

**Slovak Republic: Report on the Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency for the Slovak Republic was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on January 26, 2005. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Slovak Republic or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

**Report on the Observance of Standards and Codes—Fiscal Transparency Module:  
An Update**

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**I. INTRODUCTION**

1. The original Report on the Observance of Standards and Codes (ROSC): Fiscal Transparency Module was issued in July 2002; an update was issued July 2003.<sup>1</sup> During the 2004 Article IV consultation, the IMF staff reviewed developments in the areas pertaining to Slovakia's observance of the fiscal transparency practices originally assessed in 2002, with a view to updating, where relevant, changes in current practices, or describing the implementation of the recommendations of the earlier ROSC reports. This note reports on developments in fiscal transparency in Slovakia since the 2003 ROSC update. For a full description of institutions and practices, and Fund staff recommendations, this update should be read in conjunction with the earlier reports.

2. The 2002 ROSC acknowledged Slovakia's progress in recent years in improving fiscal management and transparency, and concluded that Slovakia met several of the requirements of the Code of Good Practices on Fiscal Transparency. At the same time, the report also identified areas where progress would be needed to meet all the requirements of the code and to move toward best practices: (i) a better definition of the coverage of general government and of relations between the central and general government and the rest of the public sector; (ii) better accounting, classification, and reporting of fiscal operations; (iii) further improvements in the quality of fiscal data and the transparency of budget management; and (iv) more careful consideration of long-term policy commitments and fiscal risks.

3. The 2003 ROSC update noted important further progress by Slovakia in bringing fiscal transparency close to international best practice, including by improving the coverage and availability of fiscal information; advancing work on international reporting standards; and improving the reporting of contingent liabilities and expenditure arrears. However, some reforms—namely, the conversion of the budget and the fiscal targets from a cash to an accrual basis, and the decentralization process—complicated monitoring.

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<sup>1</sup> Both documents are available on the IMF website at: <http://www.imf.org/external/np/rosc>.

## II. DESCRIPTION OF PROGRESS

### A. Clarity of Roles and Responsibilities

4. The original ROSC suggested that the coverage of fiscal operations be strengthened by: ensuring the effective compliance of the definitions of central and general governments with the European System of Accounts, 1995 (ESA95); reviewing the coverage of nonprofit organizations performing government functions; establishing a transparent formula for key tax sharing agreements between the central government and the regions and municipalities; developing a view of the government's core functions and distinguishing its noncommercial activities; clarifying the mandate of the National Property Fund (NPF) as to the management of privatized enterprises in which the NPF retains equity; making the regulatory framework clearer and more open; and including the list of government's equity holdings in the state final account, and recording them in its balance sheets at market values.

5. Consistent with these recommendations, the authorities have taken the following actions since mid-2003:

- According to the new law on fiscal decentralization (564/2004), effective January 2005, shared tax revenues will replace transfers from central government as the main source of finance for subnational governments. The law allocates 70.3 percent of budgeted personal income tax revenues to municipalities, and 23.5 percent to regional self-governments (VUCs).
- A December 2003 regulation by the Ministry of Finance (MoF) strengthens the budgetary reporting requirements for municipalities, VUCs and their budgetary organizations, which must submit information on their revenues and expenditures to the MoF.
- The new law on budgetary rules (523/2004) redefines subsidized organizations, clarifying their governance structure.
- The State Intervention Agency is now included within the central government, as a subsidized organization of the Ministry of Agriculture. Since 2003, documentation for the "public administration" (general government) budget and state final accounts has applied the definitions of central and general government set by the National Statistics Office in compliance with ESA95.
- The government has clarified financial relations with state-owned enterprises, applying an ex-ante dividend policy in preparing the public administration budget for 2005-07.
- The 2003 state final account discloses the government's equity holdings at book value, and specifies the percentage of ownership.

6. A further development in late 2004 was the establishment by parliament of an extrabudgetary environmental fund.<sup>2</sup>

7. In addition to the above measures, the following actions are planned in the near future:

- The government will become more active in setting dividend policy in the state-owned enterprises. The MoF's 2005 workplan envisages a review of the rate of return on assets of all state-owned companies.
- The MoF intends to provide additional information, if available, about the market value of government equity holdings in the 2004 state final account.
- The government plans to wind up the NPF by mid-2007.

### **B. Public Availability of Information**

8. The original ROSC concluded that the quantity, and to a large extent the quality, of information publicly available on public finances had improved substantially. At the same time, it noted that accounting, classification, and reporting of fiscal operations would benefit from the establishment of a state treasury, and recommended a number of measures, including: publishing the government's annual summary overview report, the *State Budget of the Slovak Republic*; providing a clear and detailed explanation of the differences between budget estimates and the actual outturns in the state budget document and in the state final account; reconciling outturns with ESA95 figures as notified to Eurostat; including information on the costs of providing state aid via tax measures in the budget documents; making available detailed information on the composition of state debt by instruments; developing a plan on progressive adoption of accrual accounting in line with ESA95 and the 2001 Government Finance Statistics Manual (GFSM); and reporting expenditure arrears in the state final account.

