SLOVAK REPUBLIC

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 49 036 km^2
Population: 5.438 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 111 inhabitants / km^2
Urban population: 53.8% of national population
Urban population growth: 0.1% (2017)
Capital city: Bratislava (7.9% of national population)

ECONOMIC DATA

GDP: 172.0 billion (current PPP international dollars), i.e. 31 625 dollars per inhabitant (2017)
Real GDP growth: 3.4% (2017 vs 2016)
Unemployment rate: 8.1% (2017)
Foreign direct investment, net inflows (FDI): 5 922 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.2% of GDP (2017)
HDI: 0.855 (very high), rank 38 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Slovak Republic is a parliamentary republic, headed by a President elected by direct democracy every five years. It has a unicameral Parliament (National Council of the Slovak Republic) composed of 150 members, directly elected for a four-year period. The country became an independent state on 1 January 1993 after the dissolution of Czechoslovakia.

The Slovak Republic is a unitary country with two subnational tiers of governments, regions and municipalities, which are self-governing bodies. The 1991 Slovak Constitution sets the basis for the "territorial self-administration" (Art. 64 to 71). Municipalities were introduced as autonomous authorities in 1991, while regional governments (also referred to as Higher Territorial Units) were established in 2001 via the Act on Self-governing Regions.

Article 64 of the Constitution states that municipalities, namely an "independent territorial and administrative unit", are the basic unit of local democracy. In that sense, they are considered to be a full, legal person that "under conditions set out in a law, independently manages its own property and financial resources" (article 65). Elections are held every four years to elect the mayor and the members of the municipal council, and, in some cities, the mayor of borough (city district) and members of borough councils (Act 346/1990, on elections to municipal bodies). The mayor is called *starosta* in municipalities and city districts and *primátor* in cities.

At the regional level, the region's legislative and decision-making body is the regional council. It is composed of members elected by direct universal suffrage for a four-year term. The President (*predseda*) is also elected by direct universal suffrage for a four-year mandate and is the self-governing region's representative and statutory body, and chairs regional council meetings.

In 2001, municipalities were given substantial competencies (social assistance, urban planning, housing, environment, primary schools, recreation, etc.) as part of a major decentralisation process, which also, in 2002, created regions that are now in charge of education, social welfare, regional roads and transport and regional economic development and territorial planning. The Project of Further Decentralisation of Public Government for the years 2003-06 confirms the decentralisation process. In 2005, the Act on Local Financing deeply modified the subnational financial system by raising both shared taxes and own-source taxes, and reduced central government transfers to subnational governments. In 2014, the ESO Programme (efficient, reliable and open state administration) restructured the territorial administration of the central government in order to simplify it and make it more cost efficient. This included better multi-level governance at the local level and improving public service delivery to citizens.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 930 municipalities *(Obci)*		8 regions *(Samosprávne Kraje)*	
	Average municipal size: 1 856 inhabitants			
	2 930		8	2 938

OVERALL DESCRIPTION. The Slovak Republic has a two-tier system of subnational government, made up of eight self-governing regions and 2 930 municipalities.

MUNICIPALITIES AND INTER-MUNICIPAL CO-OPERATION. The municipal level includes 140 cities (*mesto*), 39 city districts (boroughs or *mestská časť*) in Bratislava (17) and Košice (22), rural municipalities as well as three military districts. The special status of "city" is granted by the Parliament to municipalities that are considered administrative, economic and cultural centres. They are in charge of providing public services to neighbouring municipalities. City districts in the cities of Bratislava and Košice also have "municipality" status (even they are contained within a municipality) and are responsible for issues of local significance such as urban planning, local road maintenance, budget, local ordinances, park maintenance and public safety.

