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The Impact of Fiscal Rules on the Financial Management of Higher Self-Governing Units in the Slovak Republic

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Abstract

This article deals with the analysis of the impact of fiscal rules on financial management within the higher self-governing units of the Slovak Republic. For this analysis, unique data from 2002–2016 has been used. The quantitative analysis is complemented by a questionnaire survey and a structured interview of respondents who are responsible for controlling the financial management of higher territorial units. This analysis has shown the positive effect of fiscal rules on regional economics, but also revealed shortcomings that prevent the full use of fiscal rules in Slovakia. This is primarily due to incomplete and formal implementation, the interests of local elites, and a lack of coordination of activities with the central government.

1. Introduction

The issue of fiscal rules resonates in today's scientific discourse, but also in the real world of public policy and finance. Debates are being held regarding their direct and indirect effects on public finances. Most current studies use a broad econometric machine to analyze the effect of fiscal rules on different variables, such as public-finance deficits. These analyses are carried out on relatively large data from developed countries such as Switzerland or, for example, on cross-country data for the European Union. Studies also focus on the effects of numerical fiscal rules.

This article deals with a case study that looks at the impact of fiscal rules on the financial management of higher territorial units in Slovakia. Slovakia, as an independent republic, was established in 1993, having formerly been in a federation

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with the Czech Republic. In 2004, it joined the EU, and in 2009, it adopted the Euro. Slovakia is also a country with more than 40 years of Communist past, which is still present in the state of its public administration. "We move in an environment with limited transparency and accountability" (Nemec et al. 2008).

In terms of EU membership, Slovakia must fulfil the Stability and Growth Pact and the "two-pack" (agreed in 2013), which requires Euro Area members to submit draft budgets for scrutiny in the autumn before they are adopted. These reforms included the obligation for Member States to implement their own fiscal rules consistent with meeting a medium-term objective (MTO) (Begg 2017). In order to achieve macroeconomic fiscal discipline, it is necessary to implement a local fiscal rules system, which focuses on the *economic* discipline of local governments, i.e. regions and municipalities. As part of this article, the following research question has been defined:

What is the impact of local fiscal rules on the financial management of higher territorial units in Slovakia?

For this research question, a case study based on descriptive and qualitative methods was utilized. This approach will allow for the analysis of the problem more deeply than the econometric studies which have been conducted so far, which dwell in the mainstream of research, and will also help to address the specificities of post-communist countries, such as Slovakia.

This research enriches the current scientific discourse as follows: 1) It provides unique records that can be generalized for the countries of Central and Eastern Europe that are still burdened with the heritage of Communism. 2) It expands empirical evidence dealing with the effects of fiscal rules on the financial management of regions. This evidence is very limited, as most articles deal with the impact of the fiscal rules on the whole economy. 3) It brings a deeper insight based on qualitative research. Unlike econometric studies, which are presented currently in the mainstream to explore this issue, it allows a deeper investigation while finding new connections.

The article is organized as follows. The second chapter deals with the current state of knowledge in the field of implementation and impacts of fiscal rules. In the third chapter, the current system of fiscal rules in Slovakia is described. The parts regarding methodolgy describe the tools used to achieve the research goals. In Chapter 5, the results of the research are presented, i.e. the impacts of fiscal rules on the financial condition of regions and the results of their budgets. This financial analysis is supplemented by the results of structured interviews. In the final section, the results of the research are summarized and placed within the current discourse. Recommendations for public policy are also to be found here.

2. Fiscal rules

Fiscal rules impose a (long-lasting) constraint on fiscal policy through numerical limits on budgetary aggregates and establish procedures for the budgetary process. Governments use these rules to put a framework and limits on how budgetary challenges are addressed (Schakel et al. 2017). Other defintions are even more broad. According to Dietrichson and Ellegard (2015) this is represented as the formal rules and informal norms related to the drafting, approval, and implementation of the budget.

There are two ways in which fiscal rules affect the budget process (Schakel et al. 2017).

The first is structuring political decision-making to achieve fiscal transparency and predictability. For these objectives, fiscal rules define the requirements for reporting budget outcomes and define the environment and ways in which to achieve budgetary targets. These rules serve as a safeguard to ensure the efficient financial management of public funds and serve as an emergency brake that these situations will not be addressed by deficit financing. An example may be timeframes that determine how high the expense needs to be offset by savings or the level of detail that reports from subordinate organizations must contain. These types of fiscal rules also have their negatives. For example, it is very difficult to reach a compromise among the detailed requirements of reporting rules (Schakel et al. 2017).

The second way is by placing caps on the medium-term expenditure framework (MTEF). An MTEF is a transparent planning and budget formulation process that aims to connect policy making, planning and budgeting. It usually incorporates multi-year expenditure levels or caps (usually three or four years) or describes contingency measures that trigger automatic corrections in case the actual budgetary numbers deviate from budget forecasts (Schakel et al. 2017).

From the perspective of economic theory, the main reasons for implementing fiscal rules are as follows: political budget cycle, common-pool problem, information asymetry, impatience and short-sightedness of governments, spillovers and outside pressure (Badinger and Reuter 2017).

The IMF (International Monetary Fund) identifies four categories of fiscal rules: expenditure rules (ER), revenue rules (RR), debt rules (DR) and balanced budget rules (BBR) (Schakel et al. 2018). Legal bases for fiscal rules can vary from constitutional, to statutory, and coalition or political agreement (Schakel et al. 2018).

The basic model for the design of fiscal rules is the Kopits and Symansky approach, which states that fiscal rules should meet the following criteria: well-defined, transparency, simplicity, flexibility, adequacy, enforceability, consistency, efficiency (Sankot and Hronešová 2017). Quality fiscal rules should be structured according to the following requirements 1) simple; compliance should be easily verifiable, 2) maintain the government's solvency, 3) apply to the financial deficit of the sovereign, that is, to the consolidated general government, 4) make sense also in the long run, 5) allow for relevant differences in economic structure and initial conditions, 6) make sense at the level of the individual nation state and for the EMU area as a whole, 7) credible, 8) enforced impartially and consistently. The rules should not: 9) prejudge the issue of the appropriate/optimal size of the public sector; 10) encourage pro-cyclical behavior of the policy instruments (Mozdziers 2015).

