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Slovakia: A country study

Location of the country, size, population, GDP

Slovak Republic was established on 1.1.1993 by splitting of the Czechoslovakia. It is a republic by state system and the political system is a parliamentary democracy. It is an inland country located in the Central Europe. Lowlands and highlands characterize the country as well. Slovakia is adjacent to five states, e.g. Poland in the north, Czech Republic in northwest, Austria in the west, Hungary in the south and Ukraine in the east. Its area is 49 036 km^2 and therefore is considered to be relatively small state. Its capital is Bratislava.

The population of Slovakia is 5 415 949 inhabitants (December 2013[5]). The population density is 109 inhabitants/km^2. Number of nationalities live in the Slovak Republic, the major nationality is Slovakian (80,65%), followed by Hungarian (8,49%), Roma (1,96%), Rusinian (lat. Rutheni)[6] (0,62%), Czech (0,56%), Ukrainian (0,14%) and others[7].

Slovakia is a member of the European Union since 1 May 2004 and started to use the common European currency "euro" on 1 January 2009.

Figure 1 presents the overview of GDP growth rates in the period of 2005–2014. We can see that the economic decline started in 2008 already, where the economy slowed down to a growth of 5,4% compared to 10,7% in 2007. It reached its maximum in 2009 by an annual change of –5,3% of GDP. In 2010 grew the economy again and reached the rate of 4,8%.

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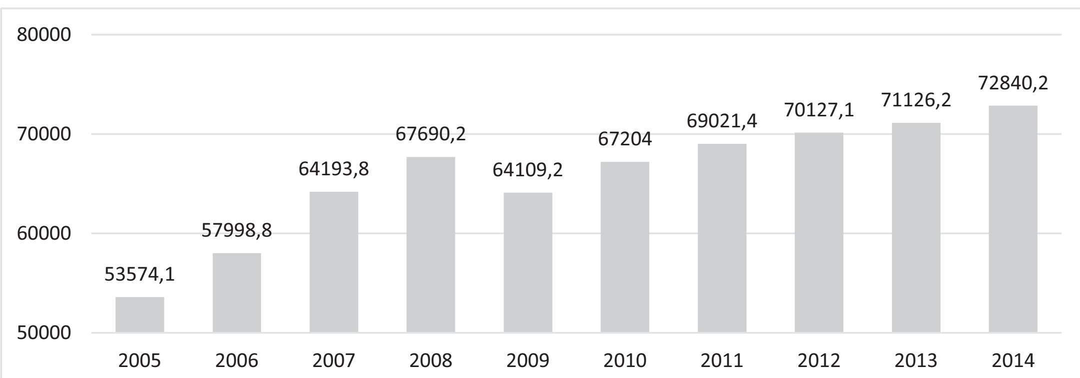
5 Statistical Office of the Slovak Republic.
6 Rusinians is a community living in the border region of north eastern Slovakia defined by the borders of south eastern part of Poland and Slovakia and the northern part of Slovak - Ukrainian border; the Russian minority presents 0,04% of population.
7 Minorities data are from the Census 2011, dataset is provided by the Statistical Office of Slovak Republic.

Figure 1: *GDP growth*

Source: own processing, data: Eurostat, GDP growth, rev1 11.12.2014

The economy recovered relatively fast and reached its "before crisis" output in 2011 as we can see in *Figure 2.*

Figure 2: *GDP in million Euro*



Source: authors, data: Eurostat, chain linked volumes 2010, Eurostat, ESA 2010, 01.04.2015

Other economic indicators such as inflation, interest rate or debt are presented in *Table 1.*