Municipal fragmentation in Slovak Republic is one of the highest in the OECD. The average size of municipalities is around 1 900 inhabitants (vs 9 700 in the OECD and 5 900 in the EU28) and the median size is 655 inhabitants. Around 92% of municipalities have fewer than 2 000 inhabitants and 39%, fewer than 500. To tackle this problem, the government promoted inter-municipal co-operation in the framework of voluntary “joint municipal offices” (233 as of May 2014), which are multi-purpose and implementing co-ordination arrangements covering 21 different domains. The ESO Programme also reinforced the role of joint municipal offices for the purposes of managing functions delegated from the state.

At the end of 2015, a project was launched by the Ministry of Finance to develop a single information system via cloud services for all local municipalities (Datacenter of cities and villages project-DCOM).

REGIONAL LEVEL. Population ranges between 562 400 inhabitants in Trnava region to 823 800 inhabitants in the region of Presov, while the regional average size is around 680 390 inhabitants in 2017. Density varies however from 69 inhabitants per km2 in Banská Bystrica region to 317 in the region of Bratislava. The regional level is marked by strong disparities, with the eastern part of the country, which lags behind the west, and in particular Bratislava. The regional gap in GDP per capita increased in the Slovak Republic over the last 16 years. GDP per capita in Bratislava is now almost 3.5 times higher than in East Slovakia. In 2016, the Slovak Republic had the fourth highest regional economic disparities among 30 OECD countries with comparable data.

STATE TERRITORIAL ADMINISTRATION. Slovakia territorial state administration was restructured in 2013-2014 as part of the ESO reform. In 2013, 72 new district offices were created to replace numerous state territorial entities. One-stop shops are being established in the district offices to provide a wide variety of public services. As of 2017, 50 customer centres have been opened, out of the 79 planned.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Decentralisation reforms introduced in 2001-2002 and through 2005 increased the competences and resources of subnational governments. In the framework of a multi-annual programme of decentralisation, more than 400 tasks and responsibilities were transferred to the municipal and regional levels.

Despite their small size, municipalities have significant responsibilities and competencies in the fields of urban planning and local public services such as social assistance, housing, environment, primary schools, recreation, etc. Their responsibilities are divided between own competences and transferred competences devolved by the central government. Following Slovak legislation, every competence that is not recognised as a transferred municipal competence is considered a own competence.

Regions have wide-ranging responsibilities on education, health, regional roads and transport, social welfare and regional economic development and territorial planning. They may perform certain duties in the name of the state, mainly regarding education, healthcare and transport.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Internal administration; International and trans-regional co-operation	Internal administration; Management of movable property and real estate owned by the municipality, or transferred temporarily by the State; Building permits; Registry offices
2. Public order and safety	Civil defence (in co-operation with State bodies)	Municipal police; Public order; Fire-fighting
3. Economic affairs/transports	Transport (roads, railways); Regional economic development	Supervision of economic activities; Consumer protection; Local roads; Local public transport; Tourism
4. Environmental protection		Protection of the environment; Sewage; Heating; Refuse collection and disposal
5. Housing and community amenities		Housing and town planning; Cemeteries; Public lightning; Water supply; Parks and open spaces; Urban regeneration; Social housing
6. Health	Secondary hospitals; Management of non-State healthcare as psychiatric hospitals and dental services	First aid stations and primary medical centres
7. Recreation, culture & religion	Regional theatres; Libraries; Museums; Galleries; Cultural centres	Sports facilities; Cultural facilities
8. Education	Secondary, professional, art and vocational schools; Construction and maintenance of buildings; Payment of teacher on behalf of the State	Pre-school and primary schools; Kindergarten and nurseries
9. Social protection	Homes for children	Social aid for elderly and children

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regions, municipalities and other units.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The legislative framework of fiscal decentralisation comprises a series of legal acts established in 2004 regarding the budgets of regions and municipalities. Despite major fiscal decentralisation reforms that took place in 2005, the Slovak Republic remains one of the most centralised OECD countries in terms of subnational expenditure and tax revenue. Municipalities’ revenue-raising power and spending efficiency are limited by the small size of many municipalities and the lack of action taken to develop joint public-service delivery. Due to regions’ lack of fiscal autonomy, SNGs rely primarily on intergovernmental transfers.

