1 Macroeconomic and political context

This chapter describes the political context and the previous macroeconomic context of the Slovak Republic. It also describes the current regulatory reform efforts and points to the specific economic challenges that the country faces in relation to its evolving economic landscape, the working population, and the well-being and trust within public institutions.

Political context: the Slovak Republic's path to independence

Officially, the Slovak Republic came into existence on 1st January 1993 following the peaceful dissolution of Czechoslovakia through the famously known "Velvet Divorce". With an area of approximately 49 000 km2 and a population of 5.4 million, Slovakia has been noted to be one of the smallest states within the European states that has been doing notably relatively well in regards to the overall developments of their economy.

It is important to note that the Slovak Republic's transition into an independent state went through a timeline of many "stop and goes". Several developments within the country's timeline has influenced the way the state has developed today.

Based on milestones derived from Slovakia's modern history, the First World War had a fundamental role in changing how the matters around the Czech Republic and the Slovak Republic were dealt with. As a result from the dismantling of the Austrian-Hungarian monarchy post the First World War, the nations of the Czech and the Slovaks united together to form a common state known as Czechoslovakia (Ministry of Foreign and European Affairs of the Slovak Republic, 2018[1]). This was a monumental moment for Slovakia, as it was the first time the nation was given their own state independence and was also the first time that the territory of Slovakia could be defined by both state and territorial borders. However, shortly after the developments of the Czechoslovakia, conceived under a parliamentary democracy, the new country fell into a 20-year inter-war period. This period was shortly then followed by the developments of the Second Word War from 1939-1945 (Ministry of Foreign and European Affairs of the Slovak Republic, 2018[1]).

Following the Second World War, there was a brief interlude of limited democracy in Czechoslovakia from 1945 to 1948. This period was then shadowed by a 40-year period of communist rule from 1948-1989. It is important to note that it was during this period when the National Assembly of Czechoslovakia adopted the Czechoslovak Constitutional Act on the Czechoslovak Federation in 1968 (Ministry of Foreign and European Affairs of the Slovak Republic, 2018[1]). Under this constitutional law, the once unicameral National Assembly of Czechoslovakia was replaced with a bicameral legislature known as the Federal Assembly and this is when both Czechs and Slovaks were given equal representation within their legislative branch (Ministry of Foreign and European Affairs of the Slovak Republic, 2018[1]). The shift towards federalisation allowed for various economic and social opportunities to emerge for the Slovak nation within Czechoslovakia and allowed for an augmentation in the development among that nation.

The true conversation of the Slovak Republic becoming an independent state began when the country no longer operated under the satellites and vassals of other dominant regimes. In this way, the start of measuring the Slovak Republic's as an independent state was believed to begin in November 1989. This was also the time period when political discussions started to emerge of the "Velvet Revolution" and when the communist regime within the Slovak Republic had officially ended (Lambert, 2019[2]). Therefore, as mentioned above, it was in 1993, when the Slovak Republic had officially transitioned into becoming an independent state (Lambert, 2019[2]).

Now, more than 25 years later, the Slovak Republic has not only established its presence within the international community, but has also demonstrated that as a newly emerged state, the country could defy barriers and advance successfully both socially and economically. In 2000, Slovakia became a recognised member of the OECD, in 2004, the Slovak Republic successfully became an official member of the European Union and in 2009, the country also officially adopted the euro, allowing itself greater access and entry into international markets and strengthening its economic development.

Government structure

The Constitution adopted in 1992 changed the system of governance in the Slovak Republic. The development of Slovakia's constitution not only abandoned any ties with the country's previous past with communism, but also set out new laws and legislations that would go on and form the legal premise of the state. One of the best ways to understand the different structures of the government within the Slovak Republic is by assessing the different roles and responsibilities of the President and the Prime Minister have within the state. As outlined within the Slovak Constitution, the Head of State (i.e. President) and the Head of Government (i.e. Prime Minister) execute different responsibilities within the country's three levels of government: the executive branch, the Legislative branch, and the judicial branch (Chapter 2: The Government of the Slovak Republic *Art. 109-111*) (Constitute Project, 1992[3]; Eurydice, 2019[4]).

