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Economic development of Slovakia in 2008

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1. OVERALL ECONOMIC DEVELOPMENT

In 2008, the first half of a four-year term of the current coalition government expired and the second one began. Thanks to a permanent public confidence in government (confirmed by the polls), a dominance of its most powerful political party in relation to other two coalition parties, but also due to faint political opposition, Slovakia experienced a period of political stability in 2008. It has been disrupted occasionally mostly by nepotism and non-transparent practices in allocation of public sources and Euro funds.

The preservation of political stability was combined in 2008 with ensured continuity in economic-policy framework's influence on the real economy. Such continuity was manifested in positive terms not only in sustained macroeconomic stability (see graph 1), but also in a well preserved satisfactory business environment (created during the past two administrations) as indicated by a favorable development of the Index of Economic Freedom (Morvay – Morvayová, 2009). In a negative way, the continuity in economic policy executed by the present and former governments is displayed mainly in the insufficient support for the conditions of a knowledge-based economy.

The present government continues to proclaim concern for strengthening the social dimension of a market economy, which is embodied in the Constitution of the SR. However, the measures that have been taken in this context in 2008 do not carry any significant changes in distribution, neither through the structure of public finance, nor through the structure of household incomes (see data on a share of social benefits in household consumption and data on a share of public finance expenditure on social protection in GDP in the last two rows of table 1).

Certain signs of a tendency towards the state interventionism can be recognized in the government's economic policy. However, it should be noted that this tendency (also thanks to the EU's impact on the economic policy of the SR) remains prevalently in a verbal-declarative form. Its impact on a deterioration of the business environment has not been notable so far.

Main characteristics of the Slovak economy development in 2008 in the frame of the middle-term time series are contained in table 1.

Table 1
Socio-economic development of the SR in 1998 – 2008

	1998	1999	2000	2001	2002	2004	2005	2006	2007	2008
GDP index; previous year = 100[1]	104.4	100.0	101.4	103.4	104.8	105.2	106.5	108.5	110.4	106.4
Labour productivity index; previous year = 100[2]	104.9	102.6	103.4	102.8	104.7	105.4	105.1	106.1	108.1	103.5
Total factor productivity index; previous year = 100[3]	94.5	94.9	97.1	97.0	99.6	101.0	100.9	102.0	104.6	100.3
Cost profitability in non-fin. org. in %	0.4	1.4	2.7	4.5	4.5	7.0	7.1	7.7	7.6	6.2
Inflation rate in %[4]	6.7	10.4	12.2	7.2	3.5	7.5	2.8	4.3	1.9	3.9
ϕ Interest rate on credits in %[5]	19.4	16.9	11.8	9.3	9.1	7.9	6.0	7.4	7.5	7.3[7]
Balance of public finance/GDP in %	-3.7	-7.0	-12.3	-6.0	-5.7	-3.3	-2.8	-3.4	-1.9	-2.2
Share of general government consumption in GDP in %	22.3	20.2	20.2	20.7	20.5	19.3	18.5	19.2	17.3	17.6
Annual Δ in productivity[2] – annual Δ in real wages in nat. economy, in percentage points	2.2	5.7	8.3	1.8	-1.1	2.9	-1.2	2.8	3.8	0.2
Exchange rate EUR : SKK[8]	.	44.12	42.59	43.31	42.70	40.05	38.59	37.25	33.78	31.29
Net export of goods and services/GDP in % [1]	-9.7	-2.8	-2.5	-7.3	-6.5	-1.5	-3.4	-1.0	4.0	2.9
Year-on-year employment index, VZPS[6]	99.7	97.0	98.6	101.1	100.2	100.3	102.1	103.8	102.4	103.2
Year-on-year employment index, ESNÚ 95	99.5	97.5	98.0	100.6	100.1	99.8	101.4	102.3	102.1	102.8
ϕ unemployment rate in %[6]	12.5	16.2	18.6	19.2	18.5	18.1	16.2	13.3	11.0	9.6
Annual change in real wages in %	2.7	-3.1	-4.9	1.0	5.8	2.5	6.3	3.3	4.3	3.3
Index of real wages in nat. econ. 1989 = 100	93.6	91.0	86.9	87.8	92.8	93.6	99.5	102.8	107.2	110.7
Index of real household consumption/cap. 1989 = 100	99.5	102.1	101.1	106.4	112.3	115.4	122.1	129.8	138.8	147.3
Share of social benefits in household consumption in %	22.8	23.3	22.5	21.3	21.2	20.2	19.6	19.4	22.2	22.0
Share of expenditures on social protection in GDP in %[9]	14.5	14.9	14.2	14.6	14.9	12.1	13.2	12.4	10.2	.

[1] At constant prices (year 2000). [2] According to GDP at constant prices per 1 worker. [3] According to preliminary results of a study by M. Lábaj (to be published).
[4] By Harmonized Index of Consumer Prices (HICP). [5] From credits drawn from commercial banks, in average per annum.
[6] By Labour Force Sample Survey methodology (LFSS). [7] January to November. [8] In average per annum.
[9] Public finance expenditures. According to Eurostat.

The data in table 1 indicate that after overcoming the economic slowdown in 1999 – 2001, the Slovak economy experienced rather long-run economic recovery period (lasting until autumn 2008) and economic boom characterized by the above-average high rates of economic growth. Thanks to that, in 2008 economic performance (measured by GDP produced) surpassed the level achieved in 1989 approximately by two thirds, the index of industrial production exceeded during the mentioned period the level of 140 points, total employment reached (at the end of period) initial level of 1989 and real wages have overreached it by more than 10 %.

Besides mentioned quantitative changes, within the past two decades the Slovak economy has undergone also some positive qualitative shifts. The share of services in the structure of GDP formation and use has increased significantly. The share of manufacturing value added has increased as well and the problem of its tradability in domestic and foreign markets has been solved. The initial level of employment has been recovered while voluminous clandestine unemployment was eliminated. Higher real wages could be applied to fully saturated domestic market and in regard to a favorable exchange rate also abroad. Regarding that, the Slovak economy is not only of a larger volume in 2008 comparing to 1989 (in decisive parameters) but of a higher quality as well.

Thanks to the favorable results in 2008, Slovakia's ratings have improved[1] and the World Bank has even ranked Slovakia among the rich countries. However, it is worth pointing out that Slovakia qualified only for the position of the poorest one from the rich countries in 2008.

The data in table 1 invoke an impression that the change visible in the Slovak economy's development in 2008 consists solely in a moderation of the high growth rates being achieved in the previous periods. In a matter

[1] An overall rating of the Slovak economy has been upgraded in 2008 by Standard & Poor, Moody's and also Fitch. While S & P and Moody's have lowered the SR long-term rating after a short time (basically due to emerging economic crisis), in March 2009 Moody's announced that Slovakia's rating regarding its Euro zone membership and sound state of its financial sector is "well anchored" (HN online, 2009).

of fact, following the consequences of upcoming economic crisis, we are witnessing nothing less than a radical turnabout in the development trends. Its slight impact on annual data results from the fact, that the crisis hit Slovakia no sooner than in the last quarter of the year.

Rapid appreciation of the Slovak koruna´s exchange rate was a remarkable feature of the economic development in 2008. Besides its positive effects mainly on importers and foreign purchasing power of Slovaks, also its negative effects are being considered – particularly those related to falling competitiveness of Slovakia as a consequence of worse exporters´ position and rise in internationally comparable labour costs.

Fear of the lower export incomes are indeed in place, however, it should be pointed out that a significant share of exports is produced by foreign companies which got into difficulties at the end of 2008 due to economic crisis, not in a consequence of stronger koruna's exchange rate.

It is true that exchange rate appreciation combined with the high wage growth in 2008 have increased internationally comparable labour costs in the Slovak economy as it can be seen in table 2.

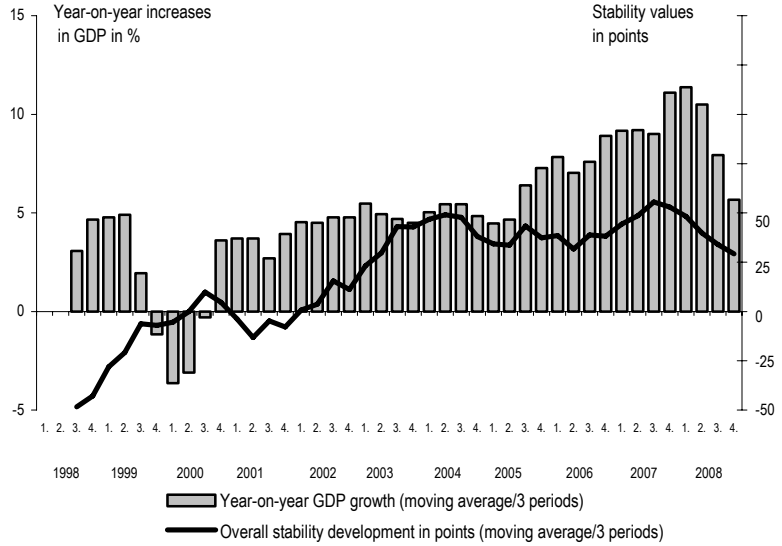
Table 2
Comparison of unit labour costs
in the Central and Eastern European countries (in PPS, Austria = 100)[1]

Country	Rank	2007	2008	Country	Rank	2007	2008
Bulgaria	1.	23.5	26.9	CR	8.	43.7	49.2
Macedonia	2.	39.3	39.6	Latvia	9.	43.3	51.2
Ukraine	3.	36.2	40.3	Serbia	10.	48.6	53.0
SR	4.	37.1	40.5	Poland	11.	48.4	535
Lithuania	5.	37.0	42.9	Estonia	12.	49.2	54.5
Hungary	6.	42.3	42.9	Slovenia	13.	64.1	64.0
Romania	7.	48.9	48.7	Croatia	14.	63.8	64.1

[1] According to Gligorov, Hunya, Pöschl et al. (2009).

Despite the joint impact of both exchange rate appreciation and wage growth, the level of unit labour costs in Slovakia remained one of the lowest ones recorded in the whole CEEC region even after 2008.

G r a p h 1
Comparison of developments of economic performance (GDP) and of macroeconomic stability in points (moving average/3 periods)



[1] Overall stability trend summarizes development of its following partial components (indicators): year-on-year core inflation rate, interest rate on loans drawn down, ratio of public finance balance combined with quarterly figures of share of public consumption to GDP, net export to GDP ratio, and difference between increase in labour productivity and in real wages. The figures for each partial indicator recorded in individual period are expressed in points (from +100 to -100) according to their ratio to a mid-span between maximum and minimum value of particular indicator in whole time series. The average from total points achieved by partial indicators in individual periods is considered as a value of overall stability.

Average level of overall stability in the SR for reference period is indicated in the graph as its zero value. Positive values given in the graph express its above-average and negative values its bellow-average level.

