Chapter 14

Fiscal Reforms in a Country’s Competitiveness Development: The Case Study of Slovakia

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ABSTRACT

The chapter attention is given to fiscal reforms in Slovakia. Reform measurements and their impact on the state budget have been investigated in selected areas of the economy. Reforms are always lively discussed issue. On the one hand, they are reasoned by expert arguments, but also by political ideas and emotions. On the other hand, we must see that the reforms affect all citizens, mainly children, students, workers, unemployed and pensioners. The chapter contains a brief overview of the most important reforms in the years 2002-2006 as well as preliminary impacts on the economy, inhabitants and public finances. The aim of this chapter is to describe the fiscal reforms in Slovakia, to bring close principles that were behind the changes and to evaluate their influence on the country’s competitiveness. The aim is to show how economic policy and reforms have changed the socio-economic model in Slovakia and what results it has brought.

INTRODUCTION

Slovakia is small, opened economy. Due to the number 5,4 million inhabitants it presents smallest country in V4-Visegrad (Poland, Czech Republic, Hungary, Slovakia), from the view of economic level Slovakia is approximately at level of Czech Republic, behind Hungary and Poland. GDP rate is created by private sector – 91,3%, high openness is characterized also by 157,1% rate of foreign trade turnover on GDP.

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Several years ago Slovakia belonged among countries, which were merely catching up with other countries in the accession process to EU. “Double deficit” had been discussed, mainly backsliding during acquisition of foreign investments and EURO accepting were only theoretical possibility. Presently the situation is different because Slovakia has important position in investment map in middle Europe, tax and pension system are example for other countries and economic growth exceeds 5% without important internal and external deficits. It presents good base for sensible growth of living standard in coming years. Also international institutions appreciate it and rating agencies increase rating of Slovakia and World Bank signified Slovakia in 2004 as “top reformer” in area of business environment. Base of the success was political will and courage, qualitative team of experts and effective coordination of all reforms. Influences needed to be evaluated complexly with aim changes in the individual systems would lead to the meaningful common result. Key factor was also patience of inhabitants, which could be obtained except of good communication also through concentration of minus to short time horizon.

Economic reforms and national competitiveness growth, sustained development under the strict tactical control and strategic leadership of the national government, are important factors of modern countries’ social and economic dynamics, their repositioning in structure of international division of labor and global markets. Successful economic reforms have modernized societies, turned countries devoid of natural advantages in the new centers of capital concentration, highly skilled workforce attraction and technologies generating.

BACKGROUND

Growth of international competition, imbalance of the world markets of natural resources and raw materials, escalation of political instability, formation of new challenges for modern states and world community as a whole, are making issues on realization of successful, effective economic reforms and adequate requirements of business efficiency, global competitiveness and national social justice, security priorities and economic globalization inevitability sharply actual.

For decades, scholars and policy-makers have been interested in how fiscal policy influences entrepreneurship. Until now, research has focused on fiscal policy at the federal or regional level and used macro-economic outcome measures. Considerably less attention was given to how municipal governments can influence economic outcomes at the micro level. De Schoenmaker et al. (2014) examine the effect of municipal taxes, spending and tax compliance costs on firm profitability. The findings reveal that local taxes have a negative impact on firm profitability.

Europe was one of the poorest-performing regions in terms of growth, which limits its ability both to exert influence overseas and to satisfy its citizens, particularly because unemployment and inequality have increased in the course of integration process (Dauderstädt, 2007). EU needs a coordinated economic policy in which monetary policy is not exclusively directed towards stability, and with more public investment in innovative industries and continuing expansion of consumption. Zeyneloglu and Koening (2017) provide discussion of the most recent developments in open economy macroeconomics literature on fiscal policy which grown rapidly in recent years. This growth is stimulated by three recent economic trends which are likely to influence the efficiency and management of fiscal policy. First, the increasing integration in international financial and goods markets led researchers to reconsider its impact