To begin, the President, a democratically elected official, serves a term of five years and heads the executive branch. The President is responsible for appointing the Prime Minister as well as three Constitutional Court Judges, three Judicial Council members and the Cabinet based on the recommendation of the Prime Minister. The President can make executive orders; however, must always ask the legislative permission before commanding any military orders or amending any international agreements. Conversely, the Prime Minister, once elected and appealed by the President, has the responsibility to present the Government's manifesto and to request the expression of its legislatives' confidence. Once the manifesto has been approved, the government can begin to fulfil its set programme. In this way, while the President is responsible for appointing the powers within the Legislative and the rest of the government, the Prime Minister is responsible for overseeing *the* government. (Eurydice, 2019[4])

In terms of the national government structure, the legislative branch (i.e. the National Council), like within most democracies is one of the most fundamental organs of the government structure. As a unicameral parliamentary body of the Slovak Republic, the 150 members who are a part of the National Council are not only elected by the general population, but also go on to serve a 4-year term. At this level of government, the legislative branch is responsible for writing and amending the constitution as well as constitutional laws, other laws, domestic policies, and the agreement to the national budget. (Eurydice, 2019[4])

Conversely, the judicial branch within the Slovak Republic consists of three different levels: the general courts (i.e. district and county), a Special Criminal Court, and the Supreme Court of the Slovak Republic. In terms of understanding the differences between the three judicial branches, they can easily be distinguished by the limitation of their jurisdictions:

- **District courts:** are the courts of first instances in civil and criminal cases, unless specified otherwise. They also hear electoral cases.
- **Regional courts:** are the courts of second instances in civil and criminal cases, which are heard already by district courts.
- **The Special Criminal Court:** hears criminal cases and other cases as laid down by the rules of governing court procedure.
- **The Supreme Court of the Slovak Republic:** acts and rules on appeals against regional courts and Special Criminal Court and Supreme Court Decisions where the law so provides. The Supreme Court of the Slovak Republic also resolves conflicts of jurisdiction *in rem* between courts and bodies of public administration (European Union, 2019[5]).

Finally, the Slovak Constitutional Court (SCC) is a rule-adjudicating political institution that operates on several exclusive competences reserved for centralised constitutional courts (e.g. such as the constitutional review of legislation and the interpretation of the Slovak Republic's Constitution). As of 1 March 2019, the Constitutional Court is regulated by Law No. 314/2018 issued in order to accomplish a more effective way of work and contributing towards a higher protection of human rights and freedoms

(European Union, 2019[5]). It is important to note that the SCC is an independent judiciary body, and that the powers of the court are regulated by *Articles 124-140* of Slovakia's constitution.

Local government structure

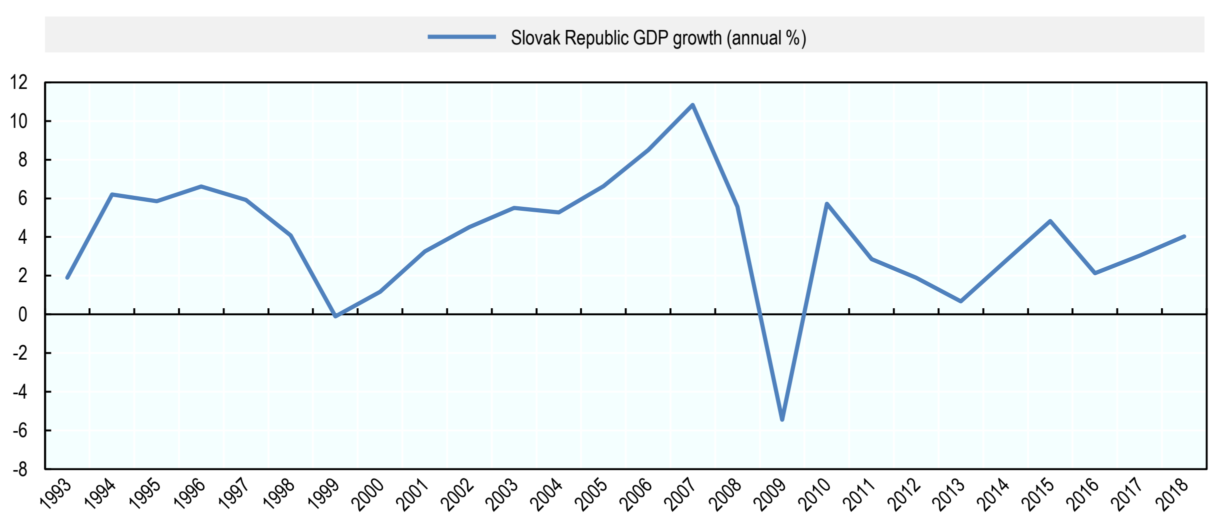
The Slovak Republic is governed on a dual public administration system, one that is represented by a state administration and the other that is represented by a two-layer self-administration.