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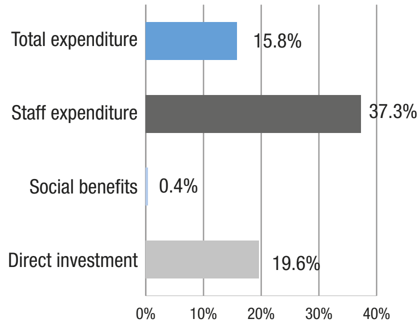
UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 996**	**6.6%**	**100%**
Inc. current expenditure	1 786	5.9%	89.5%
Staff expenditure	1 036	3.4%	51.9%
Intermediate consumption	562	1.8%	28.2%
Social expenditure	24	0.1%	1.2%
Subsidies and current transfers	147	0.5%	7.4%
Financial charges	10	0.0%	0.5%
Others	6	0.0%	0.3%
Incl. capital expenditure	210	0.7%	10.5%
Capital transfers	4	0.0%	0.2%
Direct investment (or GFCF)	206	0.7%	10.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Despite the strong decentralisation process initiated in 2002, Slovakia remains a centralised country from the local government spending perspective. The level of SNG spending in GDP and public spending is much lower than the OECD average of unitary countries (9.2% of GDP and 28.7% of public expenditure) as well as the EU28 average (15.3% of GDP and 33.5% of public expenditure). However, SNGs play a key role as public employers, as they are responsible for paying teachers' salaries on behalf of the central government. As a result, staff spending accounted for more than half of SNG spending in 2016 and 37% of public staff spending. On average, due to the high fragmentation at the municipal level, municipalities with less than 250 inhabitants spend more than half of their budget on administration costs.

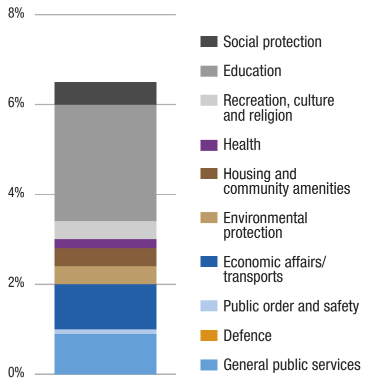
DIRECT INVESTMENT. Public investment in the Slovak Republic is largely top-down, and SNGs play a weak role in investment planning and financing, well below the OECD average for unitary countries (50.7% of public investment and 1.7% of GDP in 2016). The country is heavily dependent on EU Structural and Investment Funds (ESI) for the financing for public investment. From 2015 to 2016, SNG public investment dropped by 35%. Municipalities, in particular cities, are by far the biggest SNG public investors compared to the regional governments, carrying out around 80% of SNG investment. Capital expenditure for housing and community amenities is the primary sub-national government spending item, followed by transport, education infrastructure, environmental protection and recreation and culture. Municipalities are by far the biggest sub-national public investors compared to regions.
In 2016, a public expenditure review was launched on a four-year cycle with the support of several international organisations in order to develop a methodological toolbox and internal analytical capacity that improves the quality of Slovak public investment. Closer connections between regions are needed to promote balanced growth and attract investment at the country-level, in particular in the sector of transport, where the deficit in infrastructure is especially large.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

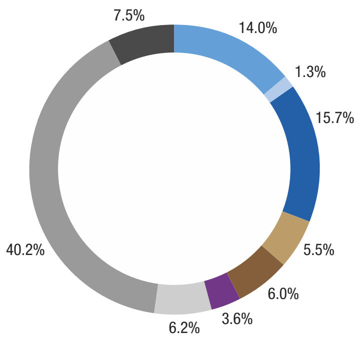
The primary area of SNG spending is by far education, resulting from the fact that regions and municipalities are responsible not only for the construction and maintenance of educational infrastructures but also for school-related services and the payment of teachers and staff. Other significant areas of SNG spending are general public services and economic affairs/transports. On the other hand, they play a minor role in social protection.