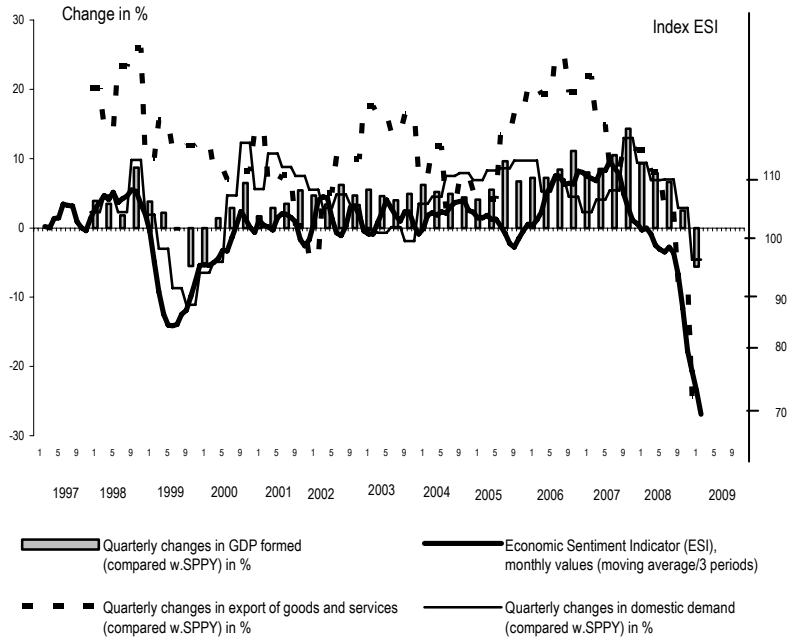
Graph 1 documents that in line with GDP development, also the level of overall macroeconomic stability declined in 2008. Deterioration of external

balance and growth in inflation rate (approaching the level achieved for the last time in 2001) have contributed to a decline in its values. On the contrary, tight fiscal policy – related also to preparation for the Euro adoption – performed against the overall macroeconomic stability decline. Thanks to such fiscal policy, the share of public consumption in GDP achieved in 2008 its second lowest level ever recorded (see table 1). To conclude, the macroeconomic stability figures were maintained at the satisfactory levels – above their middle-term average – either in 2008.

Up-to-now appearance of the crisis observed in the Slovak economy is indicated in graph 2 by illustrating the economy's past middle-term development.

Graph 2

Comparison of expectations of the future economic development in the SR with selected parameters of its real development



Graph 2 confirms that the expectations (represented by the Economic Sentiment Indicator ESI) are synchronized or even outpace slightly the development of economy overall results (GDP). This can be seen mainly in the phases of a steep fall and next rise in the economic growth rates (from 4th Q 1998 to 3rd Q 2000 inc.) and thus also during current Slovak economy recession. But the graph also indicates that the causes of variations between expectations and consecutive changes in growth rates do not tend to be of the same origin. The changes recorded in 1999 – 2000 did not reflect swings in the world economy cycle (this can be proved by the graph data on export development tightly connected to the situation in foreign markets); they were caused by internal problems invoked during unsuccessful process of the first period of transformation and its effects on a domestic demand slump.

Also the economic crisis which hit U.S. economy in 2001 and has transmitted to the most of the European Union countries in 2002 and 2003 was manifested in case of Slovakia in both ESI and growth rates only in sort of a weak sign of their decline at the end of 2001/beginning of 2002. Et the end of a time axis of graph 2, development of expectations and corresponding GDP development are indeed under a significant influence of the world economy crisis; GDP is here slowing down in line with – or with a short delay not only after the change in ESI but also after a sharp export drop as a consequence of the world economic crisis. Based on this, also one positive fact can be stated (even though it is a bitter note): the time-coordinated progress of the crisis abroad and in Slovakia proves that the Slovak economy is yet firmly integrated into the European – and through it also into the world economy. Thus, it can be anticipated that a recovery of external environment climate will help to lead out the Slovak economy from the crisis too.

Slovakia's accession to the Euro zone (on 1st January 2009) just in the time of upcoming world economic crisis raises a question whether its qualitative changes achieved by resolving of its transformation task are sufficient for its satisfactory functioning in the Euro zone (EZ). When seeking for the answer, we will use data in table 3.

Table 3

Values of convergence indicators attained by compared countries in the year prior their EZ accession[1]

A. Nominal convergence

	Inflation rate[2]		Public finance results to GDP ratio		State dept/GDP ratio		Total result	
	in %	rank	in %	rank	in %	rank	points	rank
Ireland	2.1	2.	2.4	1.	53.6	4.	7	1.
Greece	2.9	5.	-3.7	6.	103.2	6.	17	6.
Spain	1.8	1.	-1.0	2.	64.1	5.	8	2. – 3.
Portugal	2.2	3.	-3.4	5.	52.1	3.	11	5.
Slovenia	2.5	4.	-1.3	3.	26.7	1.	8	2. – 3.
Slovak Republic	3.9	6.	-2.2	4.	27.6	2.	12	5.

B. Real convergence

	GDP/cap.		Labour productivity[3]		Price level		Total result	
	EU 15 = 100	rank	EU 15 = 100	rank	EU 15 = 100	rank	points	rank
Ireland	105.0	1.	108.0	1.	1.03	1.	3	1.
Greece	73.2	4.	82.5	3.	0.79	4.	11	3.
Spain	82.6	2.	93.0	2.	0.83	2.	6	2.
Portugal	66.4	5.	58.5	6.	0.81	3.	14	5.
Slovenia	78.1	3.	75.9	4.	0.74	5.	12	4.
Slovak Republic	63.7	6.	70.6	5.	0.68	6.	17	6.

C. Social convergence[4]

	Employment rate[5]		Household consumption/cap. in PPP		Share of human resources inputs in GDP[6]		Total result	
	in %	rank	EU 15 = 100	rank	in %	rank	points	rank
Ireland	60.6	4.	89.7	2.	19.7	6.	12	4.
Greece	56.5	5.	90.0	1.	23.8	3.	9	3.
Spain	51.3	6.	84.3	3.	23.2	4.	13	5.
Portugal	66.8	1.	72.3	5.	24.6	2.	8	2.
Slovenia	66.4	2.	72.7	4.	29.2	1.	7	1.
Slovak Republic	62.3	3.	63.4	6.	21.1	5.	14	6.

[1] According to Eurostat data. In case of Ireland, Spain and Portugal presented data refer to the year 1998, in case of Greece to the year 2000, in case of Slovenia to the year 2006 and in case of Slovakia to the year 2008.

[2] Annual change in Harmonized Index of Consumer Prices.

[3] GDP/worker.

[4] Selection of the indicators was determined by the statistical data accessibility.

[5] 15 – 64-years old.

[6] Share of health-care, education and social protection (public finance) expenditures in GDP.

Slovakia's position in the assessment rankings for individual areas of convergence is nearly the same. As regard as real and social convergence, Slovakia occupies the last position, in nominal convergence the one before the last one. Results in table can be interpreted in various ways,[2] however, basically they are interesting as the basis criteria when assessing how the Slovak economy might operate in the EZ framework.

It can be correctly expected that the indicators of nominal convergence will be also in case of the SR more or less firmly anchored through economic policy of the European Union and the European Central Bank and the economic crisis shall influence them only temporarily. But the question is whether too early completion of the nominal convergence tasks will not affect negatively the processes of real convergence, mainly through deceleration of adjusting process in price level between the SR and advanced economies. Graph 3 and statistical evaluation of the relations between processes which are displayed in the graph, do not confirm such doubts indeed (see for example Vintrová, 2007).

As graph 3 says, the price convergence was in the process in the cohesion countries before and also after their EZ accession, concurrently with the convergence of their economic performance towards the EU 15 level. This refers to a slowdown of the price level adjustment process in Portugal (which copied the rapid GDP growth slowdown after the EU accession), as well as to onward convergence of the national price levels to the EU price level in those countries (Ireland, Greece, Spain) in which GDP/cap. grew faster than in the EU 15.

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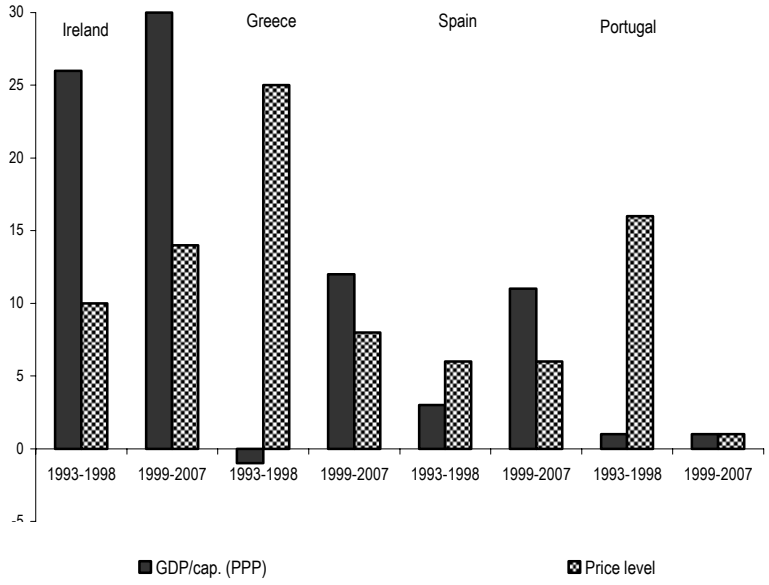
[2] For example if the data on nominal convergence were taken not from the last year prior the EZ accession but from the year 2008, Slovakia would achieve the first position when assessing the results obtained by individual countries in 2008.

Slovakia's real convergence results (GDP/cap. and GDP/worker) are under-evaluated as a consequence of the fact that a part of GDP produced in the foreign investors´ enterprises is transferred – through the intra-company prices – to a re(export) of the investor's home country and is not contained in GDP of the SR. And at the same time it is important that the share of value added created by the foreign companies in non-financial sector reached in 2005 in Slovakia 45 %, in Portugal and Slovenia 17 % and in Spain 14 % of total value added in non-financial sector (data for Ireland and Greece are not available).

Graph 3
Reduction in differences between the EU 15 and national price levels and in economic performance



Information provided by graph 3 is expanded by a statistical evaluation of the relations between selected convergence processes in examined countries given by table 4.

The values of correlation coefficients presented in table 4 reveals that in all examined countries, GDP per capita was in both pre- and post-EZ-accession periods tightly connected to the price level development, as well as compensation of employees development. Lower values of correlation coefficients between price level development and compensation development indicate that compensation development (and to simplify it can by said that also wage development) has not been influenced only by GDP/cap., but also by other factors. Graph 3 as well as table 4 legitimates an expectation that under the sufficiently high rates of economic growth, the convergence of the price

level in the SR to the EU 15 level with all its positive optimizing impacts will continue even after Slovakia's Euro zone accession.

