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FISCAL POLICY OF SLOVAK REPUBLIC IN THE PROCESS OF EUROPEAN FISCAL UNION CREATING

Abstract. The globalisation process and extension of the international economic area brings not only positives, but also a number of questions and issues to which governments and integration groups search solutions. Contrary to monetary policy, fiscal policy has had a limited spatial dimension so far. It is predominantly a responsibility falling on the shoulders of national governments. Fiscal policy is related to different economic, social and cultural potential or territorial and administrative arrangement of individual countries, which prevents the full implementation of unified rules, valid for whole EU to a certain extent. The paper introduces the author's view on unifying fiscal policy rules towards the European fiscal union from the perspective of the Slovak Republic.
Keywords: budget deficit; public debt; budgetary responsibility; fiscal policy; European fiscal union; Slovak Republic; EU.
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ФІСКАЛЬНА ПОЛІТИКА СЛОВАЦЬКОЇ РЕСПУБЛІКИ У ПРОЦЕСІ СТВОРЕННЯ ЄВРОПЕЙСЬКОГО ФІСКАЛЬНОГО СОЮЗУ
Анотація. Процес глобалізації та розширення міжнародного економічного простору привносять не тільки позитивні аспекти, а й безліч питань і проблем, відповідальність за вирішення яких покладається на владу та інтеграційні об'єднання. На відміну від грошово-кредитної політики, фіскальна політика мала досі обмежене просторове охоплення і переважно формувалася на національному рівні. Особливістю податково-бюджетної політики є її залежність від економічного, соціального, культурного потенціалу та адміністративно-територіального устрою країн, що певною мірою перешкоджає введенню єдиних правил, прийнятих у ЄС. У статті обґрунтовується авторський підхід щодо перспектив Словаччини у процесі уніфікації правил фіскальної політики в рамках Європейського фіскального союзу.
Ключові слова: бюджетний дефіцит; державний борг; бюджетна відповідальність; фіскальна політика; Європейський фіскальний союз; Словацька Республіка; ЄС.

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ФИСКАЛЬНАЯ ПОЛИТИКА СЛОВАЦКОЙ РЕСПУБЛИКИ В ПРОЦЕССЕ СОЗДАНИЯ ЕВРОПЕЙСКОГО ФИСКАЛЬНОГО СОЮЗА
Аннотация. Процесс глобализации и расширение международного экономического пространства привносят не только положительные аспекты, но и порождают множество вопросов и проблем, ответственность за решение которых возлагается на власть и интеграционные объединения. В отличие от денежно-кредитной политики, фискальная политика имела до сих пор ограниченный пространственный охват и преимущественно формировалась на национальном уровне. Особенностью налогово-бюджетной политики является ее зависимость от экономического, социального, культурного потенциала и административно-территориального устройства стран, что в определенной степени препятствует введению единых правил, принятых в ЕС. В статье обосновывается авторский подход относительно перспектив Словакии при унификации правил фискальной политики в рамках Европейского фискального союза.
Ключевые слова: бюджетный дефицит; государственный долг; бюджетная ответственность; фискальная политика; Европейский фискальный союз; Словацкая Республика; ЕС.

Introduction. Fiscal policy as a part of the state economic policy is an instrument of economy stabilising, sustainable economic growth and employment. Through fiscal policy, governments regulate financial relations between state administration, self-government and social and health security institutions. In order to achieve its goals, it uses public finance (financial policy), and its functions, whilst the allocation and distribution functions are applied by means of budgetary policy, and the stabilisation function is applied by means of fiscal policy.

Brief Literature Review. According to J. Tancosova (2013), budgetary and fiscal policies are frequently featured, in practice, as synonyms, as it is through public sources and public budgets that government ensures macroeconomic goals in economy. It is necessary in economic policy to differentiate the content of these concepts, as individual public finance functions are attributed different meanings [1, p. 230]. States, which active fiscal policy, are able to affect both aggregate demand and key macroeconomic indicators. However, similarly to monetary policy, there are certain restrictions, able to affect the impact of fiscal measures on aggregate demand, including, for instance, time delays, uncertainty, inflation rate changes, voluntary unemployment and others (Medved et al., 2005) [2, p. 338].