According to Burret and Feld (2018a), scientific studies on the effects of fiscal rules began to appear in the United States around the 1960s. Over time, these extended to Canada, Latin America, the OECD and the EU (Burret and Feld 2018a). The studies focus mainly on the impact of fiscal rules on fiscal performance, which can be expressed, for example, by the size of deficits or the cost of financing government debt. In addition to studies analyzing the impact of fiscal rules on national budgets, there are studies that deal with the impact of fiscal rules on specific areas, such as healthcare (Shakel et al. 2017, 2018). Other studies are devoted to the impact of fiscal rules on the budgets of local governments, e.g. in Switzerland (Burret and Feld 2018a, 2018b), Spain (Bel et al. 2018; de Vincente et al. 2017), India (Chakraborty and Dash 2017), USA (Jimenez 2017), Canada (Atkinson et al. 2016), OECD local governments (Van Rompuy 2016,) etc.

With the wider focus of scholars on this topic, there has also been a widening debate about whether fiscal rules bring any real effects. Part of the studies argue that fiscal rules improve budgetary discipline (Burret and Feld 2018a). "Tighter and more encompassing rules are correlated with stronger cyclically adjusted primary balances in EU countries, that balanced budget rules and debt rules have a greater impact on budgetary outcomes than expenditure rules and revenue rules, and that rules that cover wider levels of government are associated with stronger fiscal discipline" (Burret and Feld 2018b).

Burret and Feld (2018b) state that the intended effect of fiscal rules may be weakened by efforts of politicians to only formally comply with the fiscal rules. Political players are able to find ways, for example, with the help of accounting tricks or hiding debt to achieve their goals while attaining the prescribed values of the indicators defined in the given fiscal rules. It is therefore necessary to distinguish between the direct effect of fiscal rules and the side effects caused by the effort to circumvent these rules.

Another skeptical view claims that "the real test of whether countries will respect their fiscal rules when they become binding, and whether adherence to such rules will be harmful or beneficial to these countries, will come with the next major recession" (Mou et al. 2018).

The authors also point out that the fiscal rules alone are incapable of guaranteeing responsible financial management. They must be accompanied by appropriate institutional arrangements and independent control bodies (Schakel et al. 2017).

Zawadzka-Pak, Kinga (2017) complements this thesis, stating that the basis for the functioning of legal norms is the existence and functioning of moral standards. It also depends very much on the internal motivation of citizens and politicians to pursue responsible financial management. This links to possible omitted variable bias: the correlation between strong fiscal performance and the use of fiscal rules may in fact be the result of political commitment rather than the existence of a rule (Schakel et al. 2018).

3. Slovakia and fiscal rules at the regional level

The following table presents the basic indicators of fiscal decentralization: revenue, expenditures and net lending of local governments and Slovakia compared to the EU average for 2012–2017.

Table 1

Revenues, expenditures and net lending of local governments in Slovakia and the EU 28 as a % of GDP

Year	2012	2013	2014	2015	2016	2017
Income of local governments (Slovakia)	6.5	6.6	6.6	7.6	7.1	6.9
Income of local governments (EU 28)	11.4	11.3	11.2	11.1	10.9	10.7
Expenditure by local governments (Slovakia)	6.4	6.4	6.7	7.4	6.6	6.9
Local Data Expenditure (EU 28)	11.5	11.3	11.1	11.0	10.8	10.6
Net lending (Slovakia)	0.1	0.2	−0.1	0.2	0.6	0.0
Net lending (EU 28)	−0.1	0.0	0.0	0.1	0.1	0.1

Source: Eurostat 2018

From the perspective of the table, it is clear that in the area of fiscal decentralization of local government revenues and expenditures, the Slovak Republic lags behind the EU average. The table shows a modest revenue and expenditure growth dynamics. One very interesting aspect is the net-lending indicator, where Slovakia does not differ from the average of the EU countries; there was a gradual improvement compared to the period 2008–2010, which was marked by the financial crisis. The data show that fiscal rules are primarily preventive in nature.

In order to fulfil the valid and established objectives, the VUC (Autonomous Regions or Higher Territorial Units) of the Slovak Republic are bound and determined from the legislative and legal side by Act No. 302/2001 Coll. Regarding the self-governing of the VUC. Explicit legislation in §2 refers to the target orientation of the VUC to self-manage their own income and property under all legal conditions. These are most clearly formulated in § 9, paragraphs 1–5. As a basis for financial management, this law determines the budget, which is compiled for a period of one year. As sources of meeting the goals of the self-governing regions and financing their needs, it identifies its own revenues, subsidies from the state budget and other sources, especially EU funds. The main documents in this Act for the fulfilment of financial management objectives are the draft budget and the draft final account, which must be publicly accessible before being approved by the government.

The budget structure, its creation, contents, budgetary management rules, the creation and use of budget resources, the way of financial equilibrium relations with the state budget are regulated in the special legal norms of the Act of the National Council of the Slovak Republic No. 523/2004 Coll. on Public Administration Financial Regulations and the Act of the National Council of the Slovak Republic 583/2004 Coll. on the financial rules of territorial self-government. The Autonomous Region also imposes an obligation to keep accounts and verify the annual financial statements by an auditor. The main decision-making competencies for the budget and the final account are delegated to the VUC's representative body within the current legal regulation of the Slovak Republic, which also has the power to make changes, control the drawing of funds and their approval, similar to the final account. To the extent appointed by the regional government, budget changes may also be made by the governor of the VUC. The governor shall sign all resolutions on the budget and the final account and shall also have the right to suspend the execution of such resolutions, on the grounds that they are contrary to either the law or the interests of the self-governing region. By law the authorities of immediate control of the budget, the final account, and the assets are the chief controller of the self-governing region as well as the auditors of the Slovak Statistical Office and the State Audit Office of the Ministry of Finance. The specific legal regulation of the regional self-government budget relations has been elaborated and put into effect in the Slovak Republic after two years of experience with the functioning of regional self-government in order to optimize the budgetary process through clear and uniform rules of budgetary management (explanatory statement to the Act of the National Council of the Slovak Republic 583/2004 Coll.). The aim and function of the law was the legal regulation of budgetary relations, connected with the Act of the National Council of the SR no. 291/2002 Coll. about the state treasury. The main task of the functioning state treasury system in the Slovak Republic is the centralization of budgetary revenues of the entire public sector of the Slovak Republic, including regional self-government.