Table 1: *General economic indicators*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP (chain linked volumes 2010, Eurostat, ESA 2010, 01. 04. 2015) in millions Euro	53574	57999	64194	67690	64109	67204	69021	70127	71126	72840
GDP growth (Eurostat, rev1 11. 12. 2014)	6,5	8,3	10,7	5,4	–5,3	4,8	2,7	1,6	1,4	2,4
Inflation	2,7	4,5	2,8	4,6	1,6	1	3,9	3,6	1,4	–0,1
Interest rate (National Bank of Slovakia/ECB)	4	4,5	4,5	2,5	1	1	1	0,75	0,25	0,05
State bonds (10 years, latest year emission) (National Bank of Slovakia)	4,9	4,9	4,9	4,2	4,87	3,08	3,46	3,36	0,15	0,03
Exchange rate (SKK/EUR)(National Bank of Slovakia/ECB)	37,848	34,573	33,603	30,126	1	1	1	1	1	1
Debt (Eurostat; mil EUR)	13549	15076	16827	19222	22958	27622	30484	37618	40178	–
Debt on GDP (Eurostat)	33,8	30,7	29,8	28,2	36	41,1	43,5	52,1	54,6	–
General public expenditures – share on GDP (Eurostat)	39,3	38,5	36,1	36,4	43,8	42	40,6	40,2	41	–
Central government expenditures share on GDP (Eurostat)	25,1	25,6	23,1	22,7	28,6	27,4	26,9	26,2	25,7	–
Local administrative units expenditures share on GDP (Eurostat)	6,7	6,5	6,1	6,1	7,3	7,3	6,8	6,4	6,4	–

Source: authors, data: Eurostat, National bank of Slovakia, grey fields present indicators which were in charge of European central Bank

The following table shows the development of revenues, expenses and income trading (deficit) of Slovak Republic for the last 5 years.

Table 2: *Development of budgetary management in Slovakia during the period 2009–2013 in thousands €*

	2009	2010	2011	2012	2013
Revenues	10 540 796	10 900 863	12 002 326	11 830 036	12 796 444
Expenditures	13 332 047	15 337 011	15 278 042	15 640 711	14 819 702
Deficit	–2 791 251	–4 436 148	–3 275 716	–3 810 675	–2 023 258

Source: authors the basis of final accounts of Slovak republic

During reported period we can see growing trend until 2011. In 2012 recorded a slight decline, but in 2013 it increased again. The decline of revenues in 2012 was caused mostly by revenues from businesses and ownership of assets which were lower compared to 2011 and lower property taxes (i.e. VAT and consumption taxes).

As the result, part of the budget was increasing during the whole period, except only in 2013. This follows from a lower outturn of provided transfers to other subjects of public administration and the most important expenditure reduction represents the field of health. Compared to 2012 there was a significant cost reduction in this field of € 1,403,927,000, of which the most significant decline of expenses was recorded by section of Ministry of Health in response to changes in reporting by the state-paid premium for the chosen groups of insured citizens. It is a state-paid premium to the Health Insurance Company for the economically inactive citizens of Slovak Republic. The healthcare costs after metering the insurance, decreased annually by € 81,376,000.

During the whole period Slovak Republic reaches a deficit. The largest deficit was reached in 2010. That was caused by high costs compared with the volume of revenues and in this year the consequences of the economic crisis has proved the most.

For the most common consequences and risks are considered increase of the deficit and the debt due to the economic downturn and anti-crisis measures. Over indebtedness creates a huge pressure to the financial markets and their ability to finance deficits. If the government has practiced in the long term a deficit spending and increases the public debt, a huge part of expenditures from the state budget passes to pay interest from the national debt. In that case the government generates a formation of deficits in the following years. By deficit cumulating of the state budget accrue the national debt. The national debt features the debt of state authorities and is a part of the public debt, which includes also the debt of public funds or local budgets of public universities. These indicators are monitored mainly because they are part of the Maastricht convergence standards. These conditions have to be met by the member country of the European Union to the acceptance of the common European currency. Two of four following criteria are fiscal natured:

- The general government deficit cannot exceed the limits 3% of GDP,
- Total public debt cannot exceed the limits 60% of GDP (this limit is going to decrease in the following years to 50%).

Public debt includes a summary of liabilities of the public sector from previous years. The government debt is constituted by domestic and foreign debt. Domestic debt also called internal, includes the total amount of money owed to domestic creditors, i. e. undue amount of the debt by the national government. Foreign respectively external debt is the sum of re-matured liabilities to the foreign creditors. This is the sum of equity liabilities passed by the government entities to foreign debtors for received loans, financial leasing contracts or other debt documents. Let's look, how the state and public debt had developed during the period of five years.

