

Global economic crisis and the Slovak republic

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ABSTRACT The presented article describes the situation of the Slovak republic in the conditions of the global economic and financial crisis. Main macroeconomic indicators of Slovakia are discussed to picture the economic situation of Slovakia during the three year crisis period and the implication on economic growth. It presents the current crisis as the worst one since the economic downfall connected with the transformation to a market oriented economy. The article also lists the main issues connected with the global economic downturn with respect to Slovakia, especially the declining foreign demand, challenges connected with the Euro accession and the opportunities of the export oriented growth after the crisis recovery.

KEYWORDS: Global economic crisis, Slovak republic, transformation, export oriented growth, euro area, recession, recovery, economic policy

Introduction

In the year 2008, the economic crisis that has befallen the biggest world economies, has also affected the Slovak economy. The origins of the global economic and financial crisis can be traced according the opinions of many experts back to the 1960s. In this time period, the capital return rate collided with ecological barriers and the world economy experienced a shift of capital from industrial production towards financial speculations and currency transactions. The financial capital was globalized without a stronger regulation and has caused severe economic and social problem in a global merit.

The financial crisis in the USA is a consequence of banking policies. Its starting mechanism was the boom in the real estate market, a high rise of real estate prices caused by a large volume of unallocated capital, low interest rates and an easy access to loans. The crash of the mortgage bubble has lead to a financial and subsequently an economic crisis in the USA. The international interdependence of financial markets has however causes a swift internationalisation of the American crisis. The more open the national economies were, the more and quicker they were affected by the crisis.

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The Slovakian Case

The economy of the Slovak republic shows a high degree of openness. In the year 2009, total GDP of the Slovak republic accounted for 50 027 billion Euros, the export volume totaled 39 683 billion Euros, whereas the ratio of export on GDP was 79,32%.¹⁰

The contemporary crisis of the Slovak economy is since the transformation crisis the second worst in the last twenty years. In the beginning of the 1990s was the economy, at that point still of Czecho – Slovakia, and also since 1993 the economy of the independent Slovakia, just as all transition economies affected by an economic crisis, documented by negative values of macroeconomic indicators, a falling GDP rate, high unemployment and a rising inflation. The indebtedness of the Slovak economy was rising as well.

Table 1. Development of the Slovak economy in the 1990s

Indicator	1993	1994	1995	1996	1997	1998	1999
GDP growth	0 %	6,2 %	5,8 %	8,0 %	5,7 %	4,4 %	0 %
Unemployment	14,4 %	14,8 %	13,1 %	12,8 %	12,5 %	15,6 %	19,2 %
Inflation	25,1 %	11,7 %	7,2 %	5,4 %	6,4 %	5,6 %	14,2 %

Source: EuroEkonom portal: *Ekonomika Slovenska 1999*

(*The economy of Slovak republic 1999*) [online]. [cit. 01.11.2010].

Accessible online at: <<http://www.euroekonom.sk/ekonomika-sr/ekonomika-slovenska-1999>>

Since the beginning of the first decade of the 21st century the economy of the Slovak republic consolidated and began to show tendencies of growth. An important growth factor were the activities of foreign investors, that have oriented the Slovak economy more and more towards foreign markets, rising the economy's dependency on foreign demand. The decline of demand on world markets has affected the Slovak economy especially in decline of demand for motor vehicles. In January 2009, the industrial production has fallen by 27% in comparison with the previous year (Bednár 2010). The decline in production has naturally lead to a decline in companies' revenues but also to a rise of deficit in the national budget and an overall slowing of the economic growth with a rise in unemployment. The Slovak republic is since the last year (2009) not able to fulfil the Maastricht criteria and exceeds the 3% limit of national budgeted deficit.

¹⁰ EuroEkonom portal: *Ekonomika Slovenska 2009* (The economy of Slovak republic 2009) [online]. [cit. 01.11.2010]. Accessible online at: <<http://www.euroekonom.sk/ekonomika-sr/ekonomika-slovenska-2009>>

Table 2. Economic indicators of the Slovak economy in the first decade of the 21st

Indicator	2003	2004	2005	2006	2007	2008	2009
GDP	4,5 %	5,5 %	6,0 %	8,3 %	10,4 %	6,4 %	-5,7 %
Unemployment	17,5 %	18,1 %	16,2 %	13,3 %	11,0 %	9,6 %	11,7 %
Average monthly wage in EUR	349	408	450	543	600	669	648
National budget deficit	2,7 %	2,3 %	2,8 %	3,5 %	1,9 %	2,2 %	6,34 %

Source: EuroEkonom portal: *Ekonomika Slovenska 2009 (The economy of Slovak republic 2009)* [online]. [cit. 01.11.2010]. Accesible online at: <<http://www.euroekonom.sk/ekonomika-sr/ekonomika-slovenska-2009>>

Slovak officials have originally expected the global financial crisis to have only a marginal effect on the Slovak economy. If Slovakia wants to move out of the crisis, it should orient itself towards future competitiveness, minimize social impacts of the crisis and ensure a rise in the domestic demand. Slovakia should invest in infrastructure, energy, education and applied research.