If we regard fiscal policy from the viewpoint of aggregate demand affecting for the purpose of changes in product and employment, we can either refer to expansionary or restrictive type of fiscal policy. When government applies fiscal measures to increase aggregate demand, it represents fiscal expansion. In case government applies different instruments to decrease aggregate demand, it represents fiscal restriction (Tancosova, 2013) [1, p. 230].

From the viewpoint of fiscal policy orientation, we distinguish positive and normative approaches. The positive approach is used to estimate likely economic consequences of proposed fiscal policy measures and their application. The normative approach assesses a proposed direction of fiscal policy application instruments and recommendations of their possible usage, considers J. Pekova (2008) [3, p. 431-412].

According to R. Sivak (2007), the economic theory presents two approaches to the fiscal policy efficiency and its solution – Keynesian and monetarist. M. Keynes and his followers, influenced by the effects of the 1930s economic crisis, supported an active role of state in economy and active usage of state expenditure. Keynes proposed fiscal policy directly affecting individual macroeconomic values. Supporters of monetarism believe that market economy has an endogenous ability to stabilise, and that possible disturbance of macroeconomic balance will be solved by the market. However, it is only possible if private sector is not affected by exogenous factors, which include state fiscal policy and its interventions. Therefore, under the influence of monetarists, state fiscal policy is focused on extending business activities by means of privatisation, tax reduction, elimination of subventions, etc., aimed at contributing to increased employment [4, p. 21-22].

Succession of Slovak Republic in the EU in 2004 and subsequently in the Eurozone in 2009, marked that the fulfilment of Maastricht criteria would not be a single issue, but a permanent process. It was especially reflected in fiscal measures, which are important for maintaining stability of the whole financial system of the EU.

Purpose of the article is to analyse public finances and public debt in the process of the European Fiscal Union creation.

Results and Discussion

Maastricht Treaty – the Basis for the Fiscal Union Establishment

The convergence criteria from 1992, grounded in the Maastricht Treaty, were focused on the achievement of economic and monetary union, and finally, on introducing a single currency. It appeared in the sphere of fiscal policy, which is part of economic policy of individual countries and has no common fiscal policy within the EU, that it is necessary to introduce uniform supranational rules. The treaty supposed that at 2% growth in real GDP and 3% rate of inflation, economy would ensure a deficit in public finance at the requested level of 3% of GDP, and public debt would remain at the level of 60% of GDP [5]. According to M. Fabus (2011, 2014), public debt is one of the determinants of inflow of investment, which affects the economic growth of the country. The attention is than paid to individual determinants and their influence upon the economy's development, the motivation of investors, economic and political conditions which are created in the country [6, 7].

However, it appeared already in a few years that deficit in public finance of individual member states was increasing disproportionately. Based on the initiative of Germany, a proposal of fiscal policy management in the member states was accepted in 1997 under the title Stability and Growth Pact. The Pact introduced a budgetary rule under which states specify mid-term fiscal goals in order to be able to achieve budget surplus, balanced budget or approach balanced budget within 3-5 years [8].

The Pact at the same time introduced a fine up to the amount of 0.5% of GDP for non-fulfilment of the rule. It would not be posed in specific events [9].

According to F. Palko (2011) [10], measures to reduce excessive deficits and high government debts were not efficient, and the Pact rules were revised, respectively updated in 2005, especially dealing with the following according to content and goals:

- search for stimuli for motivation of the countries to generate surpluses at the time of economic efficiency;
- definition of mid-term goals oriented on public expenditure sustainability;
- implementation of new structural reforms for the Lisbon strategy;
- search for a way how to put greater emphasis on public debt.

Within the given rules, implementation of a mid-term fiscal goal deserves special attention, which creates room for governments to forecast economic growth and estimate public expenditure. Such «promotion» of fiscal policy as part of state economic policy was significant. Fiscal policy is an instrument of stabilising economy, sustainable economic growth and employment. By its means, governments regulate financial relations in states, while public finances and their functions are used to implement their goals.

The revised Stability and Growth Pact is based on two pillars. The first pillar is prevention, i.e. a member state is exposed to multilateral control of the state of public finances in the member states for the purpose of fulfilment of a mid-term goal within budgetary policy. Standardised information in a prescribed form and within prescribed terms is submitted by the Eurozone member states to the European Commission and ECOFIN each year. With the Economic and Financial Committee, they monitor the programmes and submit statements regarding the real effectiveness in implementing fiscal measures.