Table 3: *Evolution of indebtedness of the SR during the period 2009–2013 in thousands €*

	2009	2010	2011	2012	2013
Government debt	762 700	1 144 000	1 006 600	1 248 500	1 256 300
Gross debt	22 331 285	26 998 378	29 911 262	37 244 523	39 975 176
Domestic debt	14 476 245	17 008 428	17 902 631	19 594 327	15 484 145
Foreign debt	7 855 040	9 989 950	12 008 631	17 650 196	24 491 031
% GDP	35,6%	41,0%	43,3%	52,1%	55,4%

Source: authors according to data from the Ministry of Finance

Based on the data from *Table 3*, we can say that the gross public debt is growing during the followed period. Like its components – the national debt, domestic debt and foreign debt are rising. The only thing that is changing is the ratio of domestic (internal) and foreign (external) indebtedness. For a better overview which is presented in *Table 4,* the proportion of internal and external debt in total debt.

Table 4: *Proportion of domestic and foreign debt to total debt*

	2009	2010	2011	2012	2013
Proportion of domestic debt to the total debt	65%	63%	60%	53%	39%
Proportion of foreign debt to total debt	55%	37%	40%	47%	61%

Source: authors according to data from the Ministry of Finance

At the beginning of the period prevails indebtedness of Slovakia against domestic entities, and in the last year, the situation developed in reverse – domestic debt declined and the external debt had increased.

Let's get back to *Table 3.* The last row shows the ratio of public administration debt (gross debt) to GDP. It is one of the Maastricht criteria used in rating the quality of public finances of EU countries. The maximum permissible value is 60%. It is clear that as long as the gross debt has rising trend during the period, then the percentage of the GDP will grow. During the whole period Slovakia is careful not to exceed the determined top of 60% of GDP, while in 2013, has been slowly approaching a value of 55.4%.

To avoid creating excessive in debtedness and the financing problems, the use of repayable sources of financing and debt financing modify several legal regulations. The most famous is the Act No. 493/2011 C. L. about Fiscal Responsibility. Its goal is to achieve long-term sustainability of Slovakia, afforce transparency and efficiency of public resources.

There is a Council of fiscal responsibility, which is established as an independent body for monitoring and assessment the economy of Slovak Republic and for the assessment of abidance of budget management.

The Fiscal Responsibility Act regulates in Article 5 the limit of public administration debt as follows:

- the upper limit of the government debt is more than 50% of GDP,
- if the amount of the debt will reach 40% of GDP and more, the procedures, specified in paragraphs 4–8 will be enforced, focused on reducing debt, there are ranges of percentage amount of the debt plus the corresponding instructions,
- if the debt will exceed the limit of 50% of GDP, the government makes a request to the National Council for expression the trust to the government.

In the implementing of procedures according to mentioned paragraphs, the public administration entities whose budgets are part of the government budget, are required to harmonize their draft budgets with the public administration's draft budget. There are certain exceptions which are modified in detail by the Fiscal Responsibility Act.

For regional authorities are intended particular provisions of economy with budget means and the maximum amount of debts is set to the maximum limit of 60% of the actual current income of the previous financial year. If the municipality or autonomous region exceeds this limit, the Ministry will impose a fine of 5% of the difference between the total amount of debt and maximum limit (60%).

In the Fiscal Responsibility Act are sets the rules of transparency. Because of the transparency the Tax Revenue Forecast Committee and Macroeconomic Forecasting Committee had been established. Similarly, because of the transparency is established the duty of advertising the information for the public administration's subjects. They have to complete their budget at least for three budget years. The budget of public administration contains in addition to data which establish a separate law, also the consolidated balance sheet of the public administration budget, state debt management strategy and data about the tax expenditures, implicit liabilities and conditional liabilities, disposable influence and management of government enterprises; competent administrator of the state budgets required to submit to the Ministry of Finance data required for the management of government enterprises.

Beside these rules, there are a number of regulations, which government the basic legal rules for the management of budgetary resources and creates various strategies for debt management. In them are contained concentre actions by the subject of public administration in view of the current situation with debt and management.

Based on the available documents, we analysed this situation of the Slovak Republic from the perspective of public administration and public finance. For developing countries, however, apart from the aforementioned knowledge essential to have a representative at the forefront of representatives of state authorities and other agencies with in the public administration, who will seek to improve the economic situation. In this respect, we can help and cooperation with the countries of the European Union. Membership in the European Union allows us to finance development activities of the Structural Funds and thus lead to a higher quality of living.