In the year 2009, the Slovak economy has experienced a decline of 4,7% in comparison with the Czech economy, that has declined by 4,3% and the Hungarian economy, that has declined by 6,3%. By the end of the year 2009, the Slovak economy was able to mitigate the economic downturn.

Table 3. Economic growth of the Slovak republic 2000 - 2010

Period	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
1 st quarter	4,6	-5,7	9,7	9,3	7,1	4,9	4,2	5,6	3,9	1,6	-2,9
2 nd quarter	-	-5,5	7,3	8,5	8,1	8,8	2,9	5,3	2,6	2,0	1,0
3 rd quarter	-	-4,9	6,8	10,8	8,0	7,3	7,5	3,4	7,8	2,9	1,8
4 th quarter	-	-2,7	1,6	13,5	10,6	5,6	5,5	4,9	4,0	7,3	5,7

Source: Statistical Office of the Slovak republic

The future growth of the Slovak economy will be dependent mainly on external foreign demand. In 2009, foreign demand has risen by 16,8% whereas the domestic demand only by 0,9%.¹¹

11 DNES portal: *Slovenská ekonomika opäť rastie (Slovak economy grows again)* [online]. 04.06.2010 [cit. 01.11.2010]. Accesible online at: <<http://dnes.atlas.sk/ekonomika/financie/653269/slovenska-ekonomika-opat-rastie>>

The government of Slovakia has adopted in the year 2007 measures for sustaining the Slovak exports. Among the measures were:

- Seeking and support of foreign direct investments, that support the export potential of the Slovak economy the most
- Propagation of Slovakia as the economy that has not risen taxes in the time of recession
- Analysis of territorial and commodity structure of Slovak foreign trade and of the comparative advantages after accepting the common European currency, the Euro
- Orientation of the entrepreneurial sector towards territorially untraditional markets outside the European union
- Orientation of export endeavours towards developing countries with a high absorption capacity by using a wide range of export supporting activities
- Support of development and innovation activities of research subjects and companies, under the assumption that products with a higher value added achieve a higher export volume growth¹²

Already in the first quarter of 2010, the Slovak economy experienced growth. The growth factor was foreign demand as expected, caused by a slow recovery of economies in the eurozone, and not the domestic demand due to the fact, that unemployment still remains high and did not began to fall yet. The crisis has affected Slovak construction industry, retail sector and manufacturing industry stronger than in the neighbouring countries. However, the fact that Slovakia entered the eurozone on 1st January 2009 is considered a strong stabilizing factor of the economy. The Euro has protected the Slovak economy against currency changes that were to be seen in neighbouring countries of central Europe – non-members of the euro area. On the other hand, the exchange rate stability proves as a disadvantage for the Slovak economy as it can not make use of an own currency policy. Neighbouring countries devaluated their currencies and profit from currency dumping at export of their products. For example the Slovak ski resorts have become more expensive and experienced a considerable decline in demand. Another negative feature is the fact, that the high value of Euro in comparison with the Polish Zloty or the Hungarian Forint makes the Slovak labour more expensive. Currently it is €7,4 per hour (Bednár 2010). This fact can discourage foreign investors that will take while deciding where to position their investment also the costs of labour into account. An advantage of the Euro is nevertheless the ability to take relatively cheaper loans than adjacent countries. The Euro also

12 Source: Proexportná politika vlády SR na roky 2007 – 2013 na exportnú výkonnosť Slovenska (Proexport policy of the Slovak government on export performance 2007 – 2013).

attracts investors that consider the ability to avoid currency changes as important. An example can be the production allocation of the Volkswagen automobile Up into Bratislava, or the arrival of the Taiwan company Optronics with the investment volume of 191 million Euro.¹³ Therefore, the experts evaluate the Euro accession more positively than negatively.

Summary

In conclusion, the Slovak economy should now be able to achieve its economic growth again after a period of three years in overcoming the crisis. According to the information stated in the document "Strategy of development of the Slovak society", Slovakia should gradually achieve 75-80% of GDP p.c. of the EU15 countries by 2020 and 90% of GDP p.c. of EU27 countries.¹⁴ In the year 2007, GDP p.c. of the Slovak economy made up 67,7% of the EU27 average.¹⁵

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13 Source: FT: Rok s eurom ukázal, že priťahuje na Slovensko investorov (A year with the Euro showed that Slovakia attracts investors). TASR 08.01.2010.

14 Stratégia rozvoja slovenskej spoločnosti (Strategy of development of the Slovak society), Ekonomický ústav Slovenskej akadémie vied

15 Stratégia rozvoja slovenskej spoločnosti (Strategy of development of the Slovak society), Ekonomický ústav Slovenskej akadémie vied