At the regional level, municipalities and higher territorial units are independent self-governing and administration units of the Slovak Republic. Municipal council and mayors represent the authorities of municipality, while the council of the higher territorial unit and the chair of the higher territorial unit represent the authorities of the higher territorial unit (OECD, 2016[6]). The municipal council and the council of higher territorial unit are also made up of deputies. The deputies of the councils as well as mayors of municipalities and chairs of higher territorial units are elected by the inhabitants who have permanent residence at the territory of the municipality, or higher territorial unit, namely, because of general, equal and direct suffrage by secret ballot for a 4-year period (Eurydice, 2019[4]). These territorial bodies are responsible for legislating their own set of competencies, which often relate to topics relating to regional planning, welfare development, and socio-economic and cultural development of the region and education among others. Currently, the regional-level administration in Slovak Republic is represented by 8 regions, 79 districts, and 2 931 municipalities (OECD, 2016[6]). For more information on powers laid out explicitly in the two local government acts within the Slovak Republic, please refer to Chapter 8.

Economic context

Since its independence, the Slovak Republic has successfully transitioned from centrally planned economy to an economy that is now market based (Global Edge, n.d.[7]). In the first few years following the country's independence, the Slovak Republic suffered from a slow start due to the lingering effects of the country's previous market environment, however, it was noted that the progressive economic policies adopted in the end of 1990s propelled the state into a strong path towards economic growth (Reuvid, 2006[8]).

Figure 1.1. GDP growth (annual %) – Slovak Republic



Source: (World Bank, 2020[9]).

In the early 2000s, especially after the country's accession into the EU and NATO in 2004, and Slovakia's membership into the OECD, the country experienced strong developments in exports and access to new external markets. This access to new networks and international partnerships not only accelerated the country's economic development, but also pushed the country to achieve new economic heights. The power of pro-EU and globalisation coalitions for advancing economic strength was particularly proven within the Slovak Republic when the country achieved its highest economic growth at 10.8% in 2007, largely due to high openness (World Bank, 2020[9]). The economy of the Slovak Republic was also heavily affected by the 2008 financial crisis as, the 2011-12 Eurozone crisis, and now more recently with the economic impacts caused by the COVID-19 pandemic (NORDEA, 2020[10]).

Unprecedented short-term cycle shocks to the economic system: Slovakia's fiscal response to COVID-19

In 2019, projections relating to Slovakia's economic development estimated that the country would experience an economic slowdown of around 2.5% (OECD, 2019[11]). Impacts regarding this slowdown were largely related to weaker external demands and its weight on export growth, as Foreign Direct Investment (FDI) was a large component of Slovakia's economic sector. Conversely, while external demands were expected to slow down, domestics demands were expected to stay relatively strong, most notably as a result of private consumption, which was held up by a robust labour market and low unemployment (OECD, 2019[11]).

In 2020, however, the narrative of all competitive global economies shifted. As a result of the COVID-19 pandemic, many countries, including the Slovak Republic, were confronted with new economic challenges presented by the global health crisis. Despite, the Slovak Republic experiencing a lower spread of the COVID-19 pandemic compared to most other OECD countries, the country did introduce pre-cautionary health measures to minimise the impact of the virus.

In terms of the economy, the containment measures along with surrounding uncertainty has led to an abrupt decline in economic activity, particularly in areas dependent on social interactions such as tourism, accommodations, and restaurants (OECD, Forthcoming[12]). Massive disruption in the global value chain as concerns over worker's safety have led to temporary production shut down of major automotive companies (OECD, Forthcoming[12]). This measure, coupled with the decline in car sales in the EU, a main export for Slovakia, has led towards significant impacts on the Slovak economy (OECD, Forthcoming[12]).

Conversely, to help minimise the economic fallout that would result from COVID-19, the Slovak Republic has announced several fiscal packages to moderate the consequences that the COVID-19 pandemic would have on the country's economy. The government has introduced a number of measures to help mitigate the depth and length of the recession (OECD, Forthcoming[12]).

The measures aim to maintain employer and employee relationships (OECD, Forthcoming[12]). The Slovak Republic has committed to offering subsidies for those who have lost significant revenues in result of the pandemic. In addition, the country has also employed other measures such as introducing short-term work schemes, temporarily reducing employer social contributions for those business that remain close due to the pandemic, as well as offering income support for those who have lost their jobs over this period (this also includes non-standard forms of employment) (OECD, Forthcoming[12]). Finally, in terms of macroeconomic developments, measures of the European Central Bank have offered support by preserving bank loans and liquidity (OECD, Forthcoming[12]). The Government of the Slovak Republic will also adapt their policies to this situation by introducing loan guarantees and temporarily deferring payments on mortgages (OECD, Forthcoming[12]). The National Bank of the Slovak Republic has also decided to keep their countercyclical buffer at 1.5%, shifting away from its previous decision to increase the rate to 2.0% (OECD, Forthcoming[12]).