Table 4

Matrix of correlation coefficients related to the production, wage and price convergence development
(in Ireland, Spain and Portugal in period 1995 – 2007,
in Greece in period 2000 – 2007)

Ireland

	A	B	C
A			
B	0.90		
C	0.98	0.81	

Greece

	A	B	C
A			
B	0.91		
C	0.91	0.78	

Spain

	A	B	C
A			
B	0.92		
C	0.97	0.84	

Portugal

	A	B	C
A			
B	0.85		
C	0.93	0.65	

A – national level of GDP/cap. to EU 15 level (in PPP) ratio development,
B – national level of compensation of employees/cap. to EU 15 level (in PPP) ratio development,
C – development of total GDP in PPP (EU 15 = 1.0).

[1] Compensation of employees is a sum of wages and tax deductions (social contributions).

2. PRODUCTION DEVELOPMENT

Turbulent changes that occurred in a global economy influenced Slovakia's production development in 2008 in widely diverse ways, either in relation to its development over the year, as well as in relation to their influence on individual sectors of economy. Although annual results exhibit a slowdown of economic

growth comparing with 2007, its achieved rate (6.4 %) remains at a relatively solid level. However, quarterly results indicate a continual downward trend in growth rates since 2nd quarter of 2008.

A slump in foreign demand affected mainly the value added development in manufacturing, its growth decreased comparing with 2007 (annual average) by 20.5 percentage points (p. p.), in industrial production as total by 16.7 p. p. The growth rates in other sectors increased, apart from trade and public services which recorded lower growth rates than in 2007 (see table 5).

T a b l e 5
Development of GDP formation, 2005 − 2008[1]

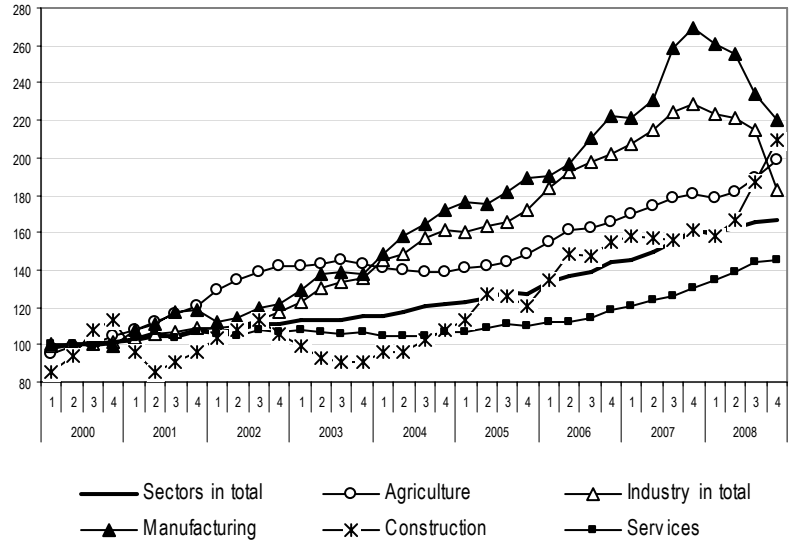
	2005	2006	2007	2008	2008			
	year	year	year	year	1Q	2Q	3Q	4Q
	Year-on-year changes in %							
GDP	6.5	8.5	10.4	6.4	9.3	7.9	6.6	2.5
Gross value added	5.7	10.1	10.4	7.2	10.2	8.6	6.9	3.6
of which:								
agriculture, fishery	2.9	11.8	9.2	6.6	6.4	-2.9	6.0	13.9
industry total	7.9	17.2	13.0	-3.7	11.4	6.9	-9.3	-20.2
of which: manufacturing	12.3	13.5	19.5	-1.0	15.1	12.4	-8.3	-18.1
construction	20.9	20.4	7.8	14.0	7.3	6.6	8.7	29.3
trade	7.8	3.6	15.7	11.1	10.1	11.1	3.9	20.0
hotels, restaurants	9.9	0.5	1.5	40.4	38.6	36.1	66.6	14.5
transport, storage	0.3	-6.3	13.5	25.5	24.9	14.7	44.8	17.1
financial intermediation	9.0	7.1	-7.9	1.0	-8.0	-2.4	-6.5	21.8
real estate, renting								
and business activities	-2.8	18.9	8.0	13.2	9.6	9.9	23.6	8.9
public and soc. services	3.8	2.3	8.2	6.7	6.3	8.0	7.8	4.8
Net taxes on products	13.3	-4.6	10.7	-0.6	-0.1	1.7	3.7	-6.3

[1] According to revised data of SO SR; at constant prices calculated by chain-linked volumes, reference year 2000. According this data the growth rates in sectors have changed noticeably in the past years.

The severity of the global crisis's recent impacts on the Slovak industry is expressly illustrated in graph 4. According to information given, the value added in manufacturing dropped in 4th quarter of 2008 to the level achieved

in 2006/2007 and in industry even to the level of the beginning of 2006 (development of its value added is – unlike in manufacturing – influenced by a decline in the sector of electricity, gas and water supply). In other sectors of the economy the effects of economic crisis have not revealed so far (by the end of 2008), however it can be anticipated that a decline in industrial output will negatively affect other sectors as well.

G r a p h 4
Development of value added in the Slovak economy and in its segments
(index 2000 = 100)[1]



[1] Based on constant prices by chain-linked volumes method (reference year 2000); seasonally-adjusted and working day-adjusted data.

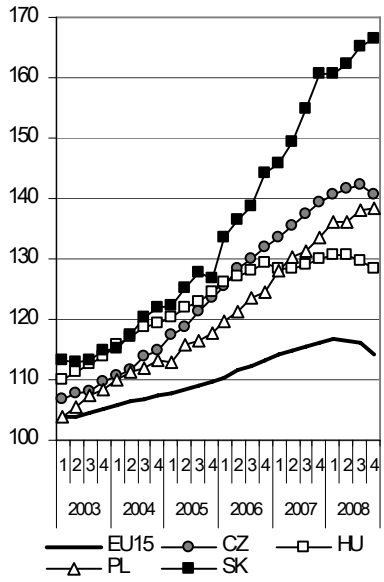
Source: Eurostat database.

As compared with the EU 15 countries and selected neighboring countries, total value added in Slovakia grew in 2003 – 2008 (as it can be seen in graph 5a) much faster than in examined countries and by the end of 2008 Slovakia managed to maintain its relatively good (compared with 2000) position.

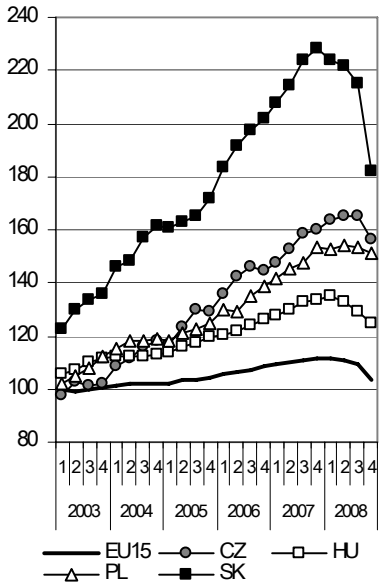
Graph 5

International comparison of the value added development (index 2000 = 100) [1]

Graph 5a: **Sectors in total**



Graph 5b: **Industry**



[1] Data for 1st Q 2003 to 4th Q 2008. Based on constant prices calculated by chain-linked volumes method (reference year 2000); seasonally-adjusted and working day-adjusted data.

Source: Eurostat database.

Development of the value added in industry is more complicated; it has grown constantly since 1st quarter of 2003 until the end of 2007 (apart from one single swing in 2005); however in 2008 its long-term upward trend was interrupted and during 2008 the growth index decreased from 228.6 % in 4th quarter of 2007 (compared to 2000) to 182.3 % in 4th quarter of 2008, it means by 46.3 p. p. In the EU 15 as well as in other examined economies a decrease in comparison with the highest level achieved ranged from 10.1 p. p. in Hungary to 2.4. p. p. in Poland. In spite of this fact, Slovakia by now – as it can be seen in graph 5b – has preserved its advance in this sector.

Table 6

Development of IPI[1] in manufacturing branches[2] in the SR (same period 2005 = 100)[3]

	2006	2007	2008	2008				2009
	year	year	year	1Q	2Q	3Q	4Q	1Q
Manufacturing in total	116.6	139.4	146.7	150.9	160.2	144.7	131.1	112.0
of which:								
manufacture of food products, beverages and tobacco products	101.5	99.3	98.0	89.1	100.4	98.4	104.3	80.3
manufacture of textiles, apparel, leather and related products	153.0	149.6	147.2	162.5	146.4	135.5	144.3	124.0
manufacture of wood and paper products and printing	105.1	116.4	112.9	113.5	116.9	111.1	110.2	98.8
manufacture of coke and refined petroleum products	100.9	109.5	107.5	103.6	93.4	115.5	117.7	105.2
manufacture of chemicals and chemical products	96.0	92.3	87.4	98.7	99.2	76.4	75.1	69.8
manufacture of pharmaceuticals	113.2	128.1	115.8	125.3	138.8	91.5	107.5	115.1
man. of rubber and plastics and other non-metallic products	104.5	111.9	115.6	105.0	130.2	121.0	106.1	76.4
man. of metals and fabricated metal products except machinery	114.5	121.3	114.7	121.1	126.7	115.5	95.3	85.1
manufacture of computer, electronic and optical products	138.5	227.4	244.6	234.0	221.8	234.0	288.6	282.3
manufacture of electrical equipment	108.6	105.7	173.1	186.7	204.0	165.8	135.9	102.8
manufacture of machinery and equipment n. e. c.	125.4	151.9	164.2	171.3	181.4	162.2	142.0	129.9
manufacture of transport equipment	142.7	251.4	280.8	304.1	333.6	273.3	212.3	179.7
other manufacturing, repair and installation of machinery	98.1	100.2	101.8	88.6	106.3	99.9	112.3	80.3

[1] Data adjusted by working days.

[2] Divided into special aggregates of the industrial branches in the frame of Statistical classification of economic activities by SK NACE Rev. 2.

[3] According to actualization of SO SR on 11th May 2009.

The development in 2008 resulted into weakening of the position of industry in the value added structure by 3.2 p. p. compared with 2007 and strengthening of the position of construction and service sectors.

Industrial production index (IPI)[3] rose in 2008 only by 2.0 % compared with 2007, of which by 2.5 % in manufacturing and by 2.1 % in electricity, gas and water supply; while it contracted almost by 20.0 % in mining and quarrying. In the last quarter of 2008 (comparing with the same period of the previous year) IPI dropped in industry as a whole by 7.6 % and in manufacturing by 8.5 %.

An overview of the IPI development according to individual branches[4] based on the same period of 2005 is presented in table 6. Information contained in the table allows us to assess the extent and differentiated impact of the economic crisis on production development by branches. Coming out from a comparison of the IPI figures attained in 2008/2009 with its 2005 level we can distinguish between 5 groups of manufacturing branches:

- branches with the IPI much lower than 2005 level, when they stagnated at this level or below this level over whole reference period (manufacture of food products, beverages and tobacco products; manufacture of chemicals; other manufacturing);
- branches whose IPI was rising during the reference period, but influenced by declining demand has recently dropped remarkably below 2005 level (manufacture of rubber and plastics products and other non-metallic products; manufacture of metals and fabricated metal products);
- branches whose IPI is kept even presently slightly below or above 2005 level (manufacture of wood and paper products and printing; manufacture of coke and refined petroleum products; manufacture of electrical equipment);

[3] Calculation of Industrial production index (IPI) is based on the change in volume of selected products and industrial services and on a two-stage weight system.

