Constitutional Act

of 8 December 2011

on Fiscal Responsibility

The National Council of the Slovak Republic has passed the following Constitutional Act:

Article 1
Recital

With a view to achieving long-term sustainability of public finances in the Slovak Republic, enhancing the transparency and efficacy of public spending and fostering the long-term competitiveness of the Slovak Republic, while taking due account of the requirement of the economic and social justice and solidarity between the current and future generations, this Constitutional Act establishes and defines the remit of the Fiscal Responsibility Board and lays down the rules for fiscal responsibility and fiscal transparency.

Article 2
Definitions

For the purposes of this Constitutional Act:

a) ‘long-term sustainability’ means such a condition of public finances in the Slovak Republic in which the general government balance and general government debt remain at levels which ensure that no expected change in general government revenues and expenditures compared to the baseline scenario causes the general government debt to exceed its upper limit in the nearest 50 years;

b) ‘baseline scenario’ means the long-term forecast of general government revenues and expenditures which reflects the future economic and demographic developments and the actual legislative framework in the Slovak Republic; the general government liabilities also include the implicit and contingent liabilities of the general government;

c) ‘long-term sustainability indicator’ means the difference between the current value and the sustainable value of the structural primary balance, expressed as a percentage of gross domestic product;

d) ‘structural primary balance’ means the balance of the general government budget adjusted for the fiscal performance of state corporations, municipal corporations and the National Bank of Slovakia, as well as for cyclical influences, one-off impacts and the cost of servicing the general government debt,

e) ‘net national wealth of the Slovak Republic’ means the total equity of general government entities, the National Bank of Slovakia, state corporations and municipal corporations, adjusted for the implicit and contingent liabilities, as well as for other assets and liabilities;

f) ‘state corporation’ means a company in which the state controls at least 20% of the company’s registered capital and a legal person established by law in which the state holds a qualified capital participation; for the purposes of this Act, ‘qualified capital participation’ means a direct or indirect ownership interest representing at least 20% of the legal person’s registered capital or voting rights or a possibility to exercise managerial influence over the legal person comparable to the influence derived from such an ownership interest; for the purposes of this Act, “indirect ownership interest’ means an ownership interest held through an intermediary, i.e. a legal person wherein the indirect interest’s holder holds a qualified capital participation;

g) ‘municipal corporation’ means a company in which a local or regional government controls at least 20% of the company’s registered capital;

h) ‘implicit liabilities’ means a difference between the expected expenditures and revenues of general government entities occurring in the future as a financial consequence of the exercise of their rights and obligations laid down in Slovak law, unless they form a part of the general government debt;

i) ‘tax expenditures’ means those items that reduce the general government revenue generated from taxes and mandatory contributions paid to the insurance funds.

Fiscal Responsibility Board

Article 3
Establishment of the Board

(1) The Fiscal Responsibility Board (hereinafter the ‘Board’) is hereby established as an independent body set up to monitor and evaluate the fiscal performance of the Slovak Republic and evaluate compliance with the fiscal responsibility rules.

(2) The Board shall have three members, the chairman and two members. The chairman of the Board shall be elected and recalled by the National Council of the Slovak Republic (hereinafter the “National Council”) by a three-fifth majority of deputies upon proposal by the Government of the Slovak Republic (hereinafter the “Government”). One member of the Board shall be elected and recalled by the National Council by a simple majority of the deputies present upon proposal by the President of the Slovak Republic. The other member of the Board shall be elected and recalled by the National Council by a simple majority of the deputies present upon proposal by the Governor of the National Bank of Slovakia. Members of the Board shall have the status of public officials.

(3) Without prejudice to the provisions of paragraph 5, the Board members’ term of office shall be seven years. If the office of Board member is terminated according to paragraph 5 (a), (b) and (d), the entity authorised to nominate the respective Board member shall submit to the National Council a new nomination for election to the Board within one month of the event which triggered the termination. If the office of Board member is terminated according to paragraph 5(c), the entity authorised to nominate the respective Board member shall submit to the National Council a new nomination for election to the Board within one month of the delivery of the notice of resignation. Members of the Board shall perform their office in person. The same person may be elected as Board member only once.