In sum, like with other OECD countries, the Slovak Republic has taken the necessary measures for its state to monitor and manage its economic situation within these unprecedented times. As the COVID-19 situation evolves, it is likely that the Government of the Slovak Republic will remain proactive and prompt the necessary steps to ensure that the situation within the country remains maintainable and that the economy can recover as quickly as possible once all restrictions are lifted.

Other areas important to consider for economic development

Aside from the very present economic implications caused by the COVID-19 pandemic, there are still other areas related to Slovakia’s economy and its economic structure that will require consideration for the long-term. Sooner or later the country will shift into an economic recovery stage and areas suggested for development pre-COVID-19 will once again apply. According to (OECD, 2019[11]), some areas requiring attention for the longer-term economic growth of the Slovak Republic were areas related to Slovakia’s rising age and its impacts on the country’s labour market, the need to promote greater innovation for economic diversification in the Slovak Republic, as well as, the need to upskill Slovakia’s labour force to manage prospects for innovation. This section will explore those areas and suggest ways forward for Slovakia’s post-COVID-19 economic development.

Ages slowly rising and its impact on the Slovak labour force

The first key challenge for Slovakia’s economic context will be in the ways the country prepares for addressing the country’s steep upward trend toward the growing old-age dependency ratio in the Slovak Republic. Currently, the Slovak Republic experiences one of the fastest declines in the working population among all OECD countries. The share of elderly aged people (above 65) in the working population is 1/5 and it is estimated that in 2060 the share of elderly people will reach almost 60% (OECD, 2019[11]). Therefore, this strong upward trend in the rising age of the population will require that the Slovak Republic effectively manages this offset to ensure sustained productivity from its labour force.

Driving innovation for economic diversification

Secondly, as the Slovak Republic looks towards its economic future, it will be important for the country to consider stimulants for innovation and entrepreneurship. Another challenge affecting the economic development of the country is that the country has largely depended on the cars and electronic industry for its development. As a result of this focus, other areas such as those relating to innovation, technological development, and research have largely gone undermined (OECD, 2019[11]). Therefore, by promoting investments into innovation, research and development, and the adoption of new technologies, the country could likely move into higher valued-added activities, as well as create demand for entrepreneurship (OECD, 2019[11]).

In the context of regulatory policy, the Government of the Slovak Republic has improved some areas of its regulatory environment for businesses by lessening restrictions related to product market regulation (i.e. in areas where health, well-being, or safety could not be jeopardised) (OECD, 2019[11]). Moving forward, it is advised for the Slovak Republic to continue its support for promoting an entrepreneurial and innovative environment within its economy by continuing to evaluate how it can minimise administrative burdens and the slow pace of public procedures that impacts many new businesses (OECD, 2019[11]).

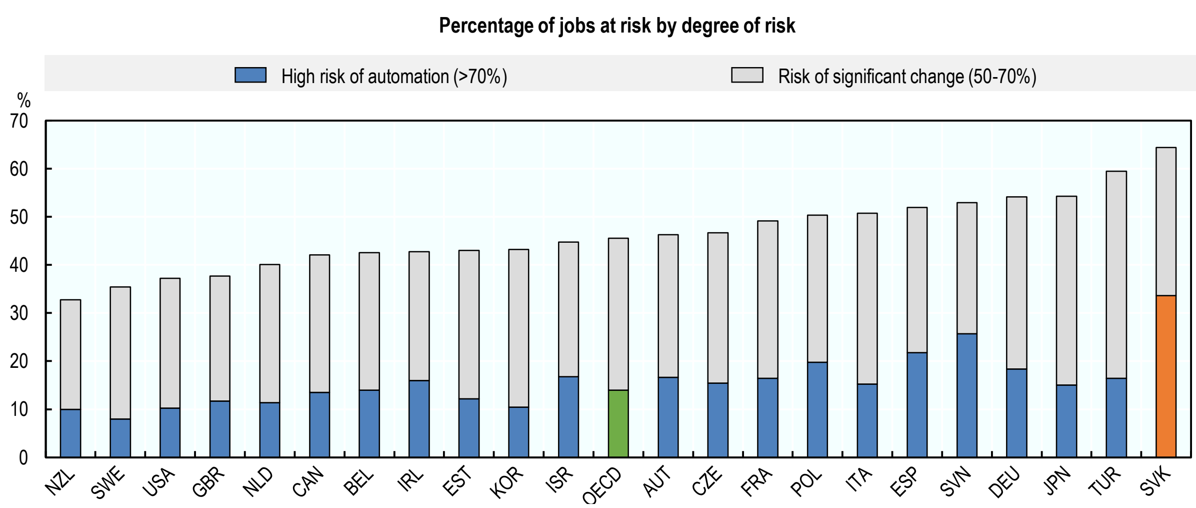
Promoting skilled labour for securing Slovakia’s labour market