A specific area of budget management in regional self-government is returning financial resources. Act No. 583/2004 Coll. on budgetary rules of territorial self-government determines their treatment in accordance with the fiscal and budgetary objectives and intentions of the state. Loans, repayable financial assistance as well as bills and bond transactions are subject to a special regime and rules of use. The basic condition for their use is their exclusively purposeful determination in covering capital expenditures. An exception, which is limited to a one-year timeframe when returning funding sources, can also be used to bridge the time gap between revenue and expenditure of the current budget, of which the revenue must both be paid and reimbursed at the same time. Another condition, not, however, from the side of the VUC, is the possibility of entering only into a binding relationship which will not break the balance of the budget in the coming years. The law also strictly defines the overall debt category of the VUC. It comprehends a summary of liabilities arising from principal and interest payments, repayable financing sources as well as commitments on investment, supplier credit and VUC liabilities. An exception until 2005 consisted of loans and credits from some dedicated funds and selected EU funds.

The total amount of the VUC debt may not, by law, exceed 50 % of the total current income of the previous year. Therefore, the VUC is obliged to monitor its debt development and its repayments and, in the event of overruns, take effective measures to reduce it. The governor must submit these measures to the representative council for discussion and notify this fact in writing to the Minister of Finance of the Slovak Republic. If the total debt reaches 58 % but does not reach 60 %, the VUC is required to make changes to the budget so that it is either balanced or in surplus for the following year. If the total amount of the debt exceeds 60 %, special regulations (Constitutional Act No. 439/2011 Coll. on budgetary responsibility as amended) shall be applied. The special scheme under this law consists of two steps. The first is the notification of the situation with reasoning of the representative council and the Ministry of Finance. The second is the application of a sanction by the Ministry of Finance, calculated from the share of the total amount of the debt. Overall compliance with the conditions for receiving returning funding sources shall be checked by the Chief Auditor of the VUC before each of their admissions. Violations should be announced to the Ministry of Finance of the Slovak Republic without delay. At the same time, the Chief Auditor of the VUC is obliged to monitor the state and development of the VUC's debt above the 50 % threshold during the budget year and to notify the Ministry of Finance of exceeding the thresholds set by law (50, 58, 60, above 60 %).

Act No. 583/2004 Coll. on budgetary rules of territorial self-government also defines the mandatory structure of the VUC budget. This includes the current budget (current revenue and current expenses), the capital budget (capital income and capital expenditures and financial operations). A more detailed specification of all items of the revenue and expenditure part of the budget determines binding economic and budgetary classifications under this Act. If the budget of the VUC is not approved by the council before 31 December of the current year, the self-governing region will be limited by the previous budget. During this time, the expenditures of the VUC may not exceed one twelfth of the total expenditure of the approved budget in each month of the budget year.

The budgetary management of the Slovak VUCs is subject to information duty towards the Ministry of Finance through a budgetary information system in which the self-governing regions are obliged to provide data provided within specified deadlines and with specific information.

Changes to the budget, including program changes, are approved by the regional council. Each budget change is implemented either by moving items (total revenues and expenses are not changed) or by allowing surpluses and commitment of revenue and expenditure, or financial operations. After the end of the budget year, it is obligatory under the law of the VUC to prepare the final account as a summary report on budgetary and property management. Data entered in the final account must be certified by an independent auditor, who must notify the Slovak Finance Ministry in writing of any legal deviations. It is obligatory for the VUC to approve the proposal of the final account within 6 months of the end of the budget year by the self-governing council. The council shall accept it without reservation or with reservations, when the VUC council is obliged to take measures to remedy shortfalls. In contrast to the municipalities, the VUCs are not subject to the forced administration regime, by which financial regulations set a number of tightening criteria for financial and budgetary management.

In particular, the facts are treated in a dual parallel manner according to Act No. 502/2001 Coll. on financial control and internal audit. All expenditures of the VUC and the organizations within their scope must be implemented under the law of tax-deductible conditions through the 12-month and 3-month execution plans. They include applications for entry into commitments which can be made by a VUC as clients only after preliminary and on-going financial control and a comparison of the commitment with the agreed financial plan. The main responsibilities of the VUC in this system are the information obligation on the realization facts, the observance of limits and purposefulness of cash funds, the rigorous implementation of the preliminary financial control and the execution of deposit, awarding and recovery operations in accordance with this law.

Mandatory obligations of the Constitutional Act NRSR No. 493/2011 Z.z on Budgetary Responsibility and the Act of the National Council of the Slovak Republic No. 583/2004 Z.z. can be evaluated using the following tools:

- the state, development and overall results of the budgetary management of VUCs summarized in the final accounts for the period under review,
- the state, development and number of the budget provisionary period in the VUC's budget management in the period under review,

- the state, development and number of budget changes in the VUC's budgetary management over the period considered,
- the state, structure and development of the total debt in the management of VUCs in the period under review,
- the status, structure and development of the average indebtedness of VUCs in the period under review

For the risk indicators of the budget management of VUCs, indicators were selected from the performance content analysis, which at the same time demonstrate the failure of selected statutory obligations of self-governing regions (indicators 1.3) and systemic problems in VUC budget management (indicator 2):

1) the reported negative result of the management in the final account of the VUC in the respective budget year,

2) the budgetary provision realized in the budget of the VUC in the respective budget year,

3) the demonstrable exceedance of the budgetary responsibility threshold in the budgetary management of the VUC in accordance with the law of the NRSR No. 493/2011 Z.z. on budgetary responsibility.

4. Methods

Several research methods have been utilized to answer the research question, and a synthesis is based on their results. An independent Slovakia was established in 1993 and the regions themselves were created in 2001, therefore there is not enough relevant data to build a quality econometric model. Thus, the focus will be more on analyzing the issue in the form of a complex case study, which will consist of several views based on qualitative methods.