(4) Only individuals with appropriate professional knowledge and experience, full legal capacity and a clean criminal record shall be eligible for election to the Board. The ‘appropriate professional knowledge and experience’ means a complete university education at masters’ level and no less than five years of practice in the area of finances and macroeconomics. A person with clean criminal record is a person which has not been conclusively sentenced for an intentional criminal offence and produces an extract from the register of convictions to that effect. The office of Board

member shall be incompatible with any office in a political party or movement, with the office of a statutory representative of a company, with the office of the President of the Slovak Republic, member of the National Council, member of the European Parliament, member of the Government, member of the European Commission, with the office of mayor, chairman of a self-governing region, municipal councillor, regional councillor and member of the Bank Board of the National Bank of Slovakia. The incompatibility of the office of Board member and of the office of Government member shall last three more years following the termination of the office of Board member according to paragraph 5(a) to (c).

(5) The office of Board member shall terminate

a) upon expiry of the term of office, as of the day on which a new Board member has been appointed;

b) upon resignation, as of the day on which a new Board member has been appointed;

c) upon dismissal for reasons stipulated in paragraph 6;

d) upon the member's death or when the member has been pronounced dead.

(6) A Board member may only be dismissed from office if he/she has been conclusively sentenced for an intentional criminal offence or judicially deprived of or limited in his/her legal capacity or when a Board member is incapable of performing his/her office for six months.

(7) The tasks connected with the professional, organisational, administrative, personnel and technical support of the Board's activities shall be performed by the Board's Office. The Board's Office is a legal person with registered office in Bratislava. The Board's Office shall be managed and represented by the Executive Director who shall be accountable to the Board for the activities of the Board's Office.

(8) The Board's Office shall operate within its budget of revenues and expenditures. The expenditures of the Board's Office shall be financed from the budget of the National Bank of Slovakia; the National Bank of Slovakia shall be forthwith reimbursed for any such expenditures from the state budget provided that the National Bank of Slovakia asks the Ministry of Finance of the Slovak Republic (hereinafter "Ministry of Finance") for reimbursement. Further details concerning the structure of the Board's budget and the Board's Office budget shall be laid down in the statutes adopted by the Board. The amount of individual expenditure items shall be approved by the Board within the overall expenditure ceiling set by the National Banka of Slovakia.

(9) The business of the Board shall be governed by the rules of procedure approved by the Board.

Article 4
Remit of the Board

(1) The Board

(a) draws up and submits the long-term sustainability report, including the baseline scenario and determination of the long-term sustainability indicator, as of 30 April each year and always 30 days following the parliamentary debate over the Government's Manifesto and vote of confidence ;

(b) draws up and submits for parliamentary debate to the National Council a report on compliance with the fiscal responsibility and fiscal transparency rules under this Act for the previous budgetary year, always by 31 August of the current year;

(c) draws up and publishes, on its own initiative, opinions on various legislative proposals submitted to the National Council, particularly in terms of their impact on the general government budget and long-term sustainability; the Board may draw up such opinions also at the request of a parliamentary caucus;

(d) performs other activities connected with the monitoring and assessment of the public finance development and compliance with the fiscal responsibility rules in the Slovak Republic;

(e) performs other activities mandated by the law.

(2) The Board shall be entitled to request cooperation from all general government entities in the provision of data of relevance to the Board's remit. If so requested by the Board, general government entities shall provide the necessary cooperation. Within the scope of its remit, the Board shall cooperate with and provide data to the National Bank of Slovakia.

Fiscal Responsibility Rules

Article 5
General Government Debt Limit

(1) The upper limit of the general government debt (hereinafter the "Debt") shall be 50% of gross domestic product.