Finally, linked to the promotion of innovation and economic diversification within the country, another issue that the Slovak Republic must address is their growing shortage in skilled labour. As outlined in (OECD, 2019[11]), progress within the manufacturing sector of the Slovak Republic and shifts towards promoting innovation will create a toll on those with low to medium level skill sets within the country (OECD, 2019[11]).

For example in 2019, it was estimated that almost two-thirds of the present jobs within the Slovak Republic were at risk of being replaced by advanced automation (Figure 1.2) (OECD, 2019[11]).

As the Slovak Republic becomes more exposed to effects of globalisation, it will be imperative that the country responds to the evolving business environment by ensuring all members of society are equipped with well-rounded skills (OECD, 2020[13]). Presently, recent OECD reports have shown that Slovakia still faces a number of complex skill challenges, as the skills of youth have been either lagging or deteriorating compared to the OECD average (OECD, 2020[13]). In addition, skill balances within the Slovak Republic have also shown to be high, with skill shortages emerging particularly in knowledge and technology-intensive sectors (OECD, 2020[13]). Therefore, as the Slovak Republic looks towards improving its innovative environment and plans around the evolution of technological development, it will be important for the country to advocate for stronger training across all age groups (OECD, 2020[13]).

Figure 1.2. Percentage of jobs at risk in the Slovak Republic due to increased automation in the manufacturing sector



Source: (OECD, 2019[11]).

What's next: managing the economic recovery from COVID-19

The economic impacts of COVID-19 will define a new narrative for Slovakia's economic development. For the Slovak Republic, it will be important that the country not only emphasises the importance of minimising economic losses for households and businesses, but that the country also ensures that it manages its macro-financial development so that following the de-escalation of the economic impacts caused by COVID-19, the country can easily shift into a mode of economic recovery.

Previous to the impacts caused by COVID-19, the Slovak Republic was noted as a country that was not only benefitting from strong links within the world economy, particularly among EU states, but was also catching up with economic development of higher-income countries (OECD, 2019[11]). Hence, moving forward, the Slovak Republic will have to not only consider how it can mitigate immediate impacts from COVID-19, but will also have to ensure it maintains a vision of how to remedy the structural economic gaps as outlined above.

How's life and trust in the government within the Slovak Republic

How's life in the Slovak Republic?

In the Slovak Republic, mixed outcomes from various socio-economic indicators have demonstrated that while the country might be advancing in some areas, such as within their economy, the country still faces some difficulties in addressing some other areas important for horizontal social development.

To begin according to (OECD, 2020[14]) there were several areas within the Slovak Republic that required greater attention when it came their socio-economic development. For example, indicators relating to poverty showed that upwards of 45% of citizens in the Slovak Republic would fall in risk of poverty if they had to forgo 3 months of their income. In addition, other indicators related to socio-economic well-being showed that household wealth within the Slovak Republic had deteriorated by 25% since 2010, and that household debt levels had increased by more than 25 percentage points in the Slovak Republic since 2010.[1] Finally, indicators relating to the environment showed that the Slovak Republic had one of the largest material footprints among OECD countries, and that the country was relatively behind in its efforts towards decreasing levels of air pollution exposed to its citizens (OECD, 2020[14]).

At the same time, however, the Slovak Republic has also shown strong progress in other areas such as, reducing inequalities. (OECD, 2020[14]) showed that in comparison to other OECD countries, the Slovak Republic was one out of two countries that had improved its inequalities indicators by 40% between the years of 2010 and 2018.[2] A few indicators included within this measure were measures relating to the share of employees working long hours, the number of households living in overcrowded conditions, and areas related to subjective well-being (i.e. negative affect balance) (OECD, 2020[14]). In addition, fewer people also showed a reduction in signals demonstrating that they felt a lack of social support within the Slovak Republic.

It is important to mention, however, that one key observation made within the (OECD, 2020[14]), was that many countries who had improved their well-being scores had also likely done it at the presumed cost of investing in future resources (OECD, 2020[14]). This implies that while the Slovak Republic may be progressing in some areas of well-being, the country should also continue to prioritise areas of sustainability (OECD, 2020[14]).

