

Why is Slovakia losing competitiveness?

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Slovakia's competitiveness keeps dropping. The latest World Competitiveness Yearbook ranks the country in 55th place, down four positions compared to the previous year.

"This means that compared with neighboring countries we are losing attractiveness in terms of business development," commented Zdenko Štefanides, Chief Economist at VÚB bank. "From the long-term view this may have a negative impact on the inflow of investments, the potential growth of the economy and thus also on the growth of citizens' living standards."

Economists and analysts are calling on the government to reform the education system, reduce red tape, make public administration more effective, take firmer control over public finances, reduce the tax burden and improve the enforceability of the law. "Such changes will not only gradually improve Slovakia's position in the rankings but provide a positive stimulus for the economy itself and the business environment," said Martin Vlachynský, analyst of the Institute for Economic and Social Studies (INESS) think-tank.

The Ministry of Economy points out that the rankings reflect the subjective opinions of managers and that it has been adopting measures to improve the business environment. But these will reflect only in future rankings.

The worst in the V4

Slovakia received the worst ranking among its Visegrad Group (V4) partners. The Czech Republic placed highest, in the 29th spot (down one spot). Poland placed 34th (up by four positions), while Hungary ranked 37th (up by five positions).

The Swiss-based IMD World Competitiveness Center cooperated in preparing the report with the Slovak think-tank F.A. Hayek Foundation. The latter recalled that Slovakia belonged among highly competitive countries in 2007-2009 (30th place), but failed to maintain the position in the

following years. "In terms of competitiveness it is enough when Slovakia halts and other – reforming – countries start outrunning it," said Vlachynský.

The F.A. Hayek Foundation sees the main reasons behind Slovakia's drop in the ranking relative to other countries in the effectiveness of governmental measures and the effectiveness of companies, where Slovakia is lagging behind in labor legislation, business bureaucracy, the system of subsidies, frequent changes in conditions for doing business and a lack of qualified people, especially managers.

"Apart from this, the almost absolute dependence of Slovakia on the automotive industry remains its Achilles' heel, resulting in a weak diversification of the economy," said Martin Reguli, analyst from the F.A. Hayek Foundation. "In the field of infrastructure, Slovakia is weak in the usage of innovation capacities and the transfer of knowledge and expertise between universities and companies. Slovakia can't keep pace with other countries and fails to respond to the changes that are happening."

Štefanides considers factors like the weak diversification of Slovakia's economy and the lack of labor as significantly linked to Slovakia's heritage and the size of its economy, which Slovakia cannot address directly. But there are other factors such as perceived corruption, tax burden and regulations in doing business which the government can influence.

Reguli believes that firstly it is necessary to work on better legislation for the business sector in combination with inevitable changes in the education sector. "These are two main fields that will affect the chances of Slovakia's success in the next

decade," he adds.

Peter Goliaš, Director at the think-tank INEKO (Institute for economic and social reforms), is calling for a general change in the government's approach so that the improvement of conditions for doing business is not just a slogan but a real priority.

Reading the rankings

Beauty is in the eye of the beholder, Štefanides recalls Shakespeare's words, adding that competitiveness rankings subjectively assess the countries based on factors they take into consideration. "But the fact is that the position of Slovakia in terms of competitiveness is worsening in most rankings, both foreign and local," said Štefanides. "And this is a trend that is starting to be alarming."

"Competitiveness rankings are like lighthouses showing the direction in which the economic environment is heading," said Vlachynský. "Instead of short-term changes we should look at the long-term trend and this has been negative so far."

The ranking in the World Competitiveness Yearbook combines statistical data with a survey among managers focused on areas like employment, the price level, commercial code, the quality of public finances and so on. More than 80 top managers participated in the survey. "Slovakia's position in the ranking is very bad since we are in the lower part of the ranking," said Peter Goliaš. "On the other hand, the ranking should not be overrated since it is based especially on the perception of entrepreneurs, who are traditionally more critical of Slovakia. The better positions of Mexico, the Philippines, Russia or Bulgaria do not automatically mean that doing business is easier in those countries. Their entrepreneurs just might be less

demanding or more reconciled to the current situation."

In his opinion the important thing is to scrutinize why entrepreneurs in Slovakia are not in a good mood and why, in spite of economic growth, skepticism is prevalent among them. "In my opinion, the reason is the long-term neglect of the business environment from the side of the government and not solving problems like red tape, the burden of taxes and levies, bad law enforceability and corruption in public orders and subsidies," said Goliaš. "Entrepreneurs do not feel that the solution to their problems is a priority for the government."

The Ministry of Economy is monitoring Slovakia's position in most important rankings, while its indicator of the actual quality of the business environment is the historically high inflow of investments. The ministry points out that entrepreneurs do not always use the fastest and simplest procedures offered by Slovakia's regulation framework.

"The Ministry of Economy is continually striving to improve Slovakia's business environment in a way that reflects the needs of the environment and simultaneously responds to the latest European and global trends," said Maroš Stano, spokesperson of the ministry. The ministry has already adopted the first two anti-bureaucracy packages of measures; drawing inspiration from the business sector especially for the second one.

The ministry also has ambitions of radically simplifying the administrative burden within various situations in which entrepreneurs may find themselves. To start it wants to focus on opening operational units. "But the adopted measures will not be immediately reflected in rankings," said Stano. "For example, if a measure becomes effective in 2018, it will be reflected in the Doing Business ranking probably in 2020 at the earliest."



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