(2) The Debt amount means the amount of the Debt of the Slovak Republic published from time to time by the European Commission (Eurostat) (hereinafter "Eurostat") expressed as a percentage of gross domestic product.

(3) If the Debt amount referred to in paragraph 2 reaches or exceeds 40% of gross domestic product, the debt-reducing procedure referred to in paragraphs 4 to 8 shall apply.

(4) If the Debt amount referred to in paragraph 2 reaches 40% of gross domestic product and is below 43% of gross domestic product, the Ministry of Finance shall submit to the National Council a written justification of the Debt amount, including the proposed measures for Debt reduction.

(5) If the Debt amount referred to in paragraph 2 reaches 43% of gross domestic product and is below 45% of gross domestic product

(a) the Government shall submit to the National Council draft measures it proposes to reduce the Debt, and

(b) the salaries of Government members shall be reduced to their previous fiscal year's level insofar as the previous fiscal year's level was lower; the salary reduction shall take effect as of the first day of the calendar month following the publication of the Debt amount and shall remain in force until the end of the calendar month in which the published Debt amount was lower than 43% of gross domestic product.

(6) If the Debt amount referred to in paragraph 2 reaches 45% of gross domestic product and is below 47% of gross domestic product, in addition to the procedure laid down in paragraph 5:

(a) the Ministry of Finance shall block, as of the first calendar month following the month in which the Debt amount was published, the state-budget expenditures in the amount of 3% of the total state-budget expenditures as approved in the State Budget Act for the respective fiscal year less the expenditures on government debt service, the European Union funds, state-budget funds earmarked for the financing of joint programmes between the Slovak Republic and the European Union, transfers to the Social Insurance Agency and expenditures designed to remedy damages caused by natural disasters; if the Debt amount referred to in paragraph 2 reaches or exceeds 45% of gross domestic product in the course of several subsequent fiscal years, the blocking of expenditures shall only be done in the first fiscal year in which the Debt amount referred to in paragraph 2 reached or exceeded 45% of gross domestic product;

(b) no funds shall be released from the reserve of the Prime Minister and the reserve of the Government;

(c) the Government may not submit to the National Council any general government budget proposal entailing a nominal year-on-year increase in consolidated general government expenditures compared to the general government budget for the previous fiscal year, except for the expenditures on government debt service, state-budget funds earmarked for the financing of joint programmes between the Slovak Republic and the European Union, transfers to the European Union, and expenditures designed to remedy damages caused by natural disasters; if the Government had already submitted such a general government budget proposal, it shall withdraw it from the National Council and, within 30 days, submit a new general government budget proposal complying with these conditions, and

(d) municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year with expenditures not exceeding their previous fiscal year's level, except for the expenditures designed to remedy damages caused by natural disasters and the funds earmarked to finance joint programmes between the Slovak Republic and the European Union.

(7) If the Debt amount referred to in paragraph 2 reaches 47% of gross domestic product and is below 50% of gross domestic product, in addition to the procedures laid down in paragraphs 5 and 6

(a) the Government may not submit to the National Council a general government budget proposal with budgeted deficit; if the Government had already submitted such a general government budget proposal, it shall withdraw it from the National Council and, within 30 days, submit a new general government budget proposal complying with these conditions.

(b) municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year as balanced budgets or surplus budgets

(8) If the Debt amount referred to in paragraph 2 reaches or exceeds 50% of gross domestic product, in addition to the procedures applied under paragraphs 5 to 7 the Government shall ask the National Council for a vote of confidence.

(9) In applying the procedures laid down in paragraphs 6 and 7, all general government entities whose budgets form a part of the general government budget shall align their respective budget proposals with the general government budget proposal presented by the Government.

(10) The obligation to invoke the provisions of paragraphs 6 to 8 shall not apply to the period of 24 months starting on the first day following the day on which the Government's Manifesto was approved and the Government got the vote of confidence.