Trust in Government

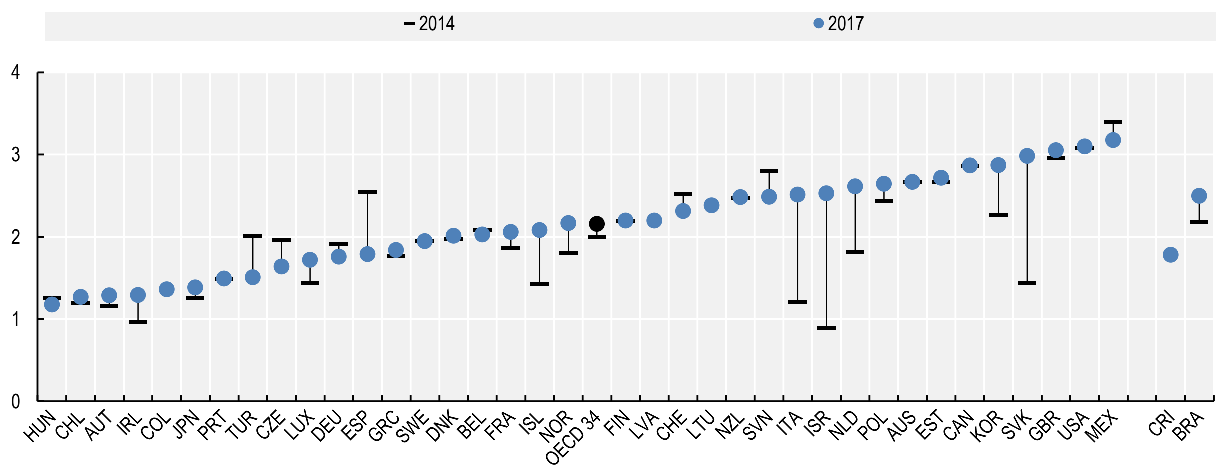
The role of public institutions in any country are important. Strong public institutions not only guarantee and protect the fundamental rights and values of their citizens, but they also help to ensure that needs of the of population are also met. In terms of indicators relating to principals of good governance and public trust in institutions, the Slovak Republic showed significant progress in government's stakeholder engagement, as the country ranked the highest after Mexico, the United States, and the United Kingdom (Figure 1.3) (OECD, 2020[14]).

Conversely, despite the improvements in government engagement within the Slovak Republic, there were still other areas related to public trust within public institutions that still require attention. For example, areas related to the country's trust within their police force showed low developments as since 2013 the Slovak Republic has ranked last out of all OECD countries when measuring against citizen's average trust in the police (Figure 1.4) (OECD, 2020[14]). Alternatively, when reviewing the Transparency International's 2018 Corruption Perception Index, the Slovak Republic showed slight improvements. In 2017, only Hungary, Turkey and Mexico ranked worse than the Slovak Republic (OECD, 2019[11]) (Figure 1.4).

An explanation for this development could be in part to the Slovak Republic progressing on anti-corruption legislation and procedures (OECD, 2019[11]). Finally, when observing the trust in national government within the Slovak Republic, the share of the population in the country that responded "yes" to a question about expressing their confidence in the national government increased only slightly from their benchmark set in 2010-12 (Figure 1.6).

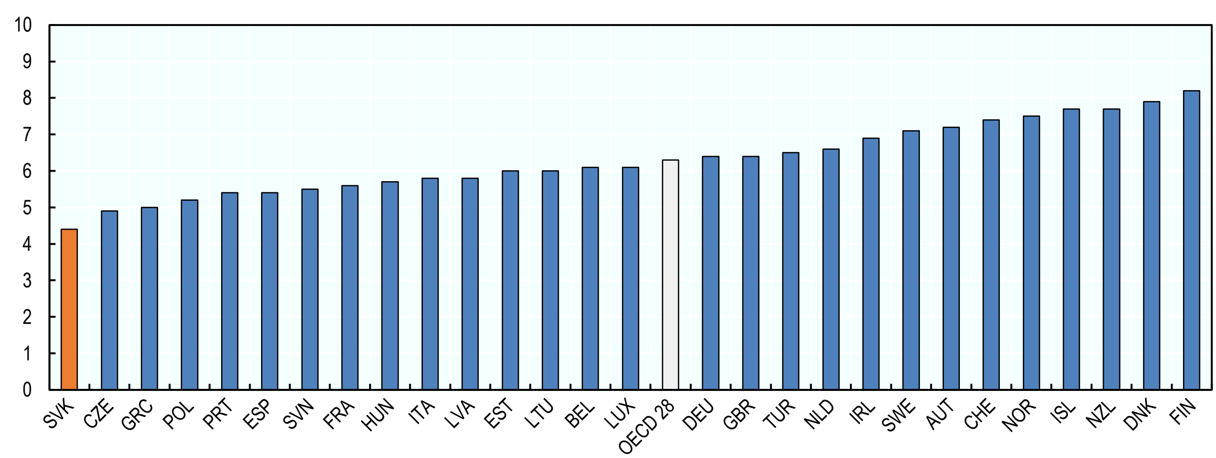
Figure 1.3. Average government stakeholder engagement has improved in the Slovak Republic since 2014