The second pillar is corrective, and occurs when a member state exceeds the reference limit of budget deficit in the amount of 3% of GDP. The European Commission is commencing to act and so called excessive deficit procedure is being launched. Government of the respective member state is obliged to propose steps in order to handle its excessive deficit. In case of repeated breach of the Pact rules, the EC can recommend the EU Council for Economic and Monetary Affairs to impose sanctions on the given country [11].

The financial and economic crisis significantly affected the solution of problems in the Eurozone. While eight countries achieved a budget surplus in 2008, several countries exceeded the 5% deficit in 2010 (see Table).

It was necessary for the EU authorities to adopt coordinated procedures of fiscal supervision and monitoring of economic policies of the countries. The member states had a possibility to create their own fiscal strategy in order to eliminate excessive deficits. 23 countries were included in the excessive deficit procedure in 2010; therefore ECOFIN approved proposals to impose sanctions for breach of rules in the amount of 0.2% of GDP, which were approved by the European Parliament in 2011.

Table: **Deficit in public finances of selected member states of the EU in 2010** (in % of GDP)

Belgium	- 4.0	Latvia	- 8,2
Bulgaria	- 3.2	Lithuania	- 6,9
The Czech Republic	- 4.4	Poland	- 7,6
Germany	- 4.1	Portugal	- 11,2
Croatia	- 6.0	Romania	- 6,6
Italy	- 4.2	Slovenia	- 5,7
Cyprus	- 4.8	Slovakia	- 7,5

Source: Own processing based on the Eurostat data, 21st October, 2014 [12]

In order to overcome the global financial and economic crisis, which has turned into a debt crisis in the EU member states and has impeded the refinancing of public debts, it was necessary to adopt new instruments to save the Eurozone. European Financial Stabilisation Mechanism (EFSM) was introduced in May, 2010, applying the principle of guarantees and loans from the European Financial Stabilisation Fund (EFSF), EC and IMF. They shared the overall amount of EUR 750 billion as follows: IMF – EUR250 billion, EC – EUR60 billion, Eurozone member states – EUR440 billion [10, p. 95].

Following solution of the problems with Greece in the form of a loan programme, financial aid from EFSF was provided to Ireland and later to Portugal. The European Financial Stabilisation Mechanism (EFSM) was replaced by the European Stabilisation Mechanism (ESM) in 2013.

Position of Slovak Republic in the Eurozone and its Prospects

Slovak Republic met the conditions of the accession process, and joined the European Union on 1st May, 2004. The country managed to keep the deficit in public finance under 3% of GDP until 2008. According to experts, national fiscal rules related to the reform in public finance management contributed to it. Act on budgetary rules in public administration was adopted, introducing multi-year (three-year) budgeting, limits to state budget expenditure as well as a maximum amount of budget deficit. Direct foreign investments were also beneficial for economy. Investors benefited from low equal income tax rate, which was the lowest in Europe at that time, cheap labour force, tax holidays and government subsidies. The most substantial element, which helped Slovak economy growth, was free access to foreign markets [13, p. 10-11].

Increase of deficits in public finances in the Eurozone, caused by the crisis, was fully reflected under the conditions of Slovak Republic in 2009, and amounted to almost 8% in relation to GDP (Figure 1).

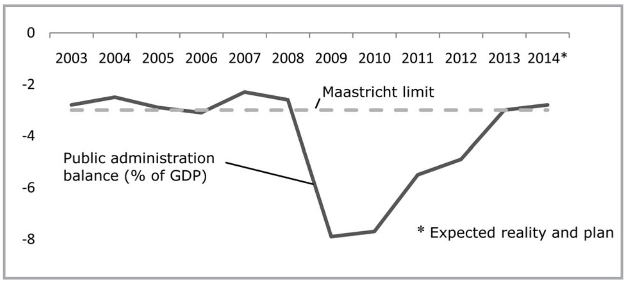

Fig. 1: **Public finance deficit of Slovak Republic over 2003-2014**
Source: Eurostat, the Ministry of Finance of Slovak Republic [12]

A reason for such a situation included increased expenditure to social security funds and shortfalls of direct and indirect taxes. The government adopted several measures to consolidate public finance in order for the debt to achieve the previous 2011-2013 level. The purpose was to disengage from the excessive deficit procedure implemented by the European Union, in which the country was involved in 2009.