(11) The obligation to invoke the provisions of paragraphs 6 to 8 shall not apply to the period of 36 calendar months starting on the first day of the calendar month following the calendar month in which:

(a) the Statistical Office of the Slovak Republic finds out that the year-on-year percentage change of gross domestic product for the previous fiscal year and the fiscal year preceding the previous fiscal year, established in the current fiscal year, against the year-on-year percentage change of gross domestic product for the fiscal year preceding the previous fiscal year and the second fiscal year preceding the previous fiscal year, established in the previous fiscal year, declined by at least 12 percentage points;

(b) the Ministry of Finance finds out that the public expenditures incurred to restore the proper functioning of the banking sector affected by the financial crisis, public expenditures incurred to remedy the consequences of natural disasters and catastrophes in the Slovak Republic, and public expenditures incurred in connection with commitments arising from international treaties have, in aggregate, exceeded 3% of gross domestic product.

(12) The obligation to invoke the provisions of paragraphs 4 to 8 shall not apply to the period from the declaration of war or a state of war until the end of war or a state of war.

Article 6

Specific Provisions for Local Governments

(1) The state does not ensure and is not responsible for the solvency of any municipality or a self-governing region. The law specifies the procedures applicable to the insolvency of municipalities and self-governing regions.

(2) If the law imposes new tasks upon a municipality or a self-governing region, the state shall make appropriate funds available for the municipality or self-governing region concerned to perform such tasks.

(3) If the total amount of debt of a municipality or a self-governing region reaches or exceeds 60% of its actual current revenues in the previous fiscal year, the municipality or self-governing region concerned shall pay a penalty imposed by the Ministry of Finance in the amount of 5% of the difference between the total debt amount and 60% of the actual current revenues in the previous fiscal year. The total amount of debt of a municipality or a self-governing region is established by law.

(4) The duty to invoke the provision of paragraph 3 shall not apply during the period of 24 months starting on the first day following the day on which the constituent session of the municipal or regional council took place, unless the same person has been elected as mayor of a municipality or chairman of a self-governing region.

Article 7

Long-term Sustainability Indicator and the Public Expenditure Limit

(1) Prior to setting the long-term sustainability indicator, the Board shall publish on its website the methodology of calculations and the assumptions used in setting the long-term sustainability indicator.

(2) In setting the long-term sustainability indicator, the Board shall take into account:

(a) the value of the structural primary balance;

(b) the demographic projections published by the Eurostat;

(c) macroeconomic forecasts prepared by the Macroeconomic Forecasting Committee and the long-term macroeconomic forecasts prepared by the European Commission;

(d) long-term forecasts of expenditures sensitive to population ageing, calculated by the European Commission;

(e) long-term forecasts of capital revenues, calculated by the European Commission;

(f) implicit liabilities and contingent liabilities;

(g) other indicators influencing long-term sustainability.

(3) The procedure for setting the public expenditure limit shall be specified by law.

Fiscal Transparency Rules

Article 8

Committees

(1) In order to increase transparency in the process of compiling the general government budget, the Tax Revenue Forecasts Committee and the Macroeconomic Forecasting Committee are hereby established (hereinafter the "Committees"). The Committees act as advisory bodies of the Minister of Finance.

(2) The Tax Revenue Forecasts Committee shall prepare, at least twice a year, the forecasts of revenues from taxes and social security contributions, by 15 February and 30 June of the current fiscal year. The Macroeconomic Forecasting Committee shall prepare, at least twice a year, macroeconomic forecasts, by 15 February and 30 June of the current fiscal year.

Article 9
Publication of Data

(1) General government entities shall be obliged to prepare their budgets for at least three fiscal years; each budget proposal shall also contain their approved budget for the current year, expected budgetary performance for the current year, and actual budgetary performance for previous two fiscal years. In compiling their budgets, general government entities shall take due account the forecasts published by the Ministry of Finance pursuant to paragraph 3.