[4] By revised classification of economic activities SK NACE Rev. 2.

- branches whose IPI also currently achieves levels higher by 15 – 30 % than 2005 level (manufacture of pharmaceutical products and medical chemical; manufacture of textiles, apparel, leather and related products; manufacture of machinery and equipment n. e. c.);
- branches that are the most successful regarding the production growth in a long-term, and which managed to keep their IPI values much higher than 2005 level even nowadays (manufacture of computer, electronic and optical products with almost constant growth of IPI; and manufacture of transport equipment whose IPI has decreased significantly since 2nd quarter of 2008 indeed).

Moderate growth of industrial output in 2008 was accompanied by the number of employees increasing by 1.4 % in average and labour productivity growing by 0.6 % (based on IPI), of which in manufacturing the number of employees increased by 2.0 % and the labour productivity by 0.5 %.

However, employment development in industry did not perform during the latest period in line with the average results observed in 2008 at all. From March 2008, when the highest employment in industry since the year 2000 was recorded (amounting to almost 600 thousands of persons), until March 2009 the employment has plunged by approximately 80 thousands of persons (by 13 %), of which in manufacturing by 77 thousands of persons. Relatively the biggest decline was observed in manufacture of textiles, apparel, leather and related products; in manufacture of wood and paper products and printing; in manufacture of electrical equipment and other manufacturing. The absolutely sharpest drop of persons employed was recorded by manufacture of metals and fabricated metal products (almost by 17 thousands of persons).

Turnover for own performances and goods in industry increased in 2008 by 3.6 % in average, by 3.0 % in manufacturing. Remarkable decline in turnover appeared in industry particularly at the end of 2008 and beginning of 2009. The extent of decline can be detected when comparing the three-months values of turnover (in EUR, at current prices) for January – March 2009 with the same period of the previous year. In compared periods, turnover

in industry dropped from EUR 18.8 billion to EUR 14.4 billion and in manufacturing from EUR 15.3 billion to EUR 10.8 billion. Turnover for sales in non-domestic markets contributed to this decline by 67 %.

Foreign trade in manufactured goods slowed down markedly in 2008 – exports decelerated to 4.9 % and imports to 2.8 %. More or less identical development of exports and imports resulted in maintaining of a sustained or even growing surplus of the trade balance in forenamed goods. General overview is provided by table 7.

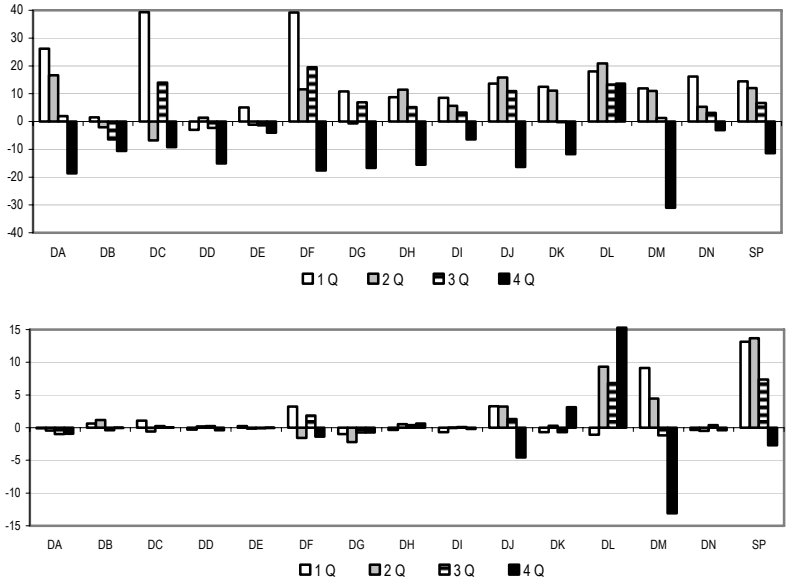
T a b l e 7
Development of foreign trade in manufacturing industry in 2008

	Export, SKK bn		Import, SKK bn		Balance, SKK bn	
	2008	+/- [1]	2008	+/- [1]	2008	+/- [1]
Manufacturing in total	1462.3	67.7	1305.6	36.2	156.7	31.5
of which:						
manufacture of food products	43.1	1.9	68.2	4.3	-25.1	-2.4
manufacture of textiles and apparel	34.7	-1.6	41.4	-2.9	-6.8	1.3
manufacture of leather products	22.2	1.7	17.0	0.9	5.2	0.8
manufacture of wood	19.0	-0.9	12.4	-0.7	6.6	-0.2
manufacture of pulp and paper	40.8	-0.2	28.3	-0.1	12.5	-0.1
man. of coke and petrol. products	72.2	7.0	35.3	4.9	37.0	2.1
manufacture of chemicals	68.3	-0.2	121.1	4.5	-52.9	-4.7
manufacture of rubber and plastics	54.2	1.2	63.0	0.0	-8.8	1.2
man. of non-metallic products	23.6	0.7	23.4	1.5	0.3	-0.8
manufacture of metals	225.1	12.8	170.2	9.5	54.9	3.3
man. of machinery, equipment n .e .c.	118.9	3.1	123.8	1.0	-4.9	2.1
man. of electric. and optical equip.	354.4	49.5	340.8	19.1	13.6	30.4
man. of transport equipment	352.1	-8.8	230.9	-8.2	121.2	-0.7
manufacturing n. e. c.	33.7	1.6	29.7	2.5	4.0	-0.8
In addition:						
Mining and quarrying	7.4	1.5	177.7	34.0	-170.3	-32.5
Other foreign trade components	22.8	2.6	30.7	1.8	-7.9	0.8
Foreign trade in total	1492.6	71.8	1514.1	71.9	-21.5	-0.1

[1] Change against previous year.

The development of foreign trade in manufacturing industry differed largely between individual quarters of 2008, also as considered by individual branches. While in the 1st and 2nd quarter exports grew at a relatively fast pace (14.5 % and 12.1 % respectively), in the 3rd quarter its growth rate slowed down to 6.6 % and in the last quarter export growth contracted by 11.4 %. Development in individual branches was in line with that, however several exceptions can be observed (see graph 6).

Graph 6
Exports growth rates in % (1st part) **and changes in partial trade balances in SKK bn** (2nd part) **by branches; quarters of 2008 compared to 2007**



DA	Man. of food products, beverages and tobacco	DH	Man. of rubber and plastic products
DB	Man. of textiles and apparel	DI	Man. of other non-metal. mineral products
DC	Man. of leather and leather products	DJ	Man. of basic metals and metal products
DD	Man. of wood and wood products	DK	Man. of machinery and equipment n. e. c.
DE	Man. of pulp, paper, publishing and printing	DL	Man. of electrical and optical products
DF	Man. of coke, refined petroleum products	DM	Man. of transport equipment
DG	Man. of chemicals, chem. products and fibres	DN	Manufacturing n. e. c.

A year-round growth in exports, including 4th quarter, was recorded only in manufacture of electrical and optical equipment which also attained the highest share in manufacturing exports in 2008 (24.2 %) and became a net exporter for the first time (it contributed by 73 % to an increase in manufacturing exports in 2008 compared to 2007 and by 96 % to improvement of its trade balance). Export of transport equipment slumped by 2.4 % year-on-year, in 4th quarter even by 31 %. In spite of this the branch managed to keep its high share (24.1 %) in manufacturing exports and also remained its biggest net exporter. Exports in manufacture of basic metals and fabricated metal products, which is still the third biggest exporter (15.4 percentage share) and the second biggest net exporter, increased by 6 % year-on-year (decreased by 16.3 % in the last quarter indeed).

Based on analysis of the recent development in production, as well as development in manufacturing foreign trade, it can be claimed that development changes were influenced considerably by several branches (manufacture of transport equipment, of electrical equipment and manufacture of metals and metal products), while majority of industrial branches was of a low importance regarding these changes. Therefore, in order to increase stability of manufacturing industry, and also of the Slovak economy as a whole, and to reduce vulnerability mostly to external demand shocks, a special attention in mid-term and long-term horizon should be paid to more balanced development in industrial branches and to diversification of their production.

Turnover in agriculture slumped by 5.8 % in 2008 as compared with 2007, of which receipts from crop production went down by 3.7 % and receipts from livestock production by 6.6 %. As regards crop production, the year 2008 brought quite favourable conditions for reaching higher receipts for turnover of agriculture enterprises, thanks to significant increase in yields in a majority of the main types of plants (cereal yields rose almost by one half, yields in oil-plants rose more than by one third), as well as thanks to their increased sales; decline in receipt for turnover from crop production sales was thus caused probably by a sharp fall in the crop production prices in the last five months of the year. Decline of turnover in livestock production

is related to considerable decrease in sales mostly of slaughtered pigs (by 22.4 %) and slaughtered poultry (by 7.9 %).

Construction belongs to those sectors of economy that have not been affected by the crisis occurrence in 2008. Construction output has grown by 12.1 % (of which inland construction production by 11.3 % and abroad production by 34.1 %) and turnover for own performances and goods in construction has risen by 16.4 %. The number of employees in construction enterprises has increased by 9.1 % and labour productivity by 2.7 %. The first results of 2009 however signals a turnabout in successful development trend in construction, when turnover for own performances and goods declined comparing with the corresponding period of 2008 by more than 20 %.

Basic information on development of turnover for own performances and goods *in selected branches of services* prevalently of a commercial character is provided by table 8.

Table 8
Development of turnover for own performances and goods in selected branches of service sector

Branch, NACE	Turnover for own performances and goods, SKK mil., current p.		Year-on-year growth[1]		
	2007	2008	2007	2008	4Q 2008
Sale and maintenance of motor vehicles (50)	222 202	227 664	24.2	1.4	-3.8
Wholesale trade (51) *	821 910	933 314	5.9	13.6	7.1
Retail trade (52)	456 475	504 424	5.5	6.8	3.3
Hotels and restaurants (55)	43 194	44 593	1.6	-1.7	-8.1
Transport, storage (60 − 63) *	167 186	186 667	6.4	11.7	4.0
Post and telecommunications (64) *	78 698	82 743	8.1	5.1	5.0
Real estate, renting and business activities in total (70 – 72,74)	197 515	224 204	8.6	10.9	8.0
of which:					
real estate activities (70)	26 239	26 254	3.0	-2.2	-6.2
computer and related activities (72)	38 638	48 853	16.8	23.5	10.5
other business activities (74)	124 261	138 479	7.9	8.8	8.1
Other community, social and personal service activities (90, 92 ,93)	54 867	63 251	20.0	18.8	13.8
of which: *recreational, cultural, sporting activities (92)*	40 903	48 344	24.1	22.6	16.7

[1] Growth rate on basis of constant prices except for branches indicated by *.