Constitutional Act on Budgetary Responsibility No. 493/2011 Coll. [14], which was also called act on debt brake, was adopted in 2011. It aimed at achieving long-term sustainability of economy of Slovak Republic, strengthening transparency and effectiveness in spending public funds, supporting competitiveness and respecting the requirement of economic and social justice and solidarity between present and future generations.

The Council for Budgetary Responsibility (or Fiscal Council) was established as an independent body in accordance with the act as to monitor and evaluate economic development of Slovak Republic and fulfil budgetary responsibility rules. By establishing the Fiscal Council, Slovakia is ranked among 15 OECD countries which had established such an institution. Budgetary responsibility is defined by implementing the following:

a) a limit of public administration debt, while the upper limit of the debt is specified in the amount of 50% of GDP;

b) an indicator of long-term sustainability, reflecting a number of aspects, e.g. the value of structural primary balance, demographic development prognoses published by Eurostat, macroeconomic prognoses of the EC, long-term prognoses of capital income calculated by the EC, and others.

According to Article 12 of the given act, transitional provisions for the upper limit of public administration debt by the end of 2017 along with a sanction mechanism were framed as follows:

– the amount of debt 50-53% of GDP – the Ministry of Finance delivers a written substantiation of the amount of debt to the National Council, including draft measures to reduce it;

– the amount of debt 53-55% of GDP – the government submits draft measures, ensuring the debt reduction and reductions of the governors' salaries to the level of their salaries in the previous budgetary year, to be negotiated by the National Council;

– the amount of debt 55-57% of GDP – the Ministry of Finance commits state budget expenditure in the amount of 3% out of the total state budget expenditure to respective budgetary year, reduced by the expenditure of government debt administration, EU funds, funds to finance joint programmes of Slovak Republic and the EU, contributions to the EU, transfers of the Social Insurance Company, etc.;

– the amount of debt 57-60% of GDP – government cannot submit to the National Council a draft budget of public administration with a budgeted deficit, and municipalities and self-governing regions are obliged to approve only a balanced or surplus budget for the upcoming budgetary year;

– the amount of debt over 60% of GDP – along with the previous steps, government will require the National Council to vote of confidence in the government.

In order to fulfil the original Maastricht criteria, respectively the Stability and Growth Pact, the upper limit of debt in public administration in the upcoming years has been reduced at the level of 60% of GDP, and will be gradually decreased by one percentage point each year from 2018, until it reaches a 50% share in GDP in 2028. Sanctions will be imposed from the level of 50% and later 40%, and will be graded up to parliamentary vote of confidence in the government.

The Act includes rules of budget transparency, already applied in the process of budgeting in public administration, while members of the committee for tax prognoses and the committee for macroeconomic prognoses observe fulfilment of the stipulated priorities and draw conclusions for the Ministry of Finance.

Besides an emergency brake in the form of a limit of debt in public administration, the new fiscal framework has also toughened rules for self-governments, which are part of public finance however independent in decision-making [15]. Similarly significant new element is approval of binding expenditure limits for government, which will ensure better fiscal discipline in a mid-term horizon and enable monitoring of public finance development at both national and European levels.

Consolidation of public finance, planned for the period 2011–2013, did not follow expectations. Gross debt in % of GDP was further growing. While it was 35.6% in 2009, it was 41.0% in 2010, 43.5% in 2011 and 52.7% in 2012, and up to 55.4% of GDP in 2013. During 2014, Eurostat confirmed reduction of debt of Slovak Republic for 2013 from the original 55.4% of GDP to the level of 54.6% of GDP.

The change results from a transition to a new method of ESA-2010 national accounts, comprising two modifications (Figure 2):

- an increase of Slovak Republic's debt due to a shift of some subjects, including their debts, into the public administration sector in the overall amount of 0.3% of GDP. The National Highway Company has increased the debt of Slovak Republic by 0.5% of GDP and has the greatest effect in this relation. On the other hand, transfer of hospitals under the public administration sector along with changes in recording supplier credits reduced the debt by 0.3% of GDP.