Public administration system

The system of public administration in Slovakia is an example of dual administrative system. The state administration operates at national (NUTS1) and county level (NUTS4) and the self-government on local (NUTS5) and regional level (NUTS3). The NUTS2 level ("supra-regional") is only statistical, has no powers, elected or other bodies and is used mainly in relations to EU and its funding policies.

Table 5: *Administrative units at various NUTS levels*

NUTS level	State administration	Self-government	"Others"
1	central government		
2			**EU funding 4 regions** (west Slovakia – Trnava, Nitra, Trencčín region); middle Slovakia (Žilina and Banská Bystrica region); east Slovakia (Košice and Prešov region), Bratislava region; no elected or appointed bodies
3		**8 self-governing regions** (president of the region and also the regional assembly are elected directly)	
4	**76 districts;** no elected bodies, the head of the office is appointed by the minister of interior		
5		**2894 local administrative units** (138 towns and cities); mayor and assembly are elected directly	

Source: authors

The highest level of state administration consists of central government authorities. They consist of ministries and other central government organs. It is the executive authorities, which have in competence a range of tasks defined in Part Four of Competence Act No. 575/2001 Coll. on the organization of government activities and the central government.

The Ministry is monocratic central authority of state government with specifically defined scope and is headed by the Minister (cabinet minister). Ministries and other central government organs are established by the law. Currently Slovakia has 13 ministries: Ministry of Transport, Construction and Regional Development, Ministry of Finance, Ministry of Economy, Ministry of Culture, Ministry of Defence, Ministry of Agriculture and Rural Development, Ministry of Labour, Social Affairs and Family, Ministry of Justice Ministry of Education, Science, research and Sport, Ministry of Interior, Ministry of Foreign Affairs, Ministry of Health and Ministry of Environment.

The other central organs of state government are the organs that manage basic state registries and statistical services. This includes the Government Office, Office of Geodesy and Cartography and Cadastre, Statistical Office, the Public Procurement Office, the Nuclear Regulatory Authority, Office of Industrial Property Office, Office of Standards, Metrology and Testing, Antimonopoly Office, the National Security Office and Administration of State Material Reserves.

Local government organs are managed and controlled by central government authorities and their main task is to implement state government to set area. Local government authorities constitute general local government, i. e. in SR are the district offices and agencies specialized local government authorities, such as land, forest offices etc. State administration operates on central and county level (NUTS 4 level, 76 units).

Self-government is in Slovak constitution mentioned in Catch No. 4, Article 64 – 71. Both, the local and regional levels of self-government are recognized in article No. 64 in the Constitution of Slovak republic. The local self-governmental units were established in September 1990 by the Act. No. 369/1990 and replaced the former local administrative units – "Local National Committees". Establishing regional self-government was politically more difficult. After long discussions about the number of self-governing regions (from the model 3+1 – Bratislava and 3 large regions (geographically same as current NUTS2 regions used in relations to EU funding policy), based on pre 1989 history or 16 regions – based on the pre 1918 historical regions on Slovak territory which were in governmental discussions reduced to 12 and by the parliament finally enrolled as 8 current regions), finally after elections to regional assemblies on 1. December 2001, at 1. January 2002 8 self-government regions were established.

In both cases on local and regional level is the head of the unit (mayor or president of the region) and the assembly elected by universal, equal and direct suffrage by secret ballot.

The existence of local and regional self-government units is granted by the Constitution. So are also their rights to set local taxes and approve and issue general binding ordinances. All other rights, duties or responsibilities (taxes that can be collected, competences – original or transferred, public services that have to be provided etc.) are defined in additional laws.

The power of local and regional governments to set standards is limited only to the power to approve and issue general binding ordinances which cannot contradict to the general legal system. These ordinances can affect all fields of conferred competences (on local or regional level).

The regional governments have no power to change the spatial organisation of their territory (creation of all "smaller units" – counties [state administration] or local self-governments [communes, cities] is in hand of the state). They are allowed to create institutions (agencies) to be able to deal with its tasks within their competences. Specific policies such as minority policy (with all their questions – education, language, culture) are in hand of the state (national) level.