Government stakeholder engagement when developing primary laws and subordinate regulations,
0 (no engagement) – 4 (maximum engagement) scale



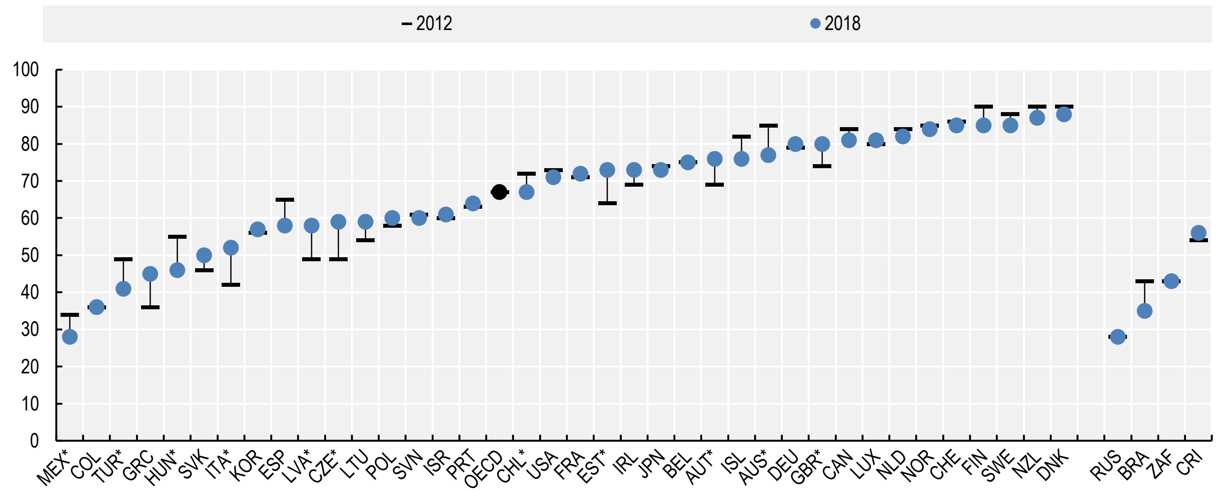
Notes: The sub-compomemt component scores for primary laws only cover practices in the executive. There is therefore no score for primary laws for the United States, where all primary laws are exclusively initiated by Congress. In Colombia, Costa Rica, Korea and Mexico, a majority of primary laws are initiated by the legislature.The OECD average excludes Colombia, Latvia and Lithuania due to incomplete time series.
Source: OECD Indicators of Regulatory Policy and Governance (iREG) (database), http://oe.cd/ireg; http://www.oecd.org/gov/regulatory-policy/indicators-regulatory-policy-and-governance

Figure 1.4. The Slovak Republic currently demonstrates the lowest level of trust within their police among all OECD countries



Note: Data for New Zealand refer to 2014. The OECD average excludes Australia, Canada, Chile, Colombia, Israel, Japan, Korea, Mexico and the United States due to a lack of available data.
Source: European Union Statistics on Income and Living Conditions (EU-SILC) (database), https://ec.europa.eu/eurostat/web/income-and-living-conditions, StatsNZ, customised report and licensed by StatsNZ for re-use under the Creative Commons Attribution 3.0 New Zealand licence (2017).