To analyze the impact of fiscal rules on the management of higher territorial units, the indicators defined in the conclusion of Chapter 3 have been used. All these indicators were examined for the whole period of operation of the VUC in the Slovak Republic from 2002 to 2017. These were in approved final accounts in the councils of individual VUCs in the Slovak Republic. The whole data base analyzed was fully subject to the information disclosure obligation pursuant to the Act of the National Council of the Slovak Republic no. 211/2000 Coll. regarding free access to information. The disclosure obligation on individual pages was fulfilled by VUCs in different ways, and the information obligation has been applied for the last ten years. Only the Nitriansky region had all the required information and complete materials on the final accounts for the entire period under review on its pages. This fact is also an indicator of the state and level of publication of mandatory information based on civil and public control in the Slovak Republic. Therefore, the older data base for the period 2002–2006 was requested by structured information, through mail communication from seven self-governing regions of the Slovak Republic. The Trnavský self-governing region did not fulfil this obligation within the statutory period. The Košice self-governing region did not fulfil the statutory obligation, not even in two consecutive periods and after the personal intervention the chief inspector of the region did they secure a remedy.

The following factors were taken into account when analyzing the budgets and final accounts of the VUC:

- Compliance of the analyzed current general binding legal framework (Act on Self-Governing Regions, State Treasury Act, Local Self-Government Budget Act) with instrumental orientation to achieve the objectives from 2002 to 2016, to be incorporated into all councils of approved accounts of VUCs,
- changes in the follow-up legislative and administrative framework (the Act on Accounting, the Income Tax Act, the Financial Control and Audit Act, the Public Procurement Act, the Budget Orders and the Measures) during the period under review, which were reflected in the individual regions of the Slovak Republic in binding internal documents (budget and final account).

In defining the methodology, it was necessary to address the issue of institutional verification of the results and outputs of the "fiscal rules". In Slovakia, there is a very heterogeneous set of control and audit bodies with varying degrees of responsibility for "fiscal rules". The most extensive competencies and authorizations in this respect are the Office of the Government Audit of the Ministry of Finance of the SR (hereinafter MFI MFSR), which as a specialized institution is established directly by the Act on Financial Control and Audit of the Slovak Republic. The Ministry of Finance MFSR performs a government audit of the entire system of public finances of the Slovak Republic and EC funds in the whole public sector of the Slovak Republic including regional self-governments.

Its exceptional control and audit position also arises from the role of the Guarantee and Appellate Body in the field of financial discipline and compliance with the budgetary and fiscal rules which are analyzed in the self-governing regions of the Slovak Republic in this article. In addition to its own audit and decision-making activities, the Ministry of Finance also includes the competence to investigate objectively cases of violations of fiscal and budgetary rules, discipline and accountability by other internal control bodies (chief controllers of self-governing regions) and external control (Supreme Audit Office of the Slovak Republic).

Therefore, in order to objectify these survey results, there is a focus on this institution. Through a qualitative survey in the form of a questionnaire and structured interviews, the Managing Directors of MFIs were addressed who, throughout the period under review, possessed the highest level of qualifications, expertise, and practical experience in audit management and audit focused on the whole range of "fiscal rules" of all self-governing regions of the SR.

The sampling considered the time aspect of the performance of audits by respondents, as this analysis includes the entire period of existence and functioning of the “fiscal rules” in the self-governing regions of the SR. For this reason, one of the key criteria for selecting respondents was the length of 5 years of auditing and management practice (minimum mid-term work experience). The range of positions fulfilling this criterion was further oriented towards auditors performing the functions – the head of the audit group and the director of the regional branch of the MFI MFSR, which, due to their competencies, possesses the widest range of information and experience of compliance with the “fiscal rules” in the self-governing regions of the Slovak Republic. The last criterion was the territorial aspect, taking into account the equal representation of at least two respondents meeting the above criteria in each of the 8 self-governing regions of the SR. This sample of respondents included a total of 18 auditors in our survey, of which 12 auditors responded to the questionnaire. Staging the interview included two phases. Initial phone conversations, as the first stage, took place in July and August 2018 including the whole sample. On the basis of the conclusions of the telephone conversations, personal interviews with 12 respondents were carried out in the second phase in September and October 2018, and they answered all the questions set out in the questionnaire and their conclusions summarized on the page.

For all respondents in the survey, the requirements to maintain anonymity and comply with the provisions of the Personal Data Protection Act were fully taken into account.

The questionnaire questions were as follows:

Have uniform “fiscal rules” had a significant impact on the budgetary management and fulfilment of the fiscal objectives of the VUC in the Slovak Republic?

As reflected in local policy-making (internal rules governing budget rules), did the local fiscal rules sufficiently reflect?

Have the local rules been scrutinized and influenced by regional self-government with sufficient flexibility and competence in view of the fiscal results achieved?

Is the Fiscal Standards Competence and Accountability Framework sufficient?

Have there been significant legal deviations in the implementation of the fiscal rules, such as creative accounting, which have had a significant impact on the budgetary management and fulfilment of the fiscal objectives of the VUC?

Have these legal deviations in the fulfilment of “fiscal rules” been influenced predominantly by regional self-governments?

In a structured interview, respondents were asked the following question:

According to you, what are the main problems in implementing fiscal rules in the autonomous regions of Slovakia?

5. Results

5.1 Effect of fiscal rules

The following section presents not only summary information on the selected overall budgetary outcomes but also compliance with the statutory rules for the compilation of regional government budgets. Specifically, it concerns compliance with §10–16 of the Act of the National Council of the Slovak Republic no. 583/2004 Coll. on the financial rules of territorial self-government. It represents one of the bases for monitoring and controlling all indicators of financial management and the purposeful use of prescribed resources and other sources to be used. Since a specific analysis will be carried out to check compliance with these provisions and all of the resulting balancing, it is necessary to briefly assess the complex management of financial and budgetary management at the level of the financial department of the VUC which have these responsibilities in their portfolios.

