However, following consolidation (excluding loans and financial resources of municipal bodies), a loss of SKK 1.5 billion is reported.

National Property Fund

The year 2001 saw the redemption of NPF bonds issued in 1995 which fell due on 31 December 2001. As that the end of the year 2001 1 905 342 bonds were paid in the value of SKK 26.5 billion. 1 013 360 bonds were paid off in the year 2001 in the total value of SKK 13.9 billion to natural persons and 531 681 bonds were paid in the value of SKK 7.5 billion to artificial legal entities (domestic as well as foreign). Payment of bonds was significantly affected by the budgetary management of the National Property Fund, which ended with an accounting deficit of SKK 11.2 billion. After excluding SKK 8.0 billion representing realised states guarantees repaid from privatisation revenues, this deficit was reduced to SKK 3.2 billion.

Budgetary performance of towns and municipal bodies

The budgets of municipal bodies approved by a municipal and urban offices forecast in 2001 income of SKK 30.9 billion, expenditure of SKK 32.4 billion and an accounting deficit of SKK 1.5 billion. Actual income reached SKK 32.7 billion, expenditure SKK 30.6 billion, so the municipal bodies reported an accounting surplus of SKK 2.1 billion. It is however necessary to consolidate also this data, whereby the surplus changes to a slight deficit (SKK 0.3 billion).

Consolidated result for the whole sphere of public finances

For the year 2001 the deficit in the public budget was set at SKK 37.8 billion, i.e. 3.9% of GDP (pursuant to § I para. 2 of the Act on the state budget for the year 2001). According to data of the Ministry of Finance SR the fiscal deficit (excluding bank restructuring costs and state guarantees) reached according to national methodology SKK 37.3 billion (3.9% of GDP), meaning that the Budget aim also in this sphere had been adhered to.

Relation of the NBS and the state budget of the Slovak Republic

For the year 2001 the Bank Board of the NBS decided with effect from 1 January on the manner of calculating interest on balances administered in the state's aggregate register account in the amount of the one-day sterilisation rate of the NBS. Concurrently with Act no. 149/2001 coming into effect and which amended the act on the National Bank of Slovakia, there was signed with effect from 1 May 2001 an agreement with the Ministry of Finance SR on calculating interest on a credit balance in the aggregate register account of the Slovak Republic.

The National Bank of Slovakia paid out to the state budget interest on the aggregate register account in the amount of SKK 0.5 billion. Besides this, a transfer payment from free profit was made in the amount of SKK 5.3 billion, of which SKK 3.3 billion represented a transfer payment relating to the year 2000 and SKK 2.0 billion a transfer payment for the year 2001. Overall then the NBS in the year 2001 contributed to the income side of the state budget in the amount of SKK 5.8 billion.