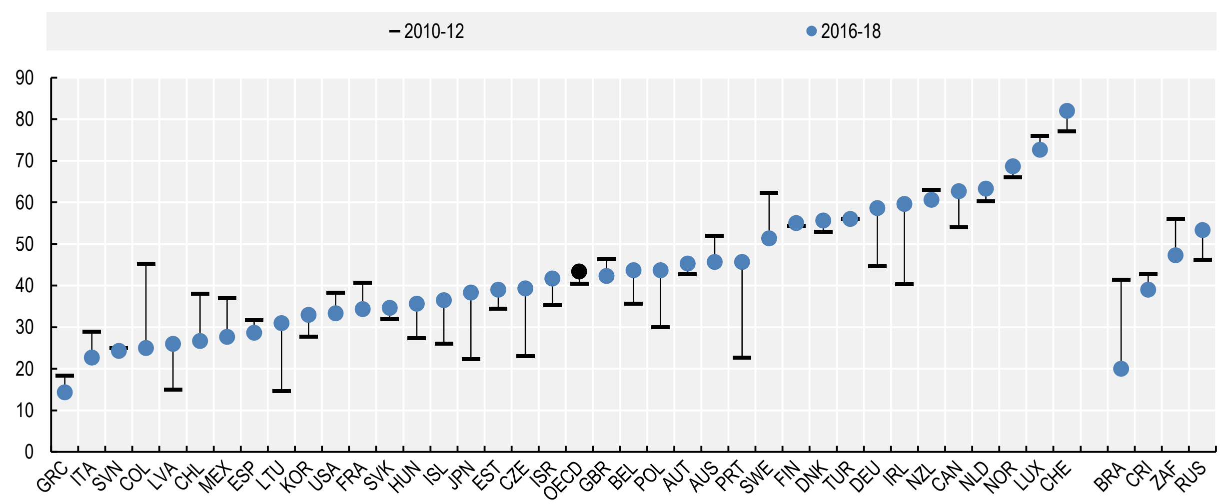
Figure 1.5. On average, perceived corruption has remained stable since 2012 and has only slightly improved in the Slovak Republic



* Indicates significant change since 2012 (90% confidence level, calculated by Transparency International).
Source: Transparency International Corruption Perception Index (database), https://www.transparency.org/cpi2018.

Figure 1.6. Since 2010, trust in national government has improved slightly in the Slovak Republic

Share of the population responding "yes" to a question about confidence in the national government, percentage



Source: Gallup World Poll (database), https://gallup.com/analytics/232838/world-poll.aspx.

Notes

[1] Or the earliest year available to measure household debt in the Slovak Republic.

[2] The other country that showed improvements in their inequality indicators by the same margin was the Czech Republic (OECD, 2020[14]).

References

Constitute Project (1992), *Slovakia's Constitution of 1992 with Amendements through 2014*, http://www.worldbank.org (accessed on 6 February 2020). [3]

European Union (2019), *Judicial systems in Member States - Slovakia*. [5]

Eurydice (2019), *https://eacea.ec.europa.eu/national-policies/eurydice/content/main-executive-and-legislative-bodies-72_en*. [4]

Global Edge (n.d.), *Slovakia: Introduction >> globalEDGE: Your source for Global Business Knowledge*, https://globaledge.msu.edu/countries/slovakia (accessed on 13 February 2020). [7]

Lambert, T. (2019), *A BRIEF HISTORY OF SLOVAKIA*, http://www.localhistories.org/slovakia.html. [2]

Ministry of Foreign and European Affairs of the Slovak Republic (2018), *2018 - Slovaks through the century*. [1]

NORDEA (2020), *Slovakia: Statistical Overview*. [10]

OECD (2020), *How's Life? 2020: Measuring Well-being*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9870c393-en. [14]

OECD (2020), *OECD Skills Strategy Slovak Republic: Assessment and Recommendations*, OECD Skills Studies, OECD Publishing, Paris, https://dx.doi.org/10.1787/bb688e68-en. [13]

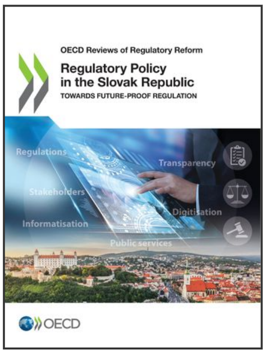
OECD (2019), *OECD Economic Surveys: Slovak Republic 2019*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-svk-2019-en. [11]

OECD (2016), *Regional Policy Profile Slovak Republic*. [6]

OECD (Forthcoming), *OECD Economic Outlook 2020*, OECD Publishing, Paris. [12]

Reuvid, J. (2006), *Corporate investment opportunities in the new Europe*, London: Kogan. [8]

World Bank (2020), *GDP growth (annual %) - Slovak Republic | Data*, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=SK (accessed on 13 February 2020). [9]



From:

Regulatory Policy in the Slovak Republic

Towards Future-Proof Regulation

Access the complete publication at:

https://doi.org/10.1787/ce95a880-en

Please cite this chapter as:

OECD (2020), “Macroeconomic and political context”, in *Regulatory Policy in the Slovak Republic: Towards Future-Proof Regulation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/f513dedd-en