As presented information reveals, turnover for own performances and goods did not decline nominally in 2008 compared with 2007 in any of introduced branches of service sector, in some of them it even increased. Only in several services the growth of turnover slowed down (sale and maintenance of motor vehicles, decrease in 4th quarter) or expressed a downturn (hotels and restaurants and real estate activities). Development of turnover for own performances and goods in the first three months of 2009 signals that effects of the overall decline in demand has been transferred also to service sector.

Corporations´ profit/loss result fell by SKK 60 billion in 2008. Its total development was influenced negatively by development in financial corporations (their profit/loss has worsen by SKK 37 billion) as well as by non-financial corporations with their profit declining by SKK 23 billion. General overview of changes in profit/loss achieved by corporations in 2004 – 2008 is presented in table 9.

Profit decline in non-financial corporations was induced mainly by manufacturing (profit declining by SKK 24.6 billion), of which mostly by manufacture of basic metals and metal products (declining by SKK 14.6 billion). In service sector, whose profit in total amounted in 2008 to approximately the same value as in the previous year, profit declined markedly in branches of transport, storage, post and telecommunications (by SKK 19 billion), while it increased in trade by SKK 16 billion. Rising profit was recorded also in agriculture and construction.

Total profit/loss result of non-financial corporations was influenced negatively in 2008 in comparison with 2007 mostly by profit decline in profitable corporations (by SKK 52 billion), while loss reduction in unprofitable corporations and increase in small enterprises´ profit/loss result has affected it in a positive way. Detailed information, also by individual branches, is described in graph 7.

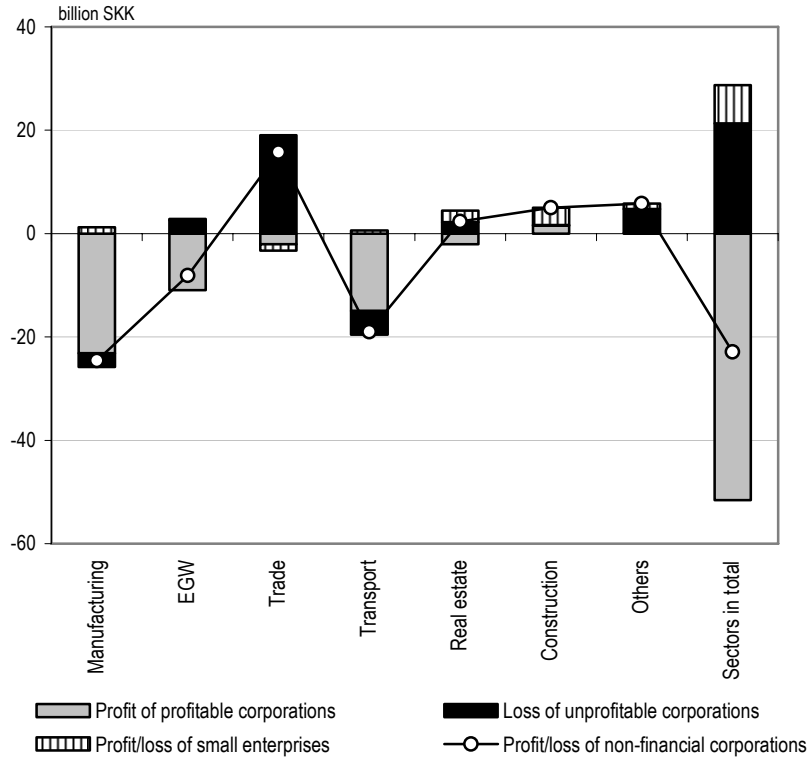
Table 9
Development of financial position of corporations in 2004 − 2008

	2004	2005	2006	2007	2008
	Profit/loss in SKK billion				
Non-financial and financial corporations in total	180.0	249.5	268.4	328.0	268.3
Financial corporations	-12.3	28.7	-12.0	19.4	-17.5
Non-financial corporations	192.3	220.9	280.4	308.6	285.7
of which:					
Agriculture	1.0	-0.3	1.3	0.3	3.9
Manufacturing	70.0	73.1	91.4	95.5	71.0
Electricity, gas and water supply	42.2	46.7	52.5	53.6	45.5
Construction	10.2	12.3	14.4	15.4	20.4
Services – total	67.4	86.2	116.1	139.7	140.2
Profitable and unprofitable non-financial corporations with 20 or more employees	149.3	172.9	223.6	233.5	203.2
of them: profitable	173.0	204.1	252.8	305.3	253.7
unprofitable	-23.7	-31.2	-29.2	-71.8	-50.4
Non-financial corporations with less than 20 employees	43.0	48.0	56.8	75.1	82.5
	Cost profitability in %				
Non-financial corporations	7.0	7.1	7.7	7.6	6.2
of which:					
Agriculture	1.6	-0.5	2.0	0.4	5.2
Manufacturing	6.2	5.7	5.9	5.4	3.6
Electricity, gas and water supply	19.8	20.0	18.0	18.9	13.3
Construction	8.6	8.3	8.7	8.8	8.9
Services – total	5.6	6.3	7.4	8.0	7.0

Profit fall has influenced negatively also the development of cost profitability in non-financial corporations, which decreased in 2008, after several years of continual growth, to 6.2 % – what is only slightly above 2003 level. Extremely low level of cost profitability (3.6 %) was recorded in manufacturing industry (the year 2000 was the last time when such a low level was achieved). Significant drop of cost profitability was observed also in electricity, gas and water supply.

G r a p h 7

Changes in components of profit/loss result by sectors and in sectors in total
(year 2008 compared with 2007)[1]



[1] Based on available information, profit/loss of non-financial corporations consists of profits in profitable corporations, losses in unprofitable corporations and profit/loss results in small enterprises. Graph 7 illustrates the changes (increase or decrease) in these components (positive values of losses represent reduction of losses comparing to 2007).
Explanatory note:
EGW – electricity, gas and water supply; *trade* – wholesale trade, retail trade, repair of motor vehicles, motorcycles and personal goods, hotels and restaurants; *transport* – transport, storage, post and tele-communications; *real estate* – real estate, renting and business activities; *others* – agriculture, mining and quarrying, education, health and social work, other community, social and personal service activities.

The structure of non-financial corporations still preserves its relatively high share of unprofitable corporations. In 2008 their share in the number of

non-financial corporations with 20 or more employees accounted for 27.3 % – in 2007 even for 31.9 %. Reduction in the share of unprofitable corporations in 2008 was caused by increase in the number of profitable non-financial corporations while the number of unprofitable corporations remained practically unchanged in comparison with 2007.

3. EXTERNAL ECONOMIC RELATIONS

Balance of payments

The global financial and economic crisis took a chance to manifest itself in 2008 also in the balance of payments development, particularly in the current account deficit to GDP ratio, which deteriorated after a two-year decrease (in 2006 and 2007), when it accounted for 6.5 % GDP (table 10). None of the current account components achieved a surplus, not even the balance of services which had been running a permanent surplus continuously during the past years. Although the trade balance deficit remained almost the same in comparison with 2007, it recorded negative results mostly in the last quarter of 2008, what can be understood as a signal of further worsening in the next period. The balance of current transfers showed undoubtedly the worse result in the last five years. The only component of the current account that has improved on a year-on-year basis was the income balance.

Year-on-year deterioration of the balance of services was inspired mostly by the category other services in total (particularly due to growth of payments for financial and intermediation services provided, as well as lower income for cultural service activities) and to a lesser extent by the categories personal air transport and tourism services, where the Slovak residents expenditures grew faster than incomes for services provided.

Table 10
Development of main components of a balance of payments of the Slovak Republic in 2004 – 2008

	2004	2005	2006	2007	2008
Trade balance (SKK billion)	-49.6	-74.0	-75.3	-21.4	-21.5
Balance of services (SKK billion)	8.6	9.9	22.5	13.1	-14.7
Income balance (SKK billion)	-70.9	-62.5	-62.1	-79.4	-69.1
Current transfers (SKK billion)	5.5	0.5	-1.6	-11.1	-26.9
Current account (SKK billion)	-106.4	-126.1	-116.5	-98.7	-132.2
Capital and financial account (SKK billion)	159.3	186.9	32.4	185.7	179.1
Overall balance (SKK billion)	55.2	71.4	-78.1	96.0	-3.4
Current account/GDP (%)	-7.8	-8.5	-7.0	-5.3	-6.5
Overall balance/HDP (%)	4.1	4.8	-4.7	5.2	-0.2
Degree of current account deficit offset by capital and financial account surplus	1.50	1.48	0.28	1.88	1.35

More favourable results of the balance of income were attained mainly due to shrinking deficit on the investment income balance, prevalently thanks to a lower payment of dividends to foreign direct investors, as well as due to rising surplus on compensation of employees as a result of increase in incomes of employees working abroad.

Significant deepening of a current transfers deficit was caused particularly by expenditures exceeding revenues in the balance of private transfers. Increase in payments to the EU budget at concurrent decline in receipts from the Euro funds resulted also in the worse balance of government transfers.

Foreign trade

Global recession hit also Slovakia's important trading partners what has been reflected mainly in slumping foreign demand in automotive industry. In 2008 the trade balance deficit and its ratio to GDP remained nearly unchanged comparing to the previous year. However, total increase in exports reached

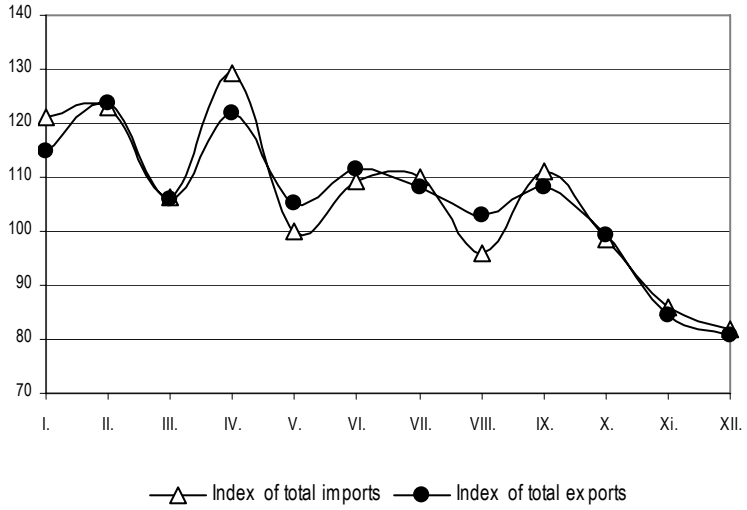
only 5.1 % year-on-year and total increase in imports only 5.0 %, what represents a notable slowdown comparing with preceding years, when year-on-year increases registered double-digit values (table 11). Such development resulted with GDP growing by 6.4 % into a downturn in export performance and import intensity, as well as into lower openness of the Slovak economy.