(2) General government entities shall be obliged to publish their budget data pursuant to paragraph 1 within 30 days of their budget approval and within 60 days of the end of each fiscal year.

(3) The Ministry of Finance shall publish, at least twice a year, the forecasts prepared by the Committees pursuant to Article 8(3), by 15 February and 30 June of the current fiscal year.

(4) In addition to the data required under a separate law, the general government budget shall also contain the general government budget's consolidated balance, the state debt management strategy, and information on tax expenditures, implicit liabilities, contingent liabilities, one-off impacts and the fiscal performance of state corporations; the general government entity responsible for administering the respective chapter of the state budget shall submit to the Ministry of Finance all requested information concerning the fiscal performance of state corporations.

(5) The summary annual report of the Slovak Republic shall contain, in addition to the information required under a separate law, also the amount of the net national wealth of the Slovak Republic, the general government budget balance, and evaluation of the fulfilment of the state debt management strategy targets, including the one-off impacts and the fiscal performance of state corporations.

Transitional Provisions
Article 10

(1) The National Council shall initially elect, by a three-fifth majority and based on a nomination put forward by at least one-fifth of all deputies, to a term of seven years the member of the Board whose nomination under the third sentence of Article 3(2) otherwise falls under the purview of the Government.

(2) The National Council shall initially elect, by a three-fifth majority and based on a nomination put forward by at least one-fifth of all deputies, to a term of five years the member of the Board whose nomination under the fourth sentence of Article 3(2) otherwise falls under the purview of the President of the Slovak Republic.

(3) The National Council shall initially elect, by a three-fifth majority and based on a nomination put forward by at least one-fifth of all deputies, to a term of three years the member of the Board whose nomination under the fifth sentence of Article 3(2) otherwise falls under the purview of the Governor of the National Bank of Slovakia; this Board member may be re-elected to the Board to the immediately subsequent term of office.

(4) The Board shall submit the report referred to in Article 4(1)(a) for the first time within six months of the election of all Board members.

(5) The Board shall submit the report referred to in Article 4(1)(b) for the first time and evaluate compliance with the fiscal responsibility rules and fiscal transparency rules for the first time within twelve months of the election of all Board members.

Article 11

The provision of Article 5 shall apply for the first time to the fiscal year of 2028.

Article 12

Transitional Provisions Effective Until 31 December 2017

(1) Until the end of the fiscal year of 2017, the upper limit of the general government debt shall be 60% of gross domestic product.

(2) If the Debt amount reaches or exceeds 50% of gross domestic product, the debt-reducing procedure referred to in paragraphs 3 to 7 shall apply.

(3) If the Debt amount reaches 50% of gross domestic product and is below 53% of gross domestic product, the Ministry of Finance shall submit to the National Council a written justification of the Debt amount, including the proposed measures for Debt reduction.

(4) If the Debt amount reaches 53% of gross domestic product and is below 55% of gross domestic product:

(a) the Government shall submit to the National Council draft measures it proposes to reduce the Debt, and

(b) the salaries of Government members shall be reduced to their previous fiscal year's level insofar as the previous fiscal year's level was lower; the salary reduction shall take effect as of the first day of the calendar month following the publication of the Debt amount and shall remain in force until the end of the calendar month in which the published Debt amount was lower than 53% of gross domestic product.

(5) If the Debt amount reaches 55% of gross domestic product and is below 57% of gross domestic product, in addition to the procedure laid down in paragraph 4

(a) the Ministry of Finance shall block, as of the first calendar month following the month in which the Debt amount was published, the state-budget expenditures in the amount of 3% of the total state-budget expenditures as approved in the State Budget Act for the respective fiscal year less the expenditures on government debt service, the European Union funds, state-budget funds earmarked for the financing of joint programmes between the Slovak Republic and the European Union, transfers to the Social Insurance Agency and expenditures designed to remedy damages caused by natural disasters; if the Debt amount referred to in paragraph 2 reaches or exceeds 55% of gross domestic product in the course of several subsequent fiscal years, the blocking of expenditures shall only be done in the first fiscal year in which the Debt amount referred to in paragraph 2 reached or exceeded 55% of gross domestic product;