The basis of local self-government is the commune (municipality, NUTS 5 level) and in case of regional self-government the representative is an autonomous region, e. g. higher territorial unit. In Slovakia there are 8 self-governing regions (NUTS 2 level; Bratislava, Banská Bystrica, Trenčín, Trnava, Nitra, Žilina, Košice and Prešov) and 2 894 local administration units. All local administration units (communes, towns and cities) are by the law equal by rights and responsibilities. That means, that the smallest village Príkra with population 8 (to 1.1.2014) has the same rights and responsibilities, competences and is by law obliged to provide same range of services as the capitol Bratislava with population 417389. *Table 6* presents the structure of Slovak communes, towns and cities.

Table 6: *Number and share of population – commune size groups*

Size groups	Number of villages/ towns/cities	Population	Share on total population
–199	383	47 573	0,9 %
200–499	761	261 805	4,9 %
500–999	772	546 389	10,1 %
1000–1999	562	787 516	14,6 %
2000–4999	279	804 580	14,9 %
5000–9999	61	409 387	7,6 %
10 000–19 999	33	470 099	8,7 %
20 000–49 999	29	853 306	15,8 %
50 000–99 999	8	564 720	10,5 %
100 000 and more	2	651 661	12,1 %
total	2890	5 397 036	100 %
average population	1867		

Source: Statistical office of Slovak republic (2012): Obyvateľstvo v Slovenskej republike a krajoch SR – Vybrané výsledky sčítania obyvateľov, domov a bytov 2011

In Slovakia the only constitutional and legislative organ is the Parliament, i. e. National Council. It consists of 150 deputies elected by universal, equal and direct suffrage by secret ballot. Their tenure lasts for four years. The National Council has legislative (creation and modification the laws), control (control towards the Government and to its members) and creations scope (creating their own bodies).

Executive power in Slovakia is represented by the government and the president. Government is devoted to the peak of executive power and the president is the head of state power. To the executive power belongs also ministries headed by the Minister. The government ensures fulfilment of economic, cultural and social challenges and for the reports it is responsible to the National Council. Status, authority and responsibility are regulated by II. Section Six of the Constitution. President of the Slovak Republic is also elected in direct elections by secret ballot for five years. His scope is regulated by Article No. 102 of the Constitution. The next table presents some basic facts of election conditions in Slovakia.

Table 7: *Election conditions – general overview*

Voting right	**Active** (vote)	**Passive** (be elected)	**Period**
President	18	40	5 years
Member of parliament	18	21	4 years
President of the region	18	25	4 years
Member of regional parliament (regional assembly)	18	18	4 years
Mayor	18	25	4 years
Member of local parliament (local assembly)	18	18	4 years

Source: authors

To the last state authorities in terms of power belong the judiciary authorities. The courts decide about the rights and obligations, guilt and innocence, the imposition of a custodial sentence, etc. They also decide about the constitutionality and legality. The main role of courts is to protect and guarantee fundamental rights and freedoms. In the Slovak Republic the judiciary power is formed by Judiciary Supreme Court along with the system of courts and the Constitutional Court of the Slovak Republic. The courts essentially apply the law. During this operation they have to act in accordance with European Union legislation.

Provision of services and their financing at different stages

Financing local government passed since 1990 a long way during which there have been several changes in the pattern of financing. Last major change took place on 1.1.2005 and is valid until today. At its heart, the change of municipalities financing, was connected to the transfer of responsibilities from government to the competences of municipalities in the years 2002 to 2004 and the creation of two types of competences - original and delegated (carried over). Original competences are financed from own revenues of municipalities and delegated competencies that municipalities perform in the name of state are financed by the state in form of subsidies (transfers) from the state budget. The process of competencies transfer (administrative decentralization) has significantly strengthened the position and responsibility of municipalities in local development. It was also necessary to increase their financial income for the exercise of these powers (financial decentralization). A new model was adopted, according to which the delegated competence financing continues through subsidies (transfers) and for the financing of original (own) competencies were several laws adopted that came into force on 1.1.2005.

