

The Slovak government is looking for money

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On 18 June the left-wing government of Robert Fico published a list containing 22 solutions which are set to help decrease Slovakia's public finance deficit to below 3% in 2013, in line with the requirements of the EU and the fiscal compact. The majority of the solutions presented call for increased taxes (mostly for companies) which are expected to generate 1.2 billion euros. Additional savings will be made due to cuts in public spending (0.6 billion euros) and the channelling of part of insurance premiums from the second pillar to the state-owned social insurance office (0.5 billion euros). The austerity package will be introduced gradually from autumn this year to summer 2013. The government's minimum plan aims to reduce the public finance deficit by 0.3 billion euros this year and by 1.5 billion euros next year.

Commentary

- The package of economic solutions presented by the Fico government provides a set of measures aimed at adjusting the Slovak economy's relatively liberal model (established by the governments of Mikulas Dzurinda) to the realities of the economic crisis. Additional revenues made through left-leaning changes in tax (tax progression, increased taxes for banks and the energy and communication sectors) will above all help reduce the public finance deficit, but not boost the economy.
- A large section of the solutions presented is modelled on the economic measures that have already been undertaken by Slovakia's neighbours. As was the case in Hungary, it was decided that additional taxes would be imposed on banks and companies operating in regulated sectors. Changes in the pension system, however, will be modelled on the Polish system (channelling part of premiums from the second pillar to the state-owned pillar) and the Czech model (voluntary participation and the possibility to increase premiums in the second pillar). Unlike its neighbours, Slovakia has not introduced increases of 20% and 10% in VAT as it deemed it would have too much of an influence on the poorer part of its society.
- Faced with an uncertain future for the euro zone, the Slovak government is focusing on curbing the public finance deficit and public debt. The remaining challenge is Slovakia's participation in the rescue mechanisms of the euro zone. On 22 June the Slovak

parliament approved the establishment of the European Stability Mechanism (ESM) to which Slovakia is expected to contribute nearly 660 million euros and to provide loan guarantees for 5.1 billion euros. So far the economic plans of the Fico government have lacked specific solutions which would promote growth and which Slovakia has opted for within the EU. The Ministry of Finance estimates that the finance consolidation program will decelerate GDP growth next year by 0.4 percentage points. Nor is it clear how the Slovak government will tackle high unemployment (13% in May this year) and its inefficiency in collecting taxes.

- It can be assumed that not all the solutions which have been proposed will be implemented, even more so considering the overall value of the expected revenues and savings (2.4 billion euros) exceeds the amount needed to lower the public finance deficit to below 3% in 2013 (1.8 billion euros). Moreover, the government's ambition is to maintain at least the present scope of the state's involvement in economy. For the time being the Fico government is not planning to look for additional revenue for the budget through privatisation.