From the point of view of time incidence, the following results can be seen:

5.1.1 Budgetary outcomes

The following table shows the overview of the total economic results of self-governing regions of the Slovak Republic evaluated according to selected binding conditions and criteria of the Act of the National Council of the SR No. 523/2004 Coll. on the Financial Regulation in 2002–2016.

Table 2

Overview of Selected Risk Indicators and Results of the Budgetary Management of the VUC during the period 2001–2017

Region/Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Compiled
Bratislavský									ZVH/ RP	ZVH						3
Trnavský					ZVH	ZVH	ZVH	ZVH/ PRZ	PRZ	PRZ	PRZ	PRZ				9
Nitriansky				RP	ZVH	ZVH	ZVH	ZVH								5
Trenčiansky								PRZ	PRZ	PRZ	ZVH/ PRZ	ZVH/ PRZ/ RP	RP			9
Banskobystrický						ZVH	ZVH	ZVH	ZVH/ PRZ	PRZ	PRZ/ ZVH	PRZ	PRZ/ RP	RP		12
Žilinský						PRZ	ZVH	RP/ ZVH	ZVH							5
Prešovský								ZVH	ZVH							2
Košický									PRZ	ZVH	ZVH		ZVH	ZVH		6
Compiled:	0	0	0	1	2	4	4	8	9	5	6	5	4	2	0	48

Source: Authors

Key:
ZVH – Negative result of budget management
RP – Budgetary Provision
PRZ – Breach of Fiscal Responsibility

Table 3

Overview of the total economic results of self-governing regions of the Slovak Republic evaluated according to selected binding conditions and criteria of the Act of the National Council of the SR No. 523/2004 Coll. on the Financial Regulation in 2002–2016

Region	Positive result of budget management	Balanced financial management result	Negative result of budget management	Number of periods of budget provision
Bratislavský	8	5	2	1
Trnavský	11	–	4	n
Nitriansky	9	2	4	1
Trenčiansky	13	–	2	2
Banskobystrický	10	–	5	2
Žilinský	12	–	3	1
Prešovský	13	–	2	n
Košický	11	–	4	1
Compiled	87	7	26	8

Source: Compiled by the author on the basis of final accounts

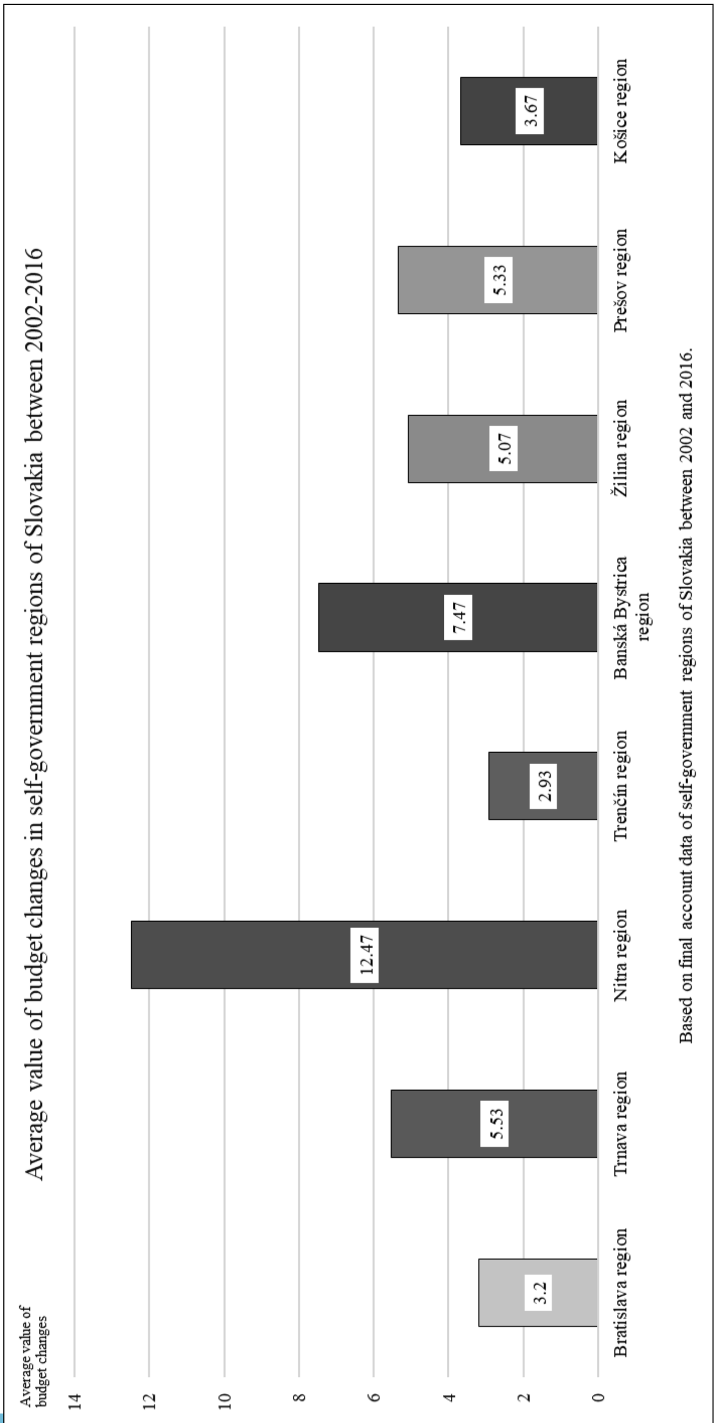
The results of the analysis show that the best long-term management and positive balance of balanced budgets and final accounts were managed in Presov and Bratislava. In only two periods (2010–2011) was there a negative result in financial management caused by the inflexible setting of the budgetary measures of the entire public-finance system in the Slovak Republic. This is a consequence of the economic and financial crisis, which was reflected in the negative results of the overall budgetary management of all the examined VUCs in the Slovak Republic. The second group of regions consists of the Žilinský and Trenčiansky regions, where the negative result of the budget management lasted for a longer period and was combined with some specific internal factors, such as a disparity in the intentions of accepting rational and austerity measures between the regional authority and the council (development in the Trenčín Region in 2010–2014). Overall, however, the efforts to manage the fall in traditional budget revenues by mobilizing internal resources and reserves can be assessed in these regions. The third group of regions consists of Trnavský, Nitriansky and Košický, where they lined up with negative balances in the budget. In the Trnava region, significant budgetary problems started in 2006 and were mainly due to massive reinsurance (a year-on-year rise in debt ratio of 52 % in 2006). In the Nitra Region (with the highest number of budget changes) the crucial link mentioned above was the long-term tension between the council and the governor on the one hand and the MPs from the SMK on the other. The development in the Košice region is particular as the negative budgetary balance manifested it-self until 2015 and was similar to that in the Trnava region due to the high rate of utilization of foreign resources and the assumption of long-term commitments from the supplier-customer relations for the repair of roads. The worst results of all VUCs in the Slovak Republic were to be found in the Banskobystrický region. Over a period of 15 years, this region achieved a negative economic outlook for five years. The most difficult period was 2007–2009, when budget management in the Banskobystrický Region was subject to the aspirations of the governor to maximize the use of all power, economic and political instruments. The low flexibility of the public finances system in the SR has been massively misused to overlap ambition and the leadership of the governor, as well as other key actors in key decision-making processes in the council. The incoming new governor in 2010, with practically unchanged councils (all from the same political party, Smer-SD), had to face serious budget problems, including fraudulent accounts and financial statements, misrepresentation of accounting records and all background documentation on budgets and the final account for the period 2006–2009. Massive and non-transparent debt and illegal handling of the property of the region were other accompanying phenomena that enabled the election of a governor from the extremist party NSS in 2013 and the worsening of the already difficult situation in the region's financial management. In 2014–2015, the Banskobystrický region managed in a budget provision (which in general means a non-standard solution to budgetary functions) a limited amount of funding focused on current expenditures and incomplete fulfilment of development goals and tasks of the self-governing region. At the same time, this extreme and substitutable solution meant an embargo on investment and drawdown of Eurofunds as the proviso either completely blocks or severely restricts the implementation of capital expenditures, which has a negative impact on the state, level, and structure of the property position of the self-governing region.