Table 8: *Transferred competences within the decentralization of public administration*

Local administration units (villages, towns, cities)	**Regional administration units** (autonomous regions)
Roads	roads and runs
Water management	road traffic
General internal administration – register maintenance	civil protection
Social assistance	social assistance
Territorial planning	territorial planning
Building code	library
Protection of nature	educational activities
Education	education
Physical culture	physical culture
Theatrical activity	theatrical activity, museums, gallery
Health service	health service, human pharmacy
Regional development	regional development
Tourism	tourism

Source: authors

The transfer of competencies in ensuring public services, resp. collective goods has its positives and negatives. The benefit is, inter alia, that lower levels of public administration have in most cases wider and more accurate information about the needs of its citizens. Thanks to them they can insure the services more effectively. For the insufficiency can be considered a fact, that too small municipalities (see *Table 3*) are problematic in terms of their opportunities, quality and complexity of power of their own and transferred competences. In this context, we encounter the concept of fiscal decentralization, through which the funds are transferred for provision services to the lower levels of public administration in the through compensatory transfers.

In practice, this means that there are different levels of government with its own income. Among them they are channelled within the fiscal decentralization in the form of shares in central taxes collected or earmarked transfers.

Great importance is gaining the tax determination, because according to it will be decided into which budget the taxes will pay as one of the most important receipts. Slovak municipalities have their own tax base in the form of local taxes. Among these the municipality decides about the tax rates and performs also tax collection and administration. We use the following local taxes: *property tax, dog tax, tax on the use of public space, accommodation tax, slot machines tax, non-winning gaming machines tax, tax on entry and stay of vehicles in the historical part of the city, nuclear facility tax, and municipal waste fee*. To the autonomous region belongs the right to collect the motor vehicle tax. Not all municipalities can collect all kinds of taxes, therefore, to supplement their budgets are used the proportionate taxes. In Slovak Republic there is only one tax, the personal income tax. It is "own" income of the local administrative unit, but the determination of rates, management and collection of the tax is executed by the State. The government determines by its regulation the percentage of tax revenue devolving to the municipality, autonomous region and state. At present 65,4% of tax devolutes to the local administrative units (villages, towns and cities), 21,9% to the higher territorial units (regions) and 12,7% to the state.

Table 9: *Proportion in income tax*

	2002–2011	since 2012
Villages, towns and cities	70,3%	65,4%
Regions	23,5%	21,9%
State	6,2%	12,7%

Source: authors

One of the reasons for the change was the impact of the financial crisis, when the state consolidated budgets of municipalities and selfgoverning regions with extraordinary subsidies in 2009 and 2010. The distribution of the tax to the budgets of municipalities are governed by government regulation based on several criteria:

- 23% by number of inhabitants residing in the municipality to 1 January the previous calendar year, of which 44% is converted by a factor of altitude of the municipalities centre,

- 40% according to the number of pupils (children) visiting art schools and school facilities founded by municipalities to 15 September previous calendar year recalculated by an art school coefficient, respectively school facility,
- 5% by number of inhabitants at the age of 62 years, residing in the municipality to 1 January preceding calendar year,
- 32% by number of inhabitants residing in its territory to 1 January of the previous calendar year recalculated by a coefficient depending on the classification of municipalities in size category.

The law regulates the structure of the municipal budget for the current and capital, defines the municipal revenues and relations between the state and municipal budgets. The Act No. 583/2004 also lays down the conditions for handling repayable funds (loans, borrowings), including limits on the total amount of debt and the amount of debt service. It also includes a part how to deal with situations where the community becomes insolvent, what is solved by a recovery budget or compulsory administration, if such a budget is not effective. Under the Act (No. 583/2004), the budget is drawn up to three years and from 1.1.2009 applies program budgeting.
In terms of the overall impact of fiscal decentralization and local autonomy can be stated that:

- the financial autonomy of municipalities has been strengthen,
- municipalities have now a secured income from the state form the most stable and dynamic tax,
- flows and volumes in financing the original powers of government to municipalities at relatively equitable system of financial equalization are transparent (measurable indicators, clear and generally valid criteria in local taxes redistribution formula,
- a process motivating municipalities to an effective behaviour in field of their cooperation (which is necessary due to their size and fragmentation) was started.