9. Since mid-2003, progress was made in these areas:

- The Convergence Programme for the Slovak Republic—issued in May 2004, and updated in November 2004<sup>3</sup>—includes a detailed table of general government revenues and expenditures for both past and future years, as well as a range of fiscal indicators and analysis.
- During the fiscal year, the MoF now submits to the government a quarterly report that discusses state budget execution and updates the projection for that year of the general government deficit.

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<sup>2</sup> Under the 2001-02 Staff-Monitored Program with the Fund, Slovakia had abolished most extrabudgetary funds at end-2001, including an environmental fund.

<sup>3</sup> The European Union requires members outside the eurozone to be issue a convergence program by December 1 each year; members inside the eurozone issue a stability program.

- The State Treasury began operations in January 2004. It has added clients through 2004; by mid-December 2004 the Treasury had 1,150 clients, and the authorities expect it to begin 2005 with over 1,900 clients, covering most general government organizations excluding municipalities.
- The 2003 state final account includes results reported in accordance with national reporting rules and results reported in accordance with ESA95 methodology, as well as information for the wider public sector reported on an accrual basis. The document clearly indicates the relevant methodology.
- The MoF has begun compiling statistics in accordance with the 2001 GFSM; data are available on a cash basis for 2000-02, and on an accrual basis for 2003.

10. However, some fiscal reforms again have complicated monitoring in the short run:

- In mid-2004, monthly state budget data did not include breakdowns of revenues or expenditures, owing to the incomplete initial coverage of the Treasury system. Breakdowns of monthly expenditure data remain unavailable, though revenue data had returned to normal by fall 2004.

11. In addition, the following actions are under way:

- The MoF is now developing a plan to progressively adopt accrual accounting, in line with ESA95 and the 2001 GFSM.

### **C. Open Budget Preparation, Execution, and Reporting**

12. The original ROSC concluded that key weaknesses in budget preparation had been largely addressed and that budget preparation was cast against a clearly identified medium-term macroeconomic framework and constraints. However, the report noted that the transparency of budget management could be improved further by: reviewing government institutions' deposits with commercial banks; ensuring that commercial public enterprises are audited by the private sector; and adopting provisions regulating supplementary budgets and carryover of appropriation from one fiscal year to the next.

13. Consistent with these recommendations, the following steps have been taken since mid-2003:

- Government institutions' deposits have been managed by the State Treasury since January 1, 2004. All Treasury clients are required to have an account at the Treasury and are prohibited from having deposits with commercial banks.
- The new law on budgetary rules (523/2004) incorporates provisions regulating supplementary budgets and limits the carryover from any fiscal year to the next year only.

14. The law on accounting requires the financial statements of commercial public enterprises to be audited by an external auditor, in accordance with the International Standards on Auditing. For some companies, these audits are carried out by the Supreme Audit Office (SAO) rather than by a private sector auditor. The SAO conducts separate audits of public organizations to verify the spending of state funds in accordance with the budget and with relevant legislation, separate from audits of financial statements.<sup>4</sup>

#### **D. Independent Assurances of Integrity**

15. The original ROSC concluded that the integrity of publicly available information on public finances was ensured by clearly defined and independent scrutiny. At the same time, the staff suggested: incorporating a more rigorous sustainability analysis of the existing policy commitments as well as of the implication of new commitments; reporting on contingent liabilities, other than government guarantees; and publication of a document outlining the government's debt strategy once the Debt and Management Agency became operational.

16. Since mid-2003, progress was made in the following areas:

- The 2005 budget introduces multi-year budgeting. The budget is prepared for 2005-07 and is based on the convergence program for 2004-2010. The 2005 budget documentation, and the 2004 convergence program documents, also include a long-term fiscal sustainability analysis for current government policies.
- The 2005 budget documentation includes an attachment on state guarantees, including the risks associated with existing guarantees. The convergence program documents provide some discussion on other contingent liabilities, for example noting major pending litigations.
- The MoF released in October 2003 a document outlining the government's debt strategy. The Debt and Liquidity Management Agency (ARDAL) is executing this strategy, and provides an annual update as an attachment to the state budget.

### **III. IMF STAFF COMMENTARY**

17. Since mid-2003, Slovakia has made further progress in bringing fiscal transparency close to international best practice. Important measures include further improvements in the coverage and availability of fiscal information—notably, the 2004 convergence program

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<sup>4</sup> According to the law on the Supreme Audit Office, the SAO is required to audit ministries and other governmental agencies; state funds; municipalities; public organizations established by law; subsidized organizations of the state or subnational governments; the National Property Fund; organizations with monopoly characteristics (the electricity companies, railways, etc.) if the state's ownership stake exceeds 34 percent.

documents introduce a new source of fiscal information and analysis—as well as new legislation on budgetary rules and fiscal decentralization. However, state budget data, especially on expenditures, have been incomplete since mid-2004; and the newly established extrabudgetary environmental fund represents a slippage in fiscal transparency.

18. Slovakia has addressed almost all of the recommendations from the 2003 ROSC update. The remaining recommendations from the 2003 update relate to audit requirements for public enterprises: specifically, to expand the mandate of the Supreme Audit Office (SAO) to audit all enterprises in which the government holds equity, not just those with a state interest of 34 percent or more; and to require audits of commercial public enterprises by the private sector in addition to the SAO.