The most significant slowdown in both exports and imports was observed in the last quarter of 2008, when their year-on-year changes fell into negative figures (graph 8). As regards imports, a notable fall in oil prices occurred at that time and as regards exports, the unfavourable development in mentioned automotive industry (which was considered as an "engine" of Slovakia's economic growth for several years) appeared. Some negative effect was raised also by the fact that certain part of the Slovak automotive industry (Volkswagen) is oriented on the production of upper middle-class vehicles (VW Touareg, Audi Q7) exported predominantly to the USA, while sales of these types of vehicles suffered from the crisis influence much harder than sales of lower-class vehicles. If there had been no production of cheaper vehicles in Slovakia (Peugeot, Kia), the negative impact would have been even more serious.

Table 11
Development of the SR foreign trade in goods in 2004 – 2008

	2004	2005	2006	2007	2008
Exports (SKK billion, current p.)	895.2	993.5	1 239.4	1 420.7	1492.6
Annual change (%, current p.)	11.4	11.5	24.6	15.2	5.1
Imports (SKK billion, current p.)	942.2	1 069.5	1 331.0	1 442.1	1514.1
Annual change (%, current p.)	13.8	13.7	24.3	10.2	5.0
Balance (SKK billion)	-47.0	-76.0	-91.6	-21.4	-21.5
Balance/GDP (%)	-3.4	-5.1	-5.5	-1.2	-1.1
Export performance (% GDP)	65.7	66.9	74.7	76.7	73.6
Import intensity (% GDP)	69.2	72.0	80.2	77.8	74.6

Graph 8
Year-on-year changes in exports and imports by individual months of 2008

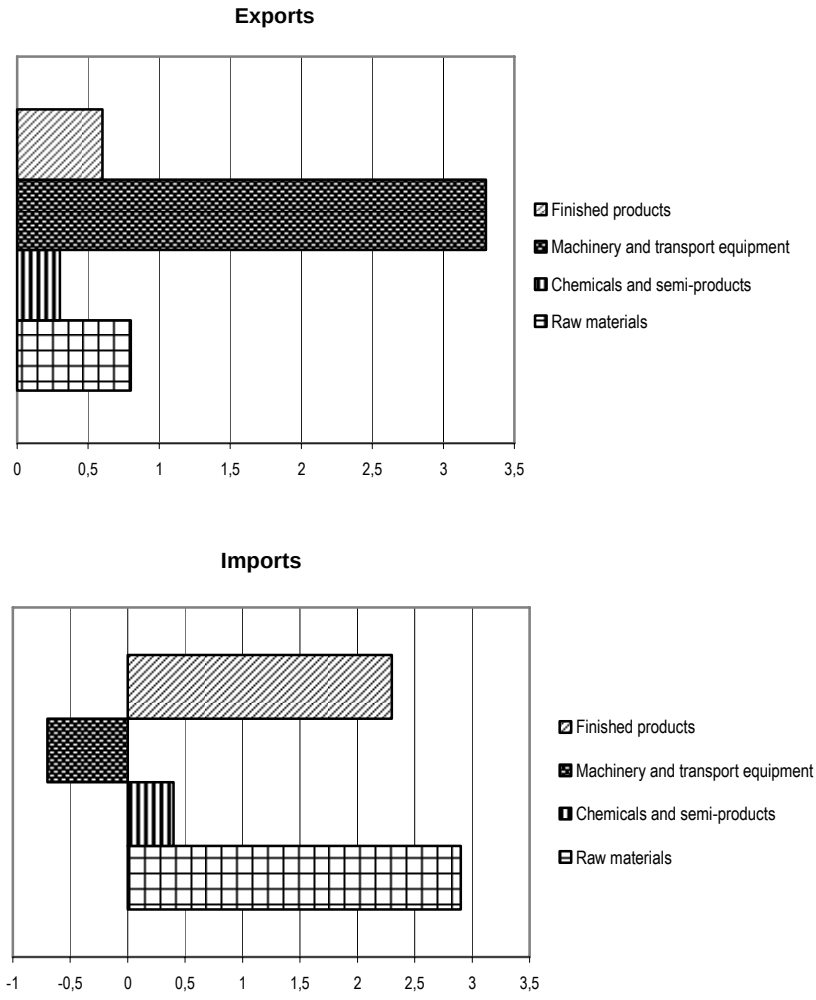


In terms of the commodity structure of foreign trade, the most remarkable growth in 2008 comparing to the previous year was attained by export of machinery and transport equipment (graph 9), although this increase was much lower (3.3 p. p.) than in 2007 (13.6 p. p.), mostly as a consequence of a decline in export of passenger cars. Also an increase in export of chemicals and semi-products went down, likewise in the category of finished products. Higher export of refined petroleum products contributed to the increased export of raw materials in total.

Year-on-year increase in imports was stimulated by finished products, but mainly by raw materials thanks to a spike in oil and gas prices in the first half of 2008. On the contrary, the category of machinery and transport equipment recorded a significant import decrease in comparison with the previous year (swung from an increase of 7.0 p. p. to a decrease of -0.7 p. p.), owing to the impact of a decline in imports of motor vehicle parts, components and accessories, mainly in the last quarter.

G r a p h 9

Structure of contribution to year-on-year changes in exports and imports by commodity groups in 2008 (in p. p.)



The outlook for the foreign trade further development is negative, what has been seen at the beginning of 2009 when the weakened foreign demand by Slovakia's trading partners was accompanied by the gas crisis influence. Moreover, the Slovak companies might be – as a consequence of the gas crisis – considered as unreliable suppliers because they had to stop their production temporarily and therefore they could not realize their exports.

Regarding its export activities, some negative effect was in case of Slovakia imposed by the fact that national currencies of the neighboring countries depreciated in the second half of 2008, while at the same time the Slovak koruna to Euro exchange rate stabilized after setting the final conversion rate in accordance with the Slovakia's Euro adoption process. It resulted in deterioration of the Slovak exports competitiveness, however, it can be supposed that only in temporary terms, as when the recession diminishes, the neighboring currencies will probably appreciate again (in relation to the Euro). In a situation when the global demand dwindles, the importance of price competitiveness decreases anyway and more important role is played by the business environment stability factor, the one which improves Slovakia's competitive position compared with the Czech Republic, Poland, or Hungary. Moreover, the country's membership in the Euro zone ensures perfect stability of the exchange rate, what performs as a competitive advantage in comparison with the non-member countries with volatile exchange rates.

In terms of the territorial structure, foreign trade of the Slovak Republic recorded no substantial changes. The share of exports to the EU countries and imports from the EU countries accounted for stabilized levels approximately about 85 % and 65 % (respectively) (table 12). Germany remains the most important trading partner of the SR with its 20 % share, followed by the Czech Republic with the share over 10 % in total foreign trade. Such trade reliance is being reflected during the economic crisis in deterioration of some economic indicators of the SR, emerging only with a short delay after the problems reveals in Germany and the CR. Without recovery

of the German economy, neither the improvement of the Slovak economy development cannot be expected. The share of the USA in the Slovak exports decreases gradually, while the share of Russia grows up. China's and South Korea's share in the Slovak imports expands year to year, resulting in deepening of the trade deficit with forenamed countries. In 2008 also the share of Russia in total imports increased, owing to rise in oil prices.

T a b l e 12
Territorial structure of the SR foreign trade in 2006 – 2008

Country/ grouping	2006			2007			2008		
	export (%)	import (%)	balance (SKK bn)	export (%)	import (%)	balance (SKK bn)	export (%)	import (%)	balance (SKK bn)
Total	100.0	100.0	-91.6	100.0	100.0	-21.4	100.0	100.0	-21.5
EU	85.1	68.0	149.3	86.7	68.9	238.0	85.2	67.1	255.8
Russia	1.6	11.3	-130.6	2.3	9.4	-103.5	3.8	10.8	-107.9
USA	3.2	1.2	22.6	2.5	1.1	20.2	1.7	1.2	7.5
China	0.5	4.0	-46.1	0.8	5.2	-63.8	0.9	5.7	-73.0
South Korea	0.1	3.9	-49.7	0.1	5.0	-70.6	0.1	5.8	-85.5
Japan	0.3	2.0	-23.6	0.2	1.6	-20.2	0.2	1.4	-18.7

Foreign capital

Capital and financial account of the balance of payments has run a slightly lower surplus comparing with the previous year (table 13). A decline was recorded mostly in the other investments balance as a consequence of developments in the corporate and banking sector. In the banking sector, lower short-term deposits of non-residents in the Slovak banks were realized and the corporate sector experienced an outflow of resources due to payments of import liabilities. On the contrary, lower inflow of funds in the balance of other investments was offset by a significant surplus achieved in the balance of portfolio investments, thanks to a fall in demand for equity and debt

foreign securities among Slovak residents combined with an increase in demand for bond issues among foreign investors.

T a b l e 13
Development of main components of the balance of payments capital and financial account in 2004 – 2007 (SKK billion)

	2005	2006	2007	2008
Direct investment	70.7	112.9	71.2	67.4
SR abroad	-4.6	-10.9	-9.5	-5.5
of which:				
equity capital abroad	*-3.5*	*-9.5*	*-6.0*	*-4.7*
reinvested earnings	*-1.0*	*-1.2*	*-1.2*	*-1.2*
In the SR	75.3	123.8	80.7	72.9
of which:				
equity capital in the SR	*22.2*	*56.0*	*27.4*	*28.7*
reinvested earnings	*27.1*	*25.0*	*24.5*	*18.0*
Portfolio investment	-30.2	48.2	-17.6	50.3
SR abroad	-20.7	-5.7	-26.3	13.7
In the SR	-9.5	53.9	8.6	36.7
Other long-term investment	-15.0	18.6	18.9	4.0
Assets	-9.8	5.3	-6.4	-13.7
Liabilities	-5.2	13.3	25.4	17.7
Other short-term investment	163.0	-141.3	100.4	36.8
Assets	-4.7	-38.4	-29.3	-2.6
Liabilities	167.7	-102.9	129.7	39.3
Capital and financial account	186.9	32.4	185.7	179.1

In 2008, Slovakia recorded lower inflow of foreign direct investments (FDI) comparing with the previous year, what has been revealed in the volume of reinvested earnings. The global financial crisis was the main factor inspiring this development. Majority of investment projects has been realized over the first half of the year, when foreign investors focused mainly on the automotive and chemical industry. Regarding the volume of investments, Bratislavský region recorded the highest figures; and regarding the number of investments (and also in terms of job position openings), Nitriansky and Banskobystrický regions ranked at the first positions (table 14).

Table 14
Number of FDI projects in Slovakia in 2002 – 2008

Region of the SR	2002	2003	2004	2005	2006	2007	2008	Total
Banskobystrický	2	3	3	5	6	4	6	29
Bratislavský	3	2	8	5	9	9	5	41
Košický	4	3	5	6	8	16	2	44
Nitriansky	1	1	13	12	13	8	8	56
Prešovský	5	1	2	4	5	5	2	24
Trenčiansky	3	4	5	7	11	7	5	42
Trnavský	4	4	4	5	4	8	2	31
Žilinský	3	4	6	3	9	7	4	36
Total	25	22	46	47	65	64	34	303

Source: SARIO (2009).