Table 10 documents some facts – volume highest income are tax revenues in them the personal income tax (tax incomes are during the period ranging from 40% to 46%, except the year 2010, when they fell to 36.4% – see *chart 4*). The second highest income are grants and transfers in the range of 26% to 36%, which finance crucially delegated competences (excluding grants for development activities of municipalities). The largest volume of them are transfers for education, which covers spendings on primary schools, which municipalities run as a delegated competence. And only third in the order are the revenues from local taxes.

Table 10: *Balance of local units in Slovakia in 2008–2012 in bln. €*

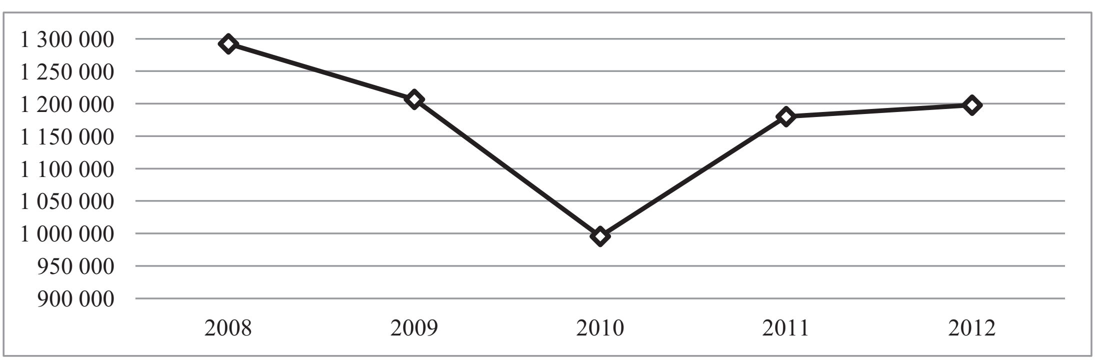
	2008	2009	2010	2011	2012
LU revenues total	3, 606	3, 758	4, 015	3,998	3,697
Current incomes	2, 755	2, 806	2, 664	2, 824	2, 880
Tax incomes	1, 685	1, 620	1, 431	1, 618	1,674
Income tax	1, 292	1, 206	0, 995	1, 179	1, 196
Local taxes	0, 393	0, 413	0, 426	0, 439	0, 476
Non-tax revenues	0, 344	0, 314	0, 327	0,411	0,415
Grants and transfers	0,727	0, 871	0, 915	0,866	0,858
Loans	0,218	0,257	0,433	0,334	0,212
Capital revenues	0, 477	0,376	0, 622	0,659	0,518
LU expenditures total	3, 343	3, 542	3, 892	3, 848	3, 542
Current expenditures	2, 413	2, 543	2, 577	2, 603	2, 654
Capital expenditures	0,765	0, 860	1, 105	0,861	0, 665
Total balance of LU	0, 262	0, 215	0,123	0, 150	0, 154
Total balance of LU without financial operations	0,055	–0,221	–0, 396	0,019	0,184

Source: authors, data: DataCentrum, Ministry of Finance of the Slovak Republic

The financial crisis – impact on municipal budgets

The financial crisis was transferred also into the budgets of municipalities in Slovak republic. It increased their overall tightness, what caused a continuous reduction in tax revenues, where the declining revenue from personal income tax has played a significant role (see *Figure 3*). This situation makes that more difficult for municipalities, because that tax is generally the highest revenue in municipal budgets. Partial remediation of this situation is an increase of property tax, non-tax revenues and an increase of compensation from the state budget.

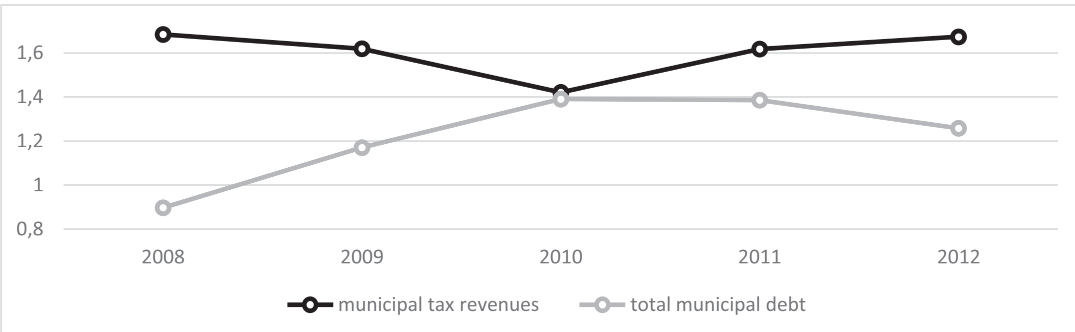
Figure 3: *Income tax revenue transferred to local units* (in thousands Euro)