5.1.2 Budget provisions and budget changes

Although the budgetary provisions in the monitored period interfered rather sporadically with the overall management of other VUCs, their impact on the previously analyzed Banskobystrický region (2014–2015) and Trenčiansky region (2013–2014) cannot be overlooked and underestimated. In the two monitored periods, this also occurred in the Bratislava, Nitra, Žilina and Košice regions.

The final accounts of all self-governing regions over the whole period considered contain a large range of budgets and budget changes that preceded the final form of the final account of each VUC which was finally approved by the council. Budgetary changes have been analyzed in the context of binding conditions and rules as defined by the Financial Regulation, as well as the changes made by the Ministry of Finance in order to correct and regulate budgetary processes. The following figure shows the average value of budget changes in self government regions of Slovakia between 2002 and 2016.

Figure 1
The average value of budget changes in self government regions of Slovakia between 2002 and 2016.



Source: Authors

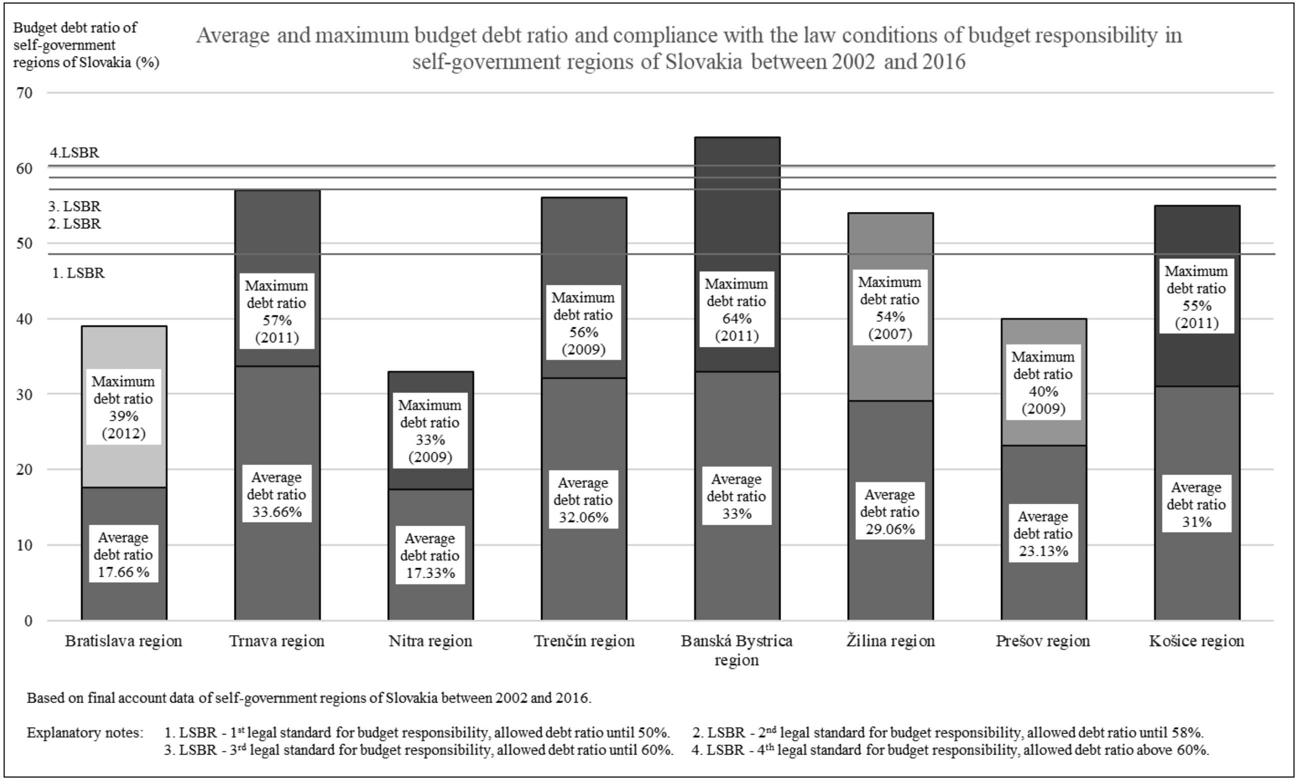
From the analysis carried out and the data from Figure 1, it can be seen that the average real value change for all Slovak VUCs for the whole period under review is 5.7. This value of the examined budgetary indicator is more or less indicative because, as shown in Figure 1, it was fundamentally influenced by the highly above-average value of 12.47 in the Nitra region. The decisive factor of this high value in the Nitra region was the fact that as a single VUC, there was a voluntary transfer of decisive competencies from the council to the region's governor, which represents a very specific, but not legal situation. However, as shown in Figure 1, in 2008–2010 this region also reached the highest debt ratio in its history.