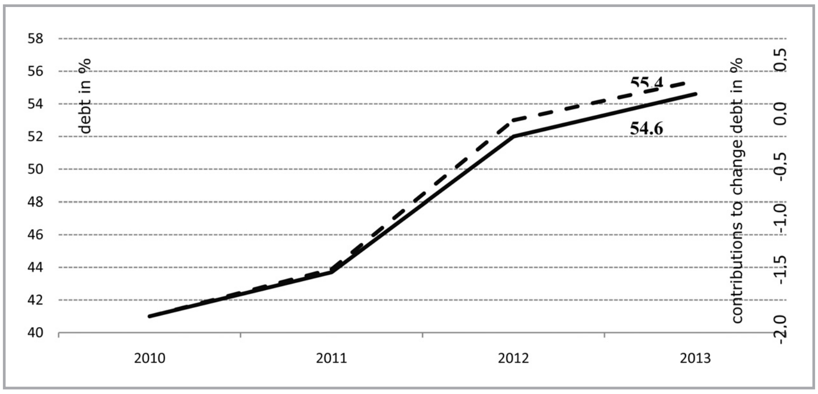

Fig. 2: **New method of debt calculating according to ESA-2010**
Source: The Council for Budgetary Responsibility [16]

- a review of the amount of nominal GDP, which contributed to debt reduction by up to 1.1% of GDP is among more significant modifications. Research and development expenditure, so called minor tools, are included in GDP in the new method, and changes were also implemented in offsetting military expenditure.

According to Eurostat, public finance deficit for 2013 decreased below 3.0% of GDP; however, the government debt was higher and achieved the level of almost 55% of GDP according to conversion.

Draft Act on Budgetary Rules in Public Administration for 2014–2016 reflected the consolidation of public finances. In accordance with systemic changes, macroeconomic development prognoses and tax wedge, budget deficit in public administration has been expected at the level of 2.83% of GDP for 2014, 2.57% of GDP for 2015, and 1.50% of GDP for 2016. According to the prognoses of the European Commission, the deficit will achieve 3.3% of GDP, even though greater consumption of households, better tax collection, increase in investments and sale of telecommunication licence are expected. The European Commission identified health care and implementation of phase II of the public administration reform ESO as risk areas.

Common Fiscal Policy or Fiscal Union?

The reformed Stability and Growth Pact defined the basic fiscal rules of procedure of the EU (28) and Eurozone countries (18). Implementation of national rules to support economic growth, reduction of deficits in both public finance and government debt is in the hands of individual governments [17]. Thus, lives of millions of people depend on their behaviour and responsibility. If they are accompanied by the turbulence on financial markets and economic problems of business sector, national issues grow into transnational ones and are solved at the level of the European Union. It can be confirmed by statistical data.

While the governments of the Eurozone and the whole Union reduced budget deficits in 2013 due to cost cutting and recovery of economies, government debts were slightly increasing. The latest data suggest that while the Eurozone budget deficit has been reduced to 3% of GDP, government debt of 18 countries using the euro currency increased to 92.6% of GDP at the end of 2013. Luxemburg and Germany had balanced budgets with a budget surplus of 0.1% of GDP. Slight budget deficits were recorded in Estonia, Denmark, Latvia and Sweden. Ten countries achieved budget deficits higher than 3%. The lowest state debt in 2013 was achieved in Estonia (10%), Bulgaria (18.9%) and Luxemburg (23.1%). State debt higher than 60% of GDP was achieved by up to 16 EU countries, while it achieved 175.1% of GDP in Greece, 132.6% of GDP in Italy, 129.0% of GDP in Portugal and 123.7% of GDP in Ireland [18].

The given results of budgetary and financial state of individual countries imply that there is still room for improvement on the side of fiscal policy of the Union. The European Commission used all theoretically available and practically applicable rules, respectively fiscal policy instruments to «struggle» with deficiencies in national fiscal frameworks. Whether they are budgetary instruments aimed at balanced budgets, debt instruments in the form of specifying limits of the amount of government debt against GDP, or expenditure instruments reducing overall state expenses or their components, they all serve to reduce failures in economic policies of individual countries.

Conclusion. Fiscal policy measures of the European Union, presented in numerous materials and guidelines, are a challenge for the future of Europe. The fact that members of the EU take them seriously can also be proved by available public information. Fiscal policy objectives are incorporated in legislation and directed to macroeconomic stability, economic growth and raising the standard of living also in Slovak Republic. Only common effort, trust and coordination of activities above the framework of national identity can ensure further development of the European Union.

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