Source: authors, data: DataCentrum, Ministry of Finance of the Slovak Republic

The debt activity of municipalities increased, the volume of loans grew, what in the future development can bring the municipalities into more financial problems because of increased short-term bank loans. Despite the crisis the investment activity continued represented by increasing capital expenditures *(Table10),* where the crucial category due to volume was the realization of buildings and their technical improvement. To increase the number of facilities of the village and the quality of service is a desired effect. But it also has its problematic page, as this activity is based on the indebtedness of the municipality.

Figure 4: *Tax revenues and debt relation 2008–2012* (in billions Euro)



Source: authors, data: DataCentrum, Ministry of Finance of the Slovak Republic

Figure 4 documents the clear indirect dependence of tax revenues and municipal debt: when tax revenues decreased, the debt increased and vice versa. As soon as the tax revenues increased, the debt decreased. The decrease in debt could be partially caused by a situation that municipalities do not wanted to raise debt longer in the following years (2010 and 2012) and solved it by exhausting their reserves and deferred consumption, while the difference between total revenue and total expenditure was reduced, thus increased tightness of municipal budgets (table 10). Development of municipal debt and its share in total public debt presented in *Table 11:*

Table 11: *Municipalities share on public administration debt*

ESA 95	**2008**	**2009**	**2010**	**2011**	**2012**
Public Maastricht debt (millions Euro)	18 623,0	22 331,0	27 625,3	30 507,3	37 866,9
Municipalities debt (millions Euro)	897,0	1 143,0	1 390,9	1 386,4	1 258,6
Share of municipalities	4,82 %	5,12 %	5,4 %	4,8 %	3,32 %

Source: Združenie miest a obcí slovenska. 2013. Tlačová správa: Konsolidácia financií miest a obcí

To solve the impact of the financial crisis on the budgets of municipalities was a Memorandum between the Government of the Slovak Republic and Association of Slovak towns and communes adopted, which was once part compensate for loss of revenues on personal income tax from the state budget with volume of 100 million € for municipalities, but also rationalization and austerity measures on the expenditure side communities. *Table 12* confirms that the villages respected this part of the agreement and acted much more efficient than the state.

Table 12: *Annual change of expednitures of state and municipal budgets* (in %)

Indicator	**2009/2008**	**2010/2009**	**2011/2010**	**2012/2011**	**2013/2012**	**2013/2008**
Expenditures state budget	10,6	15,0	−0,4	2,4	8,7	41,0
Expenditures municipalities	5,9	9,9	−1,1	−7,9	2,8	8,9
Expenditures of municipalities without financial operations	7,1	8,2	−5,9	−4,2	1,4	5,9

Source: Združenie miest a obcí Slovenska. 2013. Tlačová správa: Konsolidácia financií miest a obcí

The financial crisis has brought a series of negative actions in the economy of communities, but also has its positives. The negative ones that the communes had to adopt included actions such as staff reductions, salaries cuts, reduction of employees working hours , non-payment of bonuses, reducing the use of public lighting, maintenance of public green areas, but also cuts in funding for various (sporting, cultural) organizations, clubs and associations, including their activities. Crisis situations also have their positives. They motivate municipalities to activities which normally would not or would be much later adopted, while many of them represent a change from known routine. To include such mobilization of resources in the area, for example exploring the possibilities of multi-source financing, pooling resources with other entities, monitoring and evaluation of measurable indicators that increase the efficiency of funds and property management, the application of "best practices" from other communes, the implementation of new processes, technologies and materials that reduce operating costs. Although it is already 2015 and municipal budgets are consolidated, the challenges posed by the crisis were in many cases delayed and municipalities will face them in coming years.

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