The Banskobystrický region shows the second highest values in the number of budget changes in the Slovak Republic (7.47). Similarly, in 2006–2009, the absolute greatest number of budget changes as well as an acceleration of the region's non-transparent debt ratio were recorded. Three self-governing regions (Žilinský, Trnava and Prešovský) show values approximating the average value for the Slovak Republic; Bratislavský, Trenčiansky and Košický region have the lowest average values. However, if the quality and structure of the submitted materials for budget changes to the representations is examined, the lowest level was achieved in the Trnava and Trenčín regions, which is an important signal for control activities. In the case of the Trnava region, even after analyzing other materials, it can be said that it was not a unique phenomenon and that more data regarding the budgets and their changes, as well as the final accounts, were deliberately silenced (for example, the structure and method of sales of assets, the status and development of long-term loans and guarantees for them). Generally speaking, this selected indicator also provides an overview of the quality of preparation and creation of budgetary materials and, consequently, the level of decision-making regarding it. Taking into account that, according to the Act on Self-Governing Regions, the minimum number of established council positions is 6 per year, it is true that there was a change in the budget of each VUC council, which, in excess of 60 % of the cases, was superfluous. The reasons for the redundancy were either intentional or the materials were poorly prepared and managed, indicating the professional and qualification level available to the individual financial departments of the Slovak Republic.

5.1.3 Total debt and debt ratio

Another comprehensive singular qualitative indicator of the budgetary and overall management of the VUC is the state, structure, and development of the total debt and the level of indebtedness of the self-governing regions of the Slovak Republic in the period under review. For this indicator, both the maximum indebtedness and its average extent, the causes, the context, and the relationships which determined it decisively in individual VUCs were examined. The overview of the average and maximum rates of indebtedness and compliance with the statutory budget liability thresholds in the self-governing regions of the Slovak Republic in 2002–2016 are illustrated in Figure 2.

Figure 2
Average and maximum budget debt ratio and compliance with the law conditions of budget responsibility in self-government regions of Slovakia between 2002 and 2016



Source: Authors

The total average indebtedness of all self-governing regions of the Slovak Republic in the period 2002–2016 is 27.11 %. The average debt ratio was calculated as the ratio of the total debt to the total current income of the previous year, including all bank and investment loans and long-term liabilities included in the final accounts of the self-governing regions of the Slovak Republic over the whole period under review. As can be seen from Figure 2, there are 5 self-governing regions of the Slovak Republic above the average level of indebtedness; in order: Trnavský, Banskobystrický, Trenčiansky, Žilinský, and Košický. Under the average value of 27.11 %, there are three self-governing regions in the following order: Prešovský, Bratislavský, and Nitriansky kraj. On the basis of an examination of the time frame of the debt ratio of the VUCs, the pre-accession period (2002–2005) should be pointed out, when the average debt ratio was only 2.53 % and ranged from 0 to 8 %, with two self-governing regions, Prešovský and Košický, which, in this period, were not indebted at all. The rigid fiscal and budgetary policies of the Slovak Government, which is linked to strict debt parameters for the entire public administration of the Slovak Republic prior to EU accession and effective management of the debt service by the Ministry of Finance at that time, can be considered decisive factors. During the economic crisis period (2006–2009) the total debt ratio of all VUCs increased to 30.12 % and ranged between 8.75 and 43.5 %. The highest average values (above 30 %) were reported by Žilinský, Trnavský, Košický, Prešovský, Trenčianský, and Banskobystrický. In principle, it is possible to state that the planned and balanced budgets and debt discipline were observed only by the Bratislava and Nitra regions. In the case of the Nitra region, this was to a certain extent conditional on the balance between the decision-making competencies of the main authorities in this region. During this period, most of the VUCs had the largest increase in bank and investment loans, as well as long-term liabilities, whose overall structure, terms of acceptance and financing, purposeful use and application of the loan are, at present, at least controversial and questionable. As shown later in the post-crisis period (2010–2013, 2014–2017), all 5 analyzed VUCs with an above-average rate of indebtedness were still in line with the decisions of the governors and councils who requested additional borrowing and indebtedness for these self-governing regions after 2012.

The most frequent reasons for borrowing were investments into assets/properties of all VUCs, the purchase of buildings for use as government offices (Bratislava, Trnava, Žilinský, Banskobystrický), the purchase of hardware and software (all VUCs), the solution of long-term liabilities and assignments for performance, work and services (Prešovský, Košický, Banskobystrický), and pre-financing of EC projects (Trnavský, Trenčiansky, Banskobystrický). Developments in the post-crisis period were considerably individual in terms of consolidation of debt service in the individual self-governing regions, as evidenced by the overall results of the average indebtedness rate of the VUC in 2016. This was due to the tightening of the post-2014 regulatory rule that updated and tightened budgets as described in Figure 2.

In the overall assessment of the indebtedness of the self-governing regions of the Slovak Republic throughout the period under review, the best values were found in the Nitra region, which had an average debt ratio of 17.33 %. The second best was the Bratislava region, which managed an average value of 17.66 %, but obviously the worst recorded value of 30 % in 2016. The Prešov region shows a relatively low average debt of 23.13 %, but in absolute terms the debt of this VUC was the highest in Slovakia. Throughout the monitoried period the Nitriansky, Bratislavsky and Prešovsky regions were subject to budgetary liability thresholds, and all of these regions were always below the first legal threshold.