According to SARIO agency, approximately 300 investment projects have been realized in Slovakia during the last seven years. Assessed by the number of projects, 2006 and 2007 were the most successful years and in regional terms, Nitriansky region was the most successful one. Prešovský region attracted the lowest number of projects, what can be assigned also to less developed infrastructure. From the point of investors home country the projects of German, South Korean and Austrian origin prevailed.

Regarding the fact that even during the crisis there are potential investors who dispose of available resources and are willing to travel, as well as regarding the fact that Slovakia's attractiveness as a target destination for FDI increases with the Euro adoption, further investments inflow is expected in 2009. Exchange rates of national currencies of the neighboring countries, that are important competitors of Slovakia in relation to FDI, recorded significant turbulences in the past months resulting in increased risks sentiment by foreign investors. Slovakia also might take advantage of an amendment to the Act on Investment Incentives, which being effective from 1st April 2009 amends the rules for the investment state aid provision, even though only for a temporary period – until 31st December 2010.

4. LABOUR MARKET DEVELOPMENT

The upcoming crisis has not been reflected in the indicators of the labour market development in 2008 as much as in the production or economic performance indicators. There is no significant turnabout (apart from the wage growth rate) between the "pre-crisis" development in 1st – 3rd quarter and development in 4th quarter affected by the crisis elsewhere. An absence of such turnabout (clearly visible in industrial production or GDP development) however does not represent a sort of immunity of the labour market to the crisis influence. It is just a matter of a time discrepancy.

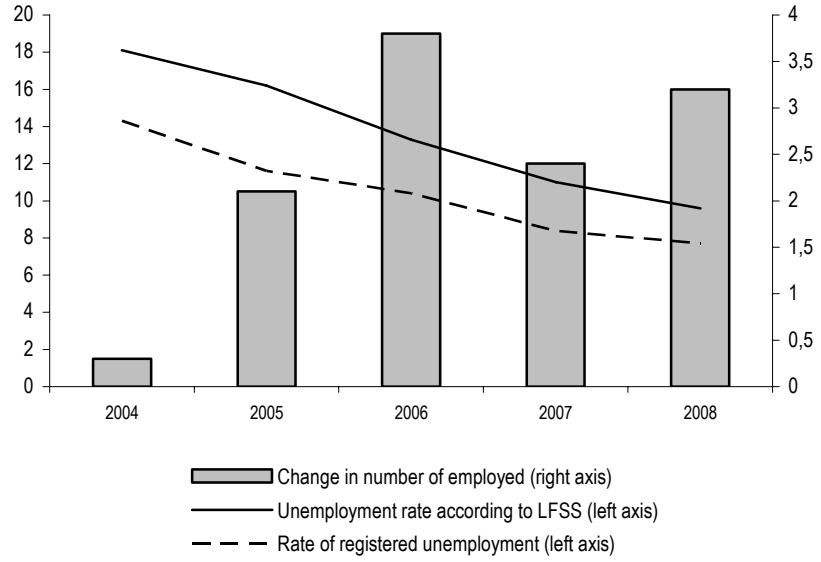
The indicators of employment and unemployment were developing favourably over the whole year 2008 (graph 10). Growth in the number of persons employed was extraordinary sharp even despite slowing economic growth. This is probably due to the following two factors:

- Real GDP growth was exceedingly strong over several consecutive years (and even during the first three quarters of 2008). Thereby a demand for additional labour force was created.
- The recession impact on the labour market usually appears with a time delay. Thus the employment development in 2008 was a function of the previous rather than current or future (expected) economic growth.

Similarly to the past, also in 2008 an expansion in the number of entrepreneurs played its role. In the total number of persons employed (3.2 % growth according to labour force sample survey) the number of employees grew at a slower pace (2.5 %) while the number of entrepreneurs nearly exploded (10.2 %). Thus a structural change in the number of persons employed continued: the share of entrepreneurs increased at the simultaneous fall down in the number of employees. We assume that this is a consequence of the income tax deduction policy (an absence of income neutrality in the payroll deduction system) and overall labour market regulation. According to ESA 95 methodology, the total employment grew slower, in 2008

accounted for 2.8 % growth rate which is however a better result comparing with the previous year (2.1 %).

G r a p h 10
Basic parameters of the labour market development (in %)

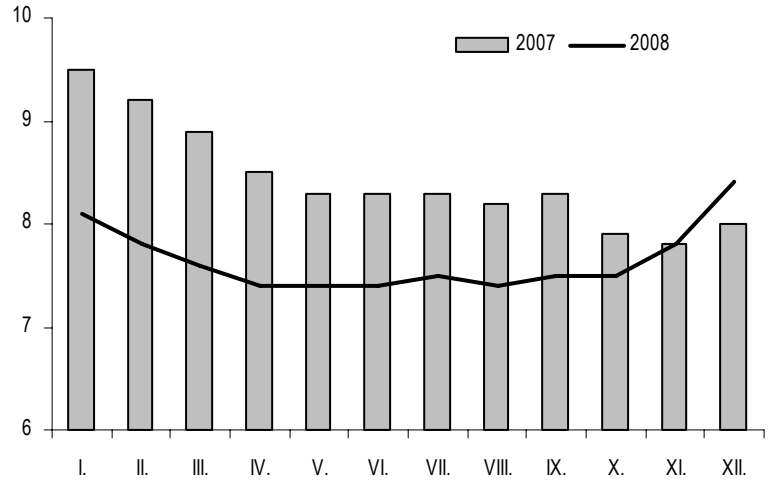


According to the labour force sample survey (LFSS) the unemployment rate reached 9.6 % in average.[5] It represents a notable decline comparing with the 2007 value having amounted to 11.0 %. Development of the unemployment rate according to LFSS does not reflect the upcoming recession (even in the last "problematic" quarter an apparent year-on-year decrease in the unemployment rate was recorded). An influence of emerging recession is visible if we use the labour offices data on so-called registered unemployment (its annual average value was 7.7 % which is by almost two percentage points less than LFSS level). When using this data, a more detailed

[5] Where the number of unemployed in 2008 amounted to 257.5 thousands in average.

information[6] on the end-up in the year-on-year decline of unemployment rate is provided (graph 11). In the first half of the year, the registered unemployment rate was much lower than in the same months of the previous year. However, in November 2008 it achieved the same level as in November 2007 (7.8 %) and in December it even surpassed the 2007 December's level of 8.0 % when it amounted to 8.4 % in the last month of 2008.

Graph 11
Registered unemployment rate by months (%)



The positive fact is that the number of persons unemployed over 24 months (according to LFSS) decreased by almost 19 %. However, this category (accounting for 135.8 thousands of persons in 2008) has attained a 53 % share of total number of unemployed after all and was matchlessly the most sizeable category regarding the classification by duration of unemployment.

[6] More detailed concept is related to the fact that registered unemployment is recorded on a monthly basis while LFSS unemployment is recorded on a quarterly basis.

The other category which should attract a special attention is a group of those unemployed who have never had a job. Even though the absolute number of such persons decreased in 2008 (according to LFSS), its share in total unemployment rose slightly, when it achieved more than 25 %. The problem of this important category is that these jobless persons have not achieved any working experience or habits yet and thus they represent a special segment of the labour market policy attention.

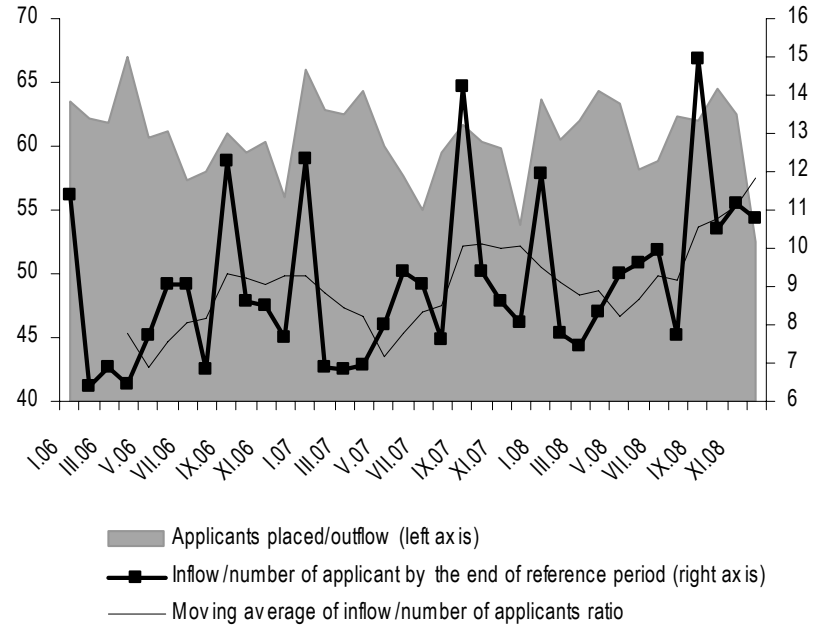
The share of 64 % in the total number of unemployed (according to LFSS again) was comprised of the persons with either primary or secondary apprentice education. Comparing with the previous years, the unemployment rate of persons with a lower qualification decreased: unemployment rate of persons with primary education to 39.3 % (the lowest level since 2000), unemployment rate of persons with secondary apprentice education to 10.8 % (the lowest level since LFSS has been used in 1994). In regard to this, we can conclude that the period of favourable development in the labour market has certainly been beneficial also to such groups of persons usually more difficult to be placed to the job positions.

Slightly growing share of monthly inflow of the job applicants in their total figures can be considered as a favourable structural parameter of the labour market (graph 12, in this case based on registered unemployment data). It is a sign of raising a weight of those job applicants who are registered for a short time (and at the same time decreasing a weight of those who are register in a long-term frame). The share of applicants placed in employment in the total number of persons removed from the register (share of applicants placed/outflow in graph 12) is stagnating indeed. This means that there is still large group of the applicants removed from the register for other than employment placement reason.

Comparing with 2007, the growth rate of average nominal wage increased in the first three quarters of 2008. However, in the last quarter of 2008 its growth rate slowed down rapidly (graph 13) and the annual average reached 8.1 % (7.2 % in the previous year). The wage growth rate has

reacted to upcoming recession much more sensitively (by its remarkable decline in the last quarter) than other macroeconomic parameters of the labour market (graph 13B). As the nominal wage growth rate slightly declined between the quarters of 2008 and the inflation rate has slightly risen, consequently the growth in real wages had to slow down as well. Its growth recorded 3.3 % in 2008 (there was a moderate decrease observed in the last quarter), what means a slowdown by one percentage point year-on-year.