SNGs are responsible for more than half of public expenditure in the area of environmental protection and housing, community and amenities, especially since their tasks include infrastructure related to water supply, sewage, heating, parks and open spaces and public lightning. Recreation, culture and religion is also and relevant spending area.

% GDP



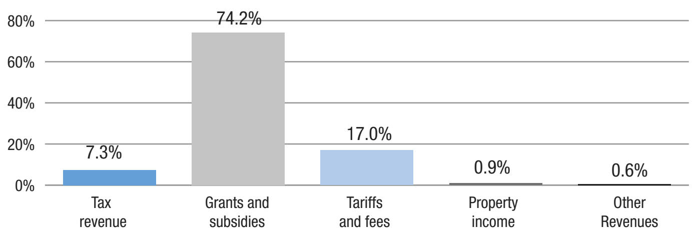
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 168**	**7.1%**	**18.1%**
Tax revenue	157	0.5%	2.9%
Grants and subsidies	1 609	5.3%	
Tariffs and fees	368	1.2%	
Property income	21	0.1%	
Other revenues	14	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. SNG revenue accounts for a relatively small share of GDP, well below the OECD average. They come from three main sources: taxes, non-tax revenues (tariffs and fees and property income) and transfers from the central government and the EU. The latter represents the bulk of subnational revenue, well above the OECD average for unitary countries where grants accounted for 49% of SNG revenue in 2016. The share of grants and subsidies in SNG revenue is one of the highest of the OECD countries. By contrast, the share of tax revenue is particularly low compared to the OECD average for unitary countries (38.7%) as well as that of the EU28 (41%).
Fiscal decentralisation was deepened in 2005 with the Act on Local Financing and with the Act on the support on regional development of 2008. The aim of the system is for municipalities' exclusive competencies to be financed through own-source revenue (tax and non-tax revenue) while the tasks delegated by the State are to be financed through transfers from the central government. Since 2014, and the implementation of the SNA 2008 accountability system, Personal Income Tax proceeds redistributed by the central government to SNGs are no longer considered tax revenue in the form of a shared tax but considered transfers, hence the drop in ratios related to tax revenue since 2013.

TAX REVENUE. Tax revenues only represent a small share of the financial resources of municipalities and regions, below the OECD and EU averages (see above). They account for a mere 0.5% of GDP and 2.9% of public tax revenue, which is well below the OECD average for unitary countries (4.7% of GDP and 19.8% of public tax revenue) and the EU28 average (6.4% of GDP and 24% of public tax revenue). Municipalities are the only subnational level to receive own-source taxes. In the past, regions were able to levy one tax, the motor vehicle tax, imposed on vehicles used for commercial purposes only, but this was amended in 2015.

The main municipal tax is the recurrent tax on immovable property, levied on land, buildings and flats. The general rate of the land tax is 0.25% of the value while that of the building tax and the apartment tax is EUR 0.033 per m2. The municipalities may increase or decrease these rates in accordance with the local conditions. The property tax amounted to 83% of municipal tax revenue in 2016 (an increase of 3.8% since 2015) and 6% of total SNG revenue. Yet it only represents 0.4% of GDP, well below the OECD average (1.1% of GDP in 2016), partly because the tax base does not reflect property values on the current market. A reform of this local tax is being prepared; but, it may take several years for it to be implemented. Municipalities must also collect a tax on municipal waste and minor construction waste, according to the special Act No. 582/2004. Among the other local taxes are a tax on motor vehicles that enter and stay in historical parts of towns, the accommodation tax, and the tax on vending machines. Municipalities are free to decide whether or not to levy each tax, and to set the rates of all local taxes, and have a large autonomy on tax bases (exemptions, rate reduction).
Until 2015, regions were entitled to levy the motor vehicle tax. The competence to collect the motor vehicle tax has been under state control since January 2016 (Act No. 361/2014 Coll. on Motor Vehicle Tax).