(b) no funds shall be released from the reserve of the Prime Minister and the reserve of the Government;

(c) the Government may not submit to the National Council any general government budget proposal entailing a nominal year-on-year increase in consolidated general government expenditures compared to the general government budget for the previous fiscal year, except for the expenditures on government debt service, state-budget funds earmarked for the financing of joint programmes between the Slovak Republic and the European Union, transfers to the European Union, and expenditures designed to remedy damages caused by natural disasters; if the Government had already submitted such a general government budget proposal, it shall withdraw it from the National Council and, within 30 days, submit a new general government budget proposal complying with these conditions, and

(d) municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year with expenditures not exceeding their previous fiscal year's level, except for the expenditures designed to remedy damages caused by natural disasters and the funds earmarked to finance joint programmes between the Slovak Republic and the European Union.

(6) If the Debt amount referred to in paragraph 2 reaches 57% of gross domestic product and is below 60% of gross domestic product, in addition to the procedures laid down in paragraphs 4 and 5

(a) the Government may not submit to the National Council a general government budget proposal with budgeted deficit; if the Government had already submitted such a general government budget proposal, it shall withdraw it from the National Council and, within 30 days, submit a new general government budget proposal complying with these conditions, and

(b) municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year as balanced budgets or surplus budgets.

(7) If the Debt amount referred to in paragraph 2 reaches or exceeds 60% of gross domestic product, in addition to the procedures applied under paragraphs 4 to 6 the Government shall ask the National Council for a vote of confidence.

(8) In applying the procedures laid down in paragraphs 5 and 6, all general government entities whose budgets form a part of the general government budget shall align their respective budget proposals with the general government budget proposal presented by the Government.

(9) The obligation to invoke the provisions of paragraphs 5 to 7 shall not apply to the period of 24 months starting on the first day following the day on which the Government's Manifesto was approved and the Government got the vote of confidence.

(10) The obligation to invoke the provisions of paragraphs 5 to 7 shall not apply to the period of 36 calendar months starting on the first day of the calendar month following the calendar month in which:

(a) the Statistical Office of the Slovak Republic finds out that the year-on-year percentage change of gross domestic product for the previous fiscal year and the fiscal year preceding the previous fiscal year, established in the current fiscal year, against the year-on-year percentage change of gross domestic product for the fiscal year preceding the previous fiscal year and the second fiscal year preceding the previous fiscal year, established in the previous fiscal year, declined by at least 12 percentage points;

(b) the Ministry of Finance finds out that the public expenditures incurred to restore the proper functioning of the banking sector affected by the financial crisis, public expenditures incurred to remedy the consequences of natural disasters and catastrophes in the Slovak Republic, and public expenditures incurred in connection with commitments arising from international treaties have, in aggregate, exceeded 3% of gross domestic product.

(11) The obligation to invoke the provisions of paragraphs 3 to 7 shall not apply to the period from the declaration of war or a state of war until the end of war or a state of war.

Article 13

Starting in the fiscal year of 2018 and until the end of the fiscal year of 2027, the upper limit of the general government debt shall be set one percentage point below the upper limit of the general government debt applicable in the previous fiscal year. In the aforementioned period, the same measures as those specified in Article 12(3) to (7) shall apply and the percentage value of the Debt amount referred to in Article 12(3) to (7) shall be reduced by one percentage point each year.

Article 14
Effective Date

This Constitutional Act shall enter into force as of 1 March 2012, save for the provisions of Article 6(3) and (4) which shall enter into force as of 1 January 2015.

President of the Slovak Republic

Speaker of the National Council of the Slovak Republic

Prime Minister of the Slovak Republic