SLOVAK REPUBLIC

The Slovak Republic’s economic freedom score is 65.0, making its economy the 65th freest in the 2019 Index. Its overall score has decreased by 0.3 point, with declines in business freedom and monetary freedom exceeding improvements in fiscal health and government spending. The Slovak Republic is ranked 32nd among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

The Slovak Republic is still affected by widespread corruption and a judicial system that remains weak, inefficient, and vulnerable to political interference. The country’s transition to a market-based system was interrupted by political instability that damaged its institutions after its separation from the Czech Republic. Continued transformation and restructuring are needed to capitalize on the well-educated labor force and broaden the production base. Reforms to enhance the quality of the public sector have been resisted by influential politicians.

BACKGROUND: After it gained independence from the former Czechoslovakia in 1993, market reforms made the Slovak Republic one of Europe’s rising economic stars. It entered the European Union and NATO in 2004 and the eurozone in 2009. Longtime Prime Minister Robert Fico resigned in March 2018 following massive protests after the murder of an investigative journalist. New Prime Minister Peter Pellegrini of the center-left Direction-Social Democracy Party (Smer) rules in coalition with the Slovak National Party and the center-right Bridge (Most-Híd) party. Independent Andrej Kiska was elected president in 2014. The Slovak Republic has rebuffed EU plans for mandatory migrant quotas. Its small, open economy is driven mainly by automobile and electronics exports. The jobless rate has dropped, but youth unemployment remains high.
Property and contractual rights are recognized and enforced. The constitution provides for an independent judiciary, but the judicial system is vulnerable to corruption and intimidation of judges. Public confidence in the courts is among the lowest in the EU. In addition to the judiciary, there is corruption in the public procurement sectors. Lack of transparency in the bloated bureaucracy is an impediment to business.

The top individual income tax rate is 25 percent, and the top corporate tax rate is 21 percent. Other taxes include value-added and property taxes. The overall tax burden equals 32.7 percent of total domestic income. Over the past three years, government spending has amounted to 42.4 percent of the country’s output (GDP), and budget deficits have averaged 2.2 percent of GDP. Public debt is equivalent to 50.4 percent of GDP.

The process for launching a private enterprise has become more streamlined, and licensing requirements have become less burdensome. The nonsalary cost of employing a worker is moderate. The severance payment system is not burdensome, but regulations on work hours remain relatively rigid. The government maintains agricultural subsidies but plans to phase out €100 million in coal subsidies and focus on renewable energy.

The combined value of exports and imports is equal to 189.2 percent of GDP. The average applied tariff rate is 2.0 percent. The Slovak Republic implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. Openness to investment has aided the transition to a more market-based system. About 90 percent of adult Slovaks have access to a formal bank account.