GRANTS AND SUBSIDIES. Grants are divided between earmarked and non-earmarked transfers. The main non-earmarked transfer to SNGs is the share of Personal Income Tax (PIT), re-distributed from the central government to regional governments and municipalities. In 2016, the allocation formula was amended, so that regions receive 30% of total PIT receipts and municipalities receive 70% (compared to 21.9% and 66% in 2014). This transfer follows an equalisation principle, as the allocation for each SNG is calculated on the basis of needs, as well as population criteria (number of inhabitants, age structure, size, population density, etc.).

Earmarked transfers from the central government aim at financing certain services. They represent around one-third of municipal budgets. The main grant is for education, covering in particular payment of teachers' salaries, allocated according to the number of pupils. Other transfers include grants for delivering general public services (e.g. for keeping population registries, etc.), for the building and transport sectors and grants for regional development and tourism. In 2016, current grants accounted for 93% of total grants and subsidies.

OTHER REVENUES. Other subnational revenues represent a significant source of revenue, particularly user charges and fees (17% of SNG revenue in 2016 above the OECD average for unitary countries (10%).
Other revenues include operating surpluses of public enterprises controlled by SNGs; revenue from business/commercial activities; ownership of property (sale of movable and immovable property); donations received; interest on deposits or other financial products; collection of traffic fines; and other administrative offences. Taken together they account for less than 1% of the SNG revenue. A development fee has been established in 2015 on land in the territory of the municipality, for which a valid building permit has been issued. The payer is a natural person or a legal entity (e.g. property developer) for whom a building permit has been issued.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**439**	**2.8%**	**4.6%**	**100%**
Financial debt*	345	2.2%	4.1%	78.7%

* Currency and deposits, loans and bonds

FISCAL RULES. Since 2005, SNGs must follow a balanced budget rule. The Fiscal Responsibility Constitutional Act of 2011 and the Law on Budgetary Responsibility of 1 March 2013, which came into effect in 2015, strengthened the fiscal rules applying to SNGs. It also reinforced the role of the National Accounting Office (NAO, which controls local and regional accounting, budgeting and public expenditures. Since 2009, under the impact of the economic crisis, the central government stepped in with occasional bail-outs to regional and city authorities to prevent the closure of public centres, in particular care centres.

DEBT. SNGs are free to borrow in the form or loans or bonds to finance capital expenditure (golden rule), within limits set by the central government (debt service and cap on outstanding debt). Total SNG debt must not exceed 60% of total SNG current revenues. The payment of interest and principal on loans should not exceed 25% of current revenues for the previous year. SNGs exceeding the debt limits must pay a fine imposed by the Ministry of Finance amounting to 5% of the difference between the total debt and the 60% ratio. SNG outstanding debt is well below the OECD average for unitary countries of 14.5% of GDP and 11.8% of public debt as well as below the EU28 average (14.3% of GDP and 14.4% of public debt). It is made up of financial debt (78.7%) and other accounts payable (21.3%). Within the financial debt, loans account for almost all debt stock (99.5%).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Institute for economic and social reforms of the Slovak Republic // Regional Statistical Yearbook of Slovakia.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database).
Other sources of information: OECD (2019, 2017) OECD Economic Surveys: Slovak Republic // Ministry of Finance of the Slovak Republic (2018) National Reform Programme of the Slovak Republic 2018 // Ministry of Finance (2018) Slovakia Stability Programme for 2018 to 2021 // OECD (2016) Making the Most of Public Investment in the Eastern Slovak Republic // Council of Europe (2016) Local and regional democracy in the Slovak Republic CG30(2016)09-final // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // European Committee of the Regions (2014) Division of Powers // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Capkova S. and Roncakova L. (2014) Fiscal Equalization and Regional Growth.