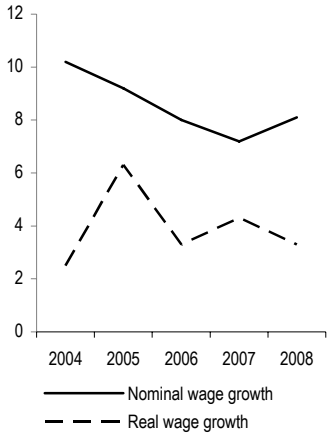
Graph 12
Selected ratio indicators of the job applicants flows



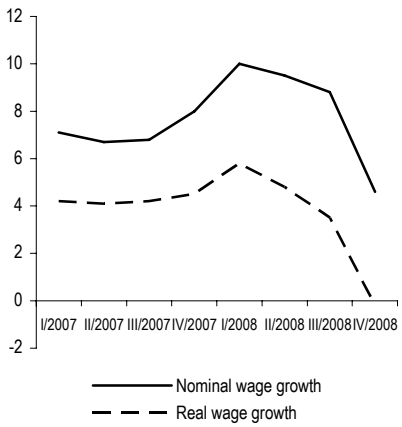
Notes: Presented indicators are based on the registered unemployment data. Outflow and inflow represent increases and decreases in the number of job applicants in respective month.

Graph 13
Year-on-year change in average nominal and real wage (%)

A. In a long-term perspective



B. In more detailed view by quarters 2007, 2008

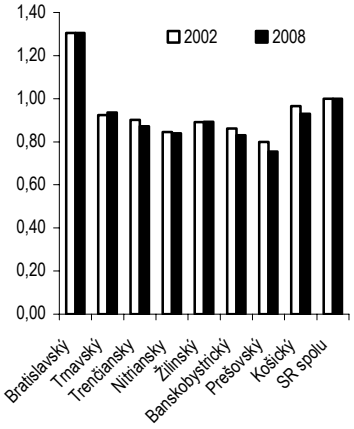


Especially when assessing the labour market development, the regional differences should be considered. The level of average wage in the whole national economy (SKK 21 782 in 2008) has been surpassed only in Bratislavský region. Average wage recorded by other seven regions of the SR was below the national average level. The lowest level of average wage is achieved in Prešovský region (with its wages reaching 75 % of the SR average value).

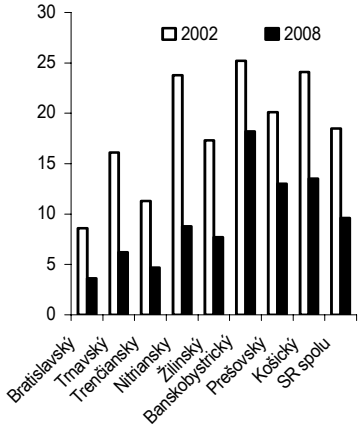
Graph 14 presents the regional wage to average ratios in a wider time frame (responding to a middle-term horizon) because in a short-term no significant changes are supposed. But as it can be seen in graph 14, no remarkable changes are present either from a long-term perspective. Only Trnavský region improved its position (only slightly even though), where the wage approached closer to the national average. Prešovský region, whose position was the worst one already in the base period, recorded its further worsening. There is no

visible reduction in the regional wage disparities comparing with the past. It is rather a preservation of the development tendencies in wage differentiation well known from the past.

Graph 14
Average wage by regions
(national economy average = 1)



Graph 15
Unemployment rate by regions
(%, LFSS)



More obvious shifts can be observed as regards the unemployment rate regional differentiation (graph 15). On the one hand, a significant decrease in unemployment rate in all regions (even in the most problematic ones) can be noticed, on the other hand this decrease is quite uneven. Regional disparities have increased in spite of general decline in unemployment rate.[7] The change in unemployment rate was the least significant exactly in the region with the highest unemployment rate (Banskobystrický region). At the same time, in Nitriansky region, where unemployment level similar to the

[7] In terms of the regional unemployment rates to national average ratio, in seven of total eight regions the span between regional and national value is wider in 2008 that it used to be in 2002. The relative discrepancy between the values in the "best" and the most problematic regions has grown.

one in Banskobystrický region was recorded in the base year, a more rapid decline in the jobless rate has been achieved.

The year 2008 was the last one in a diminishing phase of the notable improvement of the labour market parameters (the period beginning at least with 2005 can be considered as such phase). It will probably take several years until employment and unemployment indicators will get minimally to the 2008 level again.

5. MONETARY POLICY AND PRICE LEVEL DEVELOPMENT

The adoption of the Euro, to which Slovakia was committed since its EU integration and which had been declared even earlier before, has been one of the priorities of the National Bank of Slovakia (NBS) for several years. Monetary policy execution in 2008 was therefore, similarly to the previous year, influenced by intended accession to the Economic and Monetary Union. Several adjustments in the key interest rates were performed, as well as another revaluation of the SKK/EUR central parity. At the beginning of 2008, the Slovak Republic complied with all the convergence criteria, matching a necessary condition for the country's integration to the Euro zone as of 1st January 2009, the date that has been set in 2004 yet by the previous government.

In their convergence reports published in May 2008, the European Commission (EC) and the European Central Bank (ECB) evaluated Slovakia's progress as a positive one. Thus the Commission advised the ECOFIN Council (The Economic and Financial Affairs Council) to abrogate Slovakia's derogation from adopting the Euro and to approve the country's accession to the Euro zone at the envisaged date. Slovakia has been fulfilling the Maastricht interest rate criterion for the whole time since its EU accession in 2004, having the long-term interest rate sufficiently lower than a reference level for the whole period, at the time of examination of the country's readiness for the monetary union integration even 2 p. p. lower than a reverence value (table 15). Over the reference period, development of the long-term interest

rates was basically in line with a dynamics of the corresponding Euro area long-term interest rates. Slovakia has complied with the other Maastricht criteria for the Euro zone accession gradually from the second half of 2007.

Table 15
Fulfillment of the monetary Maastricht criteria in the SR prior its Euro zone accession
(reference period of EC and ECB convergence reports: 4/2007 – 3/2008)

	Inflation rate (HICP, %)	Long-term interest rate (%)	Exchange rate stability
Reference value	3.2	6.5	2 year in ERM II – fluctuation band ± 15 %
Slovakia	2.2	4.5	fulfilled

Source: EC (2008).

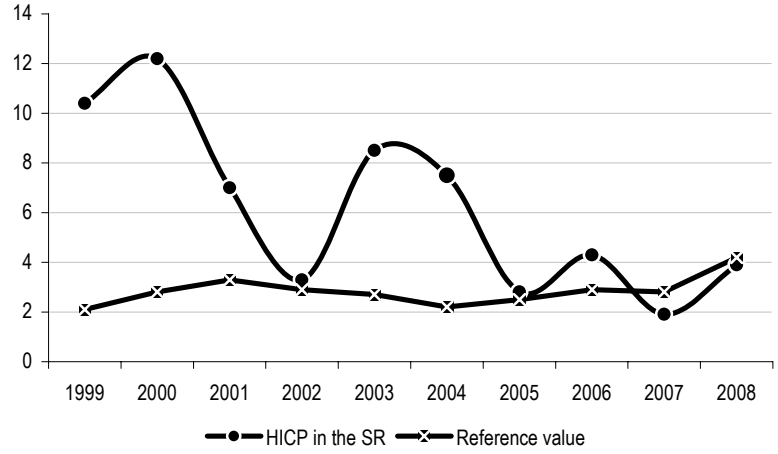
As regards the monetary union integration, inflation rate measured by the Harmonized Index of Consumer Prices (HICP) in the period April 2007 – March 2008 was of a key importance. Slovakia met the inflation criterion in August 2007 for the first time (graph 16 illustrates (not)fulfilling of this criterion in individual years) and in the reference period Slovakia fulfilled this criterion with a relatively satisfactory reserve of 1 p. p.[8]

However, in its convergence report, the European Central Bank expressed considerable concerns related to sustainability of inflation convergence in Slovakia, when it pointed at:

- dampening effects on inflation related to the nominal appreciation of the Slovak koruna against the Euro will fade away once the common currency is introduced,
- a risk of accelerating wage growth,
- an upside risk to inflation posed by the energy prices development,
- inflation pressure related to catching-up process.

[8] The reference value for inflation 3.2 % has been calculated as an average inflation rate in the period April 2007 – March 2008 in three EU countries with the lowest level of inflation (Malta, Nederland, Denmark) + 1.5 percentage point.

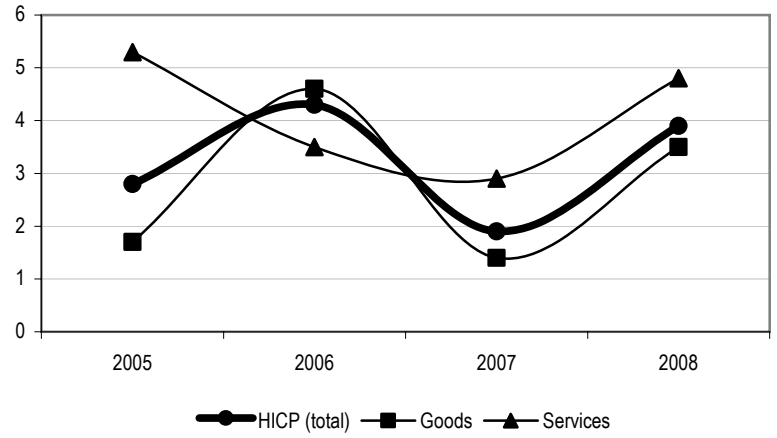
Graph 16
Development of the Harmonized Index of Consumer Prices (HICP) **in the SR compared with a reference value in 1999 – 2008** (average annual data)



In 2008, inflation rate measured by consumer price index (CPI) reached 4.6 % in average, inflation measured by HICP 3.9 %, when prices of goods rose year-on-year by 3.5 % and prices of service by 4.8 % (graph 17). Prices of services have grown well faster than prices of goods over past two years, what reflects existence of a wider space for a price catch-up in this sector. Also the industrial producers prices, especially prices of energy and mining and quarrying products have risen year-on-year.

In all cases mentioned above, an increased dynamics of inflation comparing with the previous year was observed. However, in the last quarter of 2008 a deflation occurred in the category of industrial production for export, as a consequence of declining foreign demand, resulting in only a slight inflation in average annual result. The last quarter brought also a fall in prices of agricultural products. The prices of residential housing managed to keep their 2007 level dynamics even in spite of their slowdown in the second half of the year.

Graph 17
Development of the Harmonized Index of Consumer Prices (HICP)
as decomposed by goods and services in 2005 – 2008 (year-on-year change)



The price development in Slovakia has been influenced during 2008 by several factors which are out of the monetary policy framework. Acceleration of inflation was mainly a result of:

- growth in energy prices, particularly prices for heat, in consequence of a steeply rising world price of oil;
- growth in (processed and unprocessed) food prices reflecting global spike in agricultural commodity prices due to poor yields in 2007 and boosting demand driving prices up (higher demand for food in China and India and demand for agricultural commodities to produce biofuels);
- rising prices of services, especially in transport, restaurants, in canteens and school refectories due to previous development in prices of agriculture commodities as well as energy prices.

The condition of a two-year membership in the exchