

Розділ 6 ФІНАНСИ ТА БАНКІВСЬКА СПРАВА

FISCAL IMPACTS OF THE GLOBAL CRISIS WITHIN THE SLOVAK REPUBLIC

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The current global financial crisis has had a negative impact on social and economic development of most developed countries, which results in the deepening of fiscal imbalance. The objective of this paper is to analyze the impact of the crisis on the development of revenues and expenditures of the state budget and the budgets of regional self-governments of the Slovak Republic. The analysis is based on the period of 2004 – 2009, which reflects the changes evoked by the public finance reform, as well as the initial impacts of the global crisis. Apart from the analysis, methods of synthesis and comparison have been used. We assume that the entry of the Slovak Republic into the Eurozone and the acceptance of the common currency, the Euro, will continue to mitigate the negative impacts of the crisis on the deepening of fiscal imbalance.

Key words: global crisis, unemployment, state budget, municipal budget, GDP

INTRODUCTION

The current global crisis has had a negative impact on the financial sector, as well as on real economies of most countries. It has led especially to a slowdown in economic growth and a decrease in employment.

According to the Eurostat information [4], there were 15.683 million jobless people in the Eurozone in January 2010, which is an increase by 38.000 compared to December 2009. When compared to January 2009, 2.2 million people had lost their jobs. In the whole European Union there was a total of 22.979 million unemployed in January 2010, which is an increase by 136.000 compared to December 2009 [4]. The unemployment is an indicator which responds to the development of economies and analysts expect that this year the unemployment in the Eurozone could increase to as high as 11% and that way it could raise the tension in public finance even more. Holland had the lowest unemployment in EU in January – 4.2%, followed by Austria – 5.3% and Luxembourg – 5.9%. The highest unemployment was experienced by Latvia – 22.9%, Spain – 18.8% and Estonia – 15.5%. Slovakia, with its 12.9 % unemployment rate, ranks sixth among EU countries with the highest unemployment.

Compared to January 2009, all the countries of the European Union had experienced an increase in unemployment. The lowest increase was reported in Germany, i.e. from 7.2% to 7.5%, in Luxembourg from 5.4 % to 5.9 %, and in Belgium from 7.5 % to 8 %. The biggest increase was reported by Latvia again, where the unemployment increased by 10.6 % - from 12.3 % to 22.9 %. [12]

1 IMPACT OF THE ECONOMIC CRISIS ON THE ECONOMIC DEVELOPMENT OF SLOVAKIA

The economic crisis has affected Slovakia, too, although not as intensively as it has affected some other countries, such as Iceland, Hungary, Greece, Spain, Latvia, Ireland, etc. According to Mon Yenn [12], experts share the opinion that the early implementation of Euro has helped us greatly to handle the impacts of the economic crisis, which has contributed significantly to the increase in stability of the Slovak economy. Thanks to the new currency, we have gained greater certainty and stability. [3]

Except for the Eurozone, the economy of the Slovak Republic, too, has sensitively responded to the development of other economies in the Central European region, especially that of the Czech Republic. In 2008, the Czech economy managed to grow at a rate of 6.0 %, in 2009 the pace of its growth decreased to 4%.

The negative impact of the crisis on the Slovak economy had manifested itself as late as in the last quarter of 2008, mainly as an increase in unemployment, drop in GDP, and an increase in fiscal imbalance.

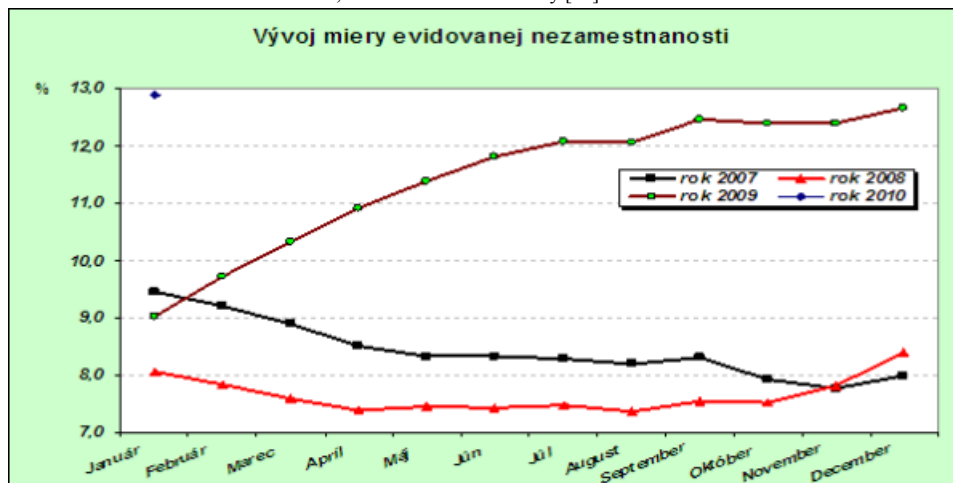
Table 1 Development of GDP at constant prices of the preceding year

	2005	2006	2007	2008	2009
In billion SKK	1451.202	1611.892	1832.360	1971.196	1930.72
In billion EUR	37.6	43.3	54.2	63.0	64.08

Source: Own design based on [18]

Picture 1 Development of registered unemployment rate

Source: Central Office of Labour, Social Affairs and Family [17]



According to Sihelský [15], the total number of registered applicants for a job was 391,499 people at the end of January 2010. It is a month-on-month increase by 6,140 people and a year-on-year increase by 130,997 applicants for a job. The unemployment rate calculated from the total of registered applicants for a job was 12.89 % in January 2010. In comparison to the end of December 2008, it represents an increase by 5.79 percentage points. An increase in unemployment was recorded in all districts of Slovakia even in January. The highest unemployment rate was in the Banská Bystrica district, i.e. 22.39 %. [6]

2 DEVELOPMENT OF REVENUES INTO THE BUDGETS OF THE SLOVAK REPUBLIC

The last reform of the public finance; especially the tax reform implemented as of January 1, 2004 and the fiscal decentralization of the income side of municipal budgets implemented a year later, i.e. as of January 1, 2005; has contributed significantly to the development of the state budget (SB) revenues and of the revenues into the budgets of municipalities in the Slovak Republic (SR).

Table 2 Development of revenues into the budgets of SR in billion SKK

	2005	2006	2007	2008	2009
State Budget	258.69	272.72	310.47	348.25	317.55
Budget of HTU	21.76	25.17	27.93	32.56	29.26*
Municipal Budget	85.41	84.25	87.78	96.42	94.65*

*Estimate

Source: Own design based on [18]

The concept of the last tax reform in SR had been aimed especially at the following:

- implementation of a single tax rate of 19% from income of physical persons, legal entities and regarding VAT,
- abolishment of exceptions, exemptions, and special regimes regarding income tax of physical persons and legal entities,

- abolishment of most special taxes and tax rates relating to other taxes, and
- elimination of most forms of double taxation.

The tax reform also attempted to lower direct taxes at the expense of indirect taxes, i.e. VAT and consumption taxes. As a result of the reform, the year-on-year increase in indirect taxes was 18.85 % for value added tax (VAT), and 14.06 % for consumption taxes in 2004. [2]

The period after 2005 is perceived as “yielding fruit from seeded reforms“, the reforms culminated on January 1, 2009 when a single currency of the EU, the Euro, was adopted. The economy experienced a significant improvement of macroeconomic indicators, especially the growth of GDP and employment, which has been a “weak” point of the Slovak economy since the beginning of the transformation process. A negative turn in the positive evaluation of the Slovak economy appeared, just as in other economies, in the fourth quarter of 2008. The global crisis again is considered to be the main reason.

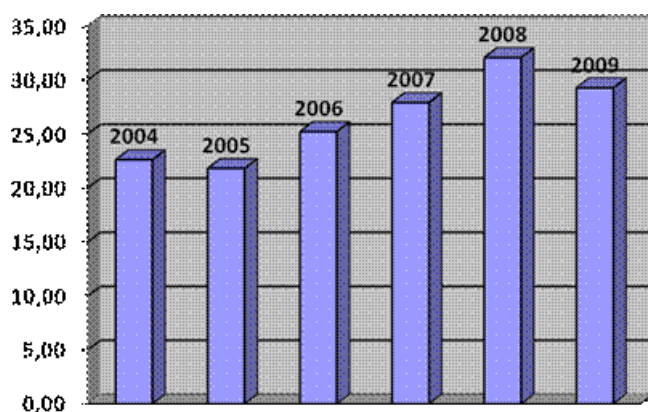
Table 3 Tax revenues into the state budget of the Slovak Republic in billion SKK

State Budget of Slovakia	2005	2006	2007	2008	2009*
Tax Revenues	222.59	236.27	258.24	271.85	241.76
VAT	122.42	128.46	135.98	139.56	115.88
Consumption Taxes	50.00	52.15	59.69	57.39	55.29
Income Tax of Legal Entities	42.07	47.26	52.42	63.93	64.16
Income Tax of Physical Persons	2.79	2.59	3.31	3.55	0.86
Other Tax Revenues	5.31	5.82	6.84	7.41	5.57

* Conversion EUR to SKK based on the official rate 1 Euro = 30.126 SKK

Source: Own design based on [18]

Obr 2 Development of revenues into the budgets of higher territorial units in SR from 2005 to 2009 in billion SKK



Source: Own design based on [18]

According to the data in Table 3, we can conclude that the highest share of revenues into the state budget of the Slovak Republic from VAT occurred in 2005, i.e. 55.0 % of its total tax revenues. From January 1, 2004 to the end of 2006, all consumption goods and services were taxed with a value added tax at a single 19% rate by a continuous method, i.e. every single tax payer of this tax was taxed from his added value.

As for the income tax for physical persons, since 2004 the tax system has been set, in accordance with the latest Slovak tax reform, at a single tax rate of 19%. Compared to the previous tax rate for physical persons, there has

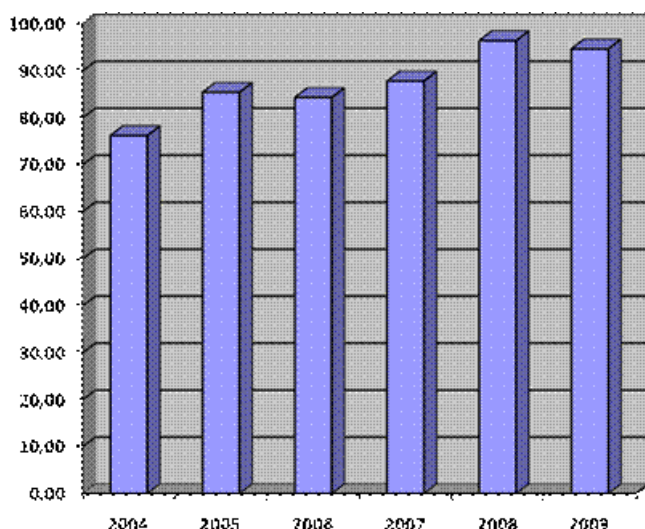
been a more progressive taxation of income up to SKK 90,000, which used to be taxed at 10 % rate before. The increase in progression was compensated by an increase in the tax-free amount, which was SKK 90,816 per tax payer back in 2006.

The first impacts of the crisis appeared in the yields from indirect taxes. Already in 2008, the total yields from VAT did not reach the budgeted level by SKK 2.5 billion, which represented 1.7 %. According also to Kráľová and Novýsedlák, this result could have been caused by, apart from the crisis, a decrease in the rate down to 10 % for books and for the selected kind of medical aids, but they do not think either that this drop-out could have been so significant. [9]

The lower real revenues in 2008, when compared to the budgeted ones, appeared in consumption taxes as well, their drop increased in 2009, mainly as a result of the lower consumption of households due to the increasing unemployment. The yields from income tax of physical persons increased by almost 20 % in 2005, but their revenues into the state budget of SR decreased significantly.

In 2005, the fiscal decentralization of the income side of the budget was being implemented in the Slovak Republic, which reflected in revenues into the budgets of local self-governments, but also in revenues of the state budget – in particular it relates to the income tax of physical persons. This tax has become a proportional tax and the distribution of its total yields among the state budget and the budgets of local municipalities is laid down by §2 of Act No. 564/2004 Coll. on budget determination of income tax yields to regional self-government as follows: municipalities: 70.3 %, higher territorial units: 23.5 % and state budget 6.2 %.

Picture 3 Development of budget revenues of local self-governments in SR from 2005 to 2009 in billion SKK



Source: Own design based on [18]

3 DEVELOPMENT OF STATE BUDGET EXPENDITURES OF THE SLOVAK REPUBLIC

The positive development of the Slovak economy in the studied period is reflected also in total expenditures of the state budget and of regional self-governments' budgets.

The expenditures of territorial budgets copied their increasing revenues, which can be observed from the data in Table 4 and Pictures 4 and 5.

However, the decrease in GDP and the increase in unemployment rate from the fourth quarter of 2008 till present time have caused the growth of fiscal imbalance, both the short- and long-term.

Table 4 Development of budgets expenditures of SR in billion SKK

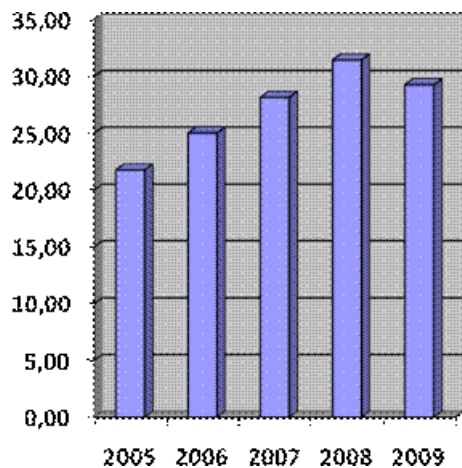
	2005	2006	2007	2008	2009
State Budget	320.7	330.2	348.9	379.58	401.64
Budget HTU	21.76	25.02	28.14	31.44	33.75*

Municipal Budget	75.15	80.85	86.79	93.3	103.21*
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*Estimate

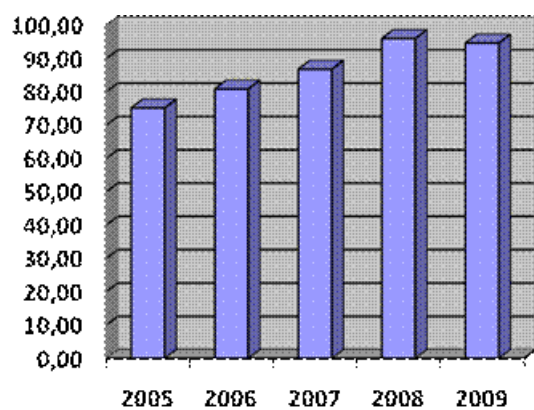
Source: Own design based on [18]

Picture 4 Development of budget expenditures of higher territorial units in SR from 2005 to 2009
in billion SKK



Source: Own design based on [18]

Picture 5 Development of budget revenues of regional self-governments in SR from 2005 to 2009
in billion SKK



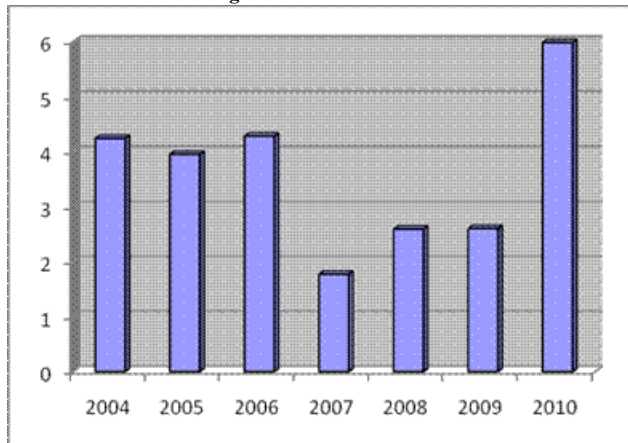
Source: Own design based on [18]

Table 5 Development of state budget deficit of SR from 2004 to 2010 in billion SKK

Year	2004	2005	2006	2007	2008	2009	2010
ESA 95 Methodology	-54.4	-57.3	-69	-32.4	-51.1	-50.35	-116.67 ₂

¹ Forecast from the budget for 2010

Source: Own design based on [18]

Picture 6 State budget deficit to GDP ratio from 2004 to 2010

Source: Own design based on [18]

Table 6 Development of state debt of SR

	2004	2005	2006	2007	2008	2009	2010
In billion SKK	563.4	489.879	485.834	521.179	533.23	671.81	828.164

Source: Own design based on [18]

The development of the deepening state budget deficit is shown in Table 5. However, it is necessary to draw attention to the fact that the data in 2009 and 2010 are not actually achieved, they are only expected and it is clear now that they will be surpassed by approximately 20%.

Due to the falling GDP and the increasing deficit, the state budget deficit to GDP ratio will be higher, too, when compared to the data listed in Table 6. According to unofficial information (mass media), the state budget deficit to GDP ratio was already 6.8 % at the beginning of April.

Just as with the SB deficit, the same can be concluded when it comes to the state debt volumes in 2009 and 2010, as the increased SB deficit will necessarily be reflected in the state debt and its share of GDP.

CONCLUSION

The unfavourable effects of the global crisis have affected the Slovak economy as late as in the fourth quarter of 2008. We consider increasing unemployment to be the biggest problem, as it is a problem that the Slovak economy, as well as the individual Slovak governments, have found difficult to deal with ever since the start of the transformation process. After three successful years of decreasing unemployment, during which it fell down to the level of 7%, it had increased to almost 14 % by March 2010.

The public finance development has been unfavourable, too. Decrease in the public debt and the SB deficit to the required level set by the Maastricht criteria and the implemented reforms in the field of public finances have created favourable conditions for a more stable fiscal development. As the performed analyses show, these stabilizing conditions, however, start to turn into destabilizing ones. Short-term, as well as long-term, fiscal imbalance is increasing, which can deepen both internal and external imbalances.

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