The other four regions of Žilinský, Košický, Trenčiansky and Trnava show average debt values in the range of 29.1–33.6 % with a maximum rate of 54–57 % exceeding the first budget liability threshold in all five regions. The Trnava and Trenčín regions of this group show long-term worsening values. The first budget accountability threshold was exceeded in the Trenčiansky region 5 times from 2009–2013. In the Trnava region, the first budget liability threshold was exceeded up to 6 times, in 2007, 2009–2013, with the absolute highest debt in the range of 51.9–55.9 million euros.

The worst situation in the Slovak Republic regarding this assessed parameter was in the Banskobystrický region. Banskobystrický has exceeded all 4 statutory budget liability thresholds. They were as follows: the fourth threshold once in 2011 at 64 %, the third threshold once in 2013 at 60 %, the second threshold once in 2012 at 58 % and the first threshold twice in 2010 at 57 % and in 2014 at 50 %. In the country's indebtedness, long-term loans with a postponement of repayments for at least 3–5 years, which significantly affected the budget management of the region in 2010–2014, dominated compared to other regions. The reasons for this were the unauthorized recognition of long-term liabilities related to unlawful financial performance, the acceptance of commitments for investment work in PPP projects, as well as debt restructuring for hospitals and public-transport performance. All these problematic commitments had to be fulfilled by the new management of the region in 2010, which was possible due to the acceptance of a high volume of new loans, which, in combination with the loans payable from 2007, generated the long-term critical financial management and budgetary issues in this region. The absolute amount of the total debt of the Banskobystrický region was between 2010 and 2014 in the range of 75.9–79.4 mil. euro, which declined after 2015 via drastic budgetary measures.

5.2 Results of the questionnaire and structured interview

The following table presents the results of a survey:

Table 4

Results of the Survey

Question	Yes	More Yes	More No	No
Have uniform "fiscal rules" had a significant impact on the budgetary management and fulfillment of the fiscal objectives of the WFD?	58 %	42 %	0	0
As reflected in local policy-making, did the local fiscal rules (internal rules governing budget rules) sufficiently reflect local budget/fiscal rules?	0	17 %	50 %	33 %
Have the local rules been scrutinized and influenced by regional self-government with sufficient flexibility and competence in view of the fiscal results achieved?	0	17 %	33 %	50 %
Are the Fiscal Standards Competence and Accountability Framework within the VUC sufficient?	8 %	17 %	33 %	42 %
Have there been significant legal deviations in the implementation of the "fiscal rules" with a significant impact on the budgetary management and fulfillment of the fiscal objectives of the VUC?	58 %	33 %	9 %	0
Have these legal derogations in the fulfillment of "fiscal rules" been influenced predominantly by regional self-government?	50 %	25 %	17 %	8 %

Source: Authors

According to respondents, the fiscal rules have a significant impact on the financial management, as confirmed by 100 % of respondents. On the other hand, 83 % of the respondents confirmed that the central rules of the tax regulations do not follow the internal regulations of the organizations, which would ensure sufficient implementation in the internal structures of the regions. The same share of respondents claims that local rules following the fiscal rules are not flexible enough nor qualified.

Significantly, 58 % of respondents state that often fiscal rules are circumvented by means of creative accounting techniques, which are demonstrated in a long-term period in the Banskobystrický region, and 75 % of respondents state that the use of creative local codes is motivated by political elites of regional self-governance.

The structured interviews will help explain these problems in depth. From the results of a structured interview, the answers that are thought to identify the causes of the current situation are presented:

Respondent no. 1 states: This is due to insufficient interconnection and formalism in the coordination of budgetary and fiscal activities between the central and regional levels (inadequately elaborated internal regulations, program budgets)

Respondent no. 2 points out the absence of a concept, strategies, and further reform of public administration in the Slovak Republic (lack of competence and responsibility in the management and financing of public administration and the public sector in the Slovak Republic).

Respondent no. 3: The problem is insufficient use of professional and expert capabilities and competencies regarding the issue.

Respondent no. 4 notes insufficient and inconsistent information based on the status and progress of the fulfilment of the "fiscal rules" (there is no feedback during the budget year between the central authorities and the regional self-government of the Slovak Republic, which negatively affects the budgetary management).

Respondent no. 5: They claim that the causes can be found in inappropriate orientation and in focusing external and internal control on the indicated "fiscal rules" problems.

Respondent no. 6 states that the reasons are insufficient for regional governments to manage cross-sectoral fiscal governance processes (low economic and legal awareness as well as motivation resulting from local political cycles).

6. Conclusion

This article deals with the impact of fiscal rules in Slovakia, which can be labelled a post-transition country, where the path of public-policy politics is still seen, especially in the area of accountability.

This analysis has shown that the introduction of fiscal rules is reasonable and has positive effects on the management of higher territorial units. These conclusions were confirmed by a questionnaire survey.

The qualitative part of the research, among management and supervisors in charge of better control of financial management, has revealed that the potential of these rules has not been fully exploited. This is due to an inappropriate and often formal implementation by higher territorial units. Other reasons are the influence of local elites, the lack of expertise, and the capacity of local governments. It is also very problematic to secure and efficiently transfer information between local governments and the central government. This also raises the issue of overall coordination of implementation, methodical support, and information transfer between central and local governments.

The above-mentioned factors are not only related to the implementation of fiscal rules, but we can see their impact in other areas of public-sector activities, such as the implementation of management tools (Nemec et al. 2008) or education in public administration (Nemec et al. 2012). It also appears in the other states of the post-communist bloc (Plaček et al. 2014; Ochrana et al. 2016; Randma-Liiv and Drechsler 2017) as undesirable reforms of the public sector.

Many of the above-mentioned factors, such as the influence of local elites, lack of coordination, lack of education and staff expertise, are also cited in the literature as some of the many risks of decentralization (Prudhomme 1995). The Slovak Republic is one of the most decentralized countries in Central Europe. It is often referred to as the champion of decentralization.

This research shows that the influence and impact of fiscal rules cannot be assessed on their own but need to be interpreted in the wider context of public-sector reforms in the country as well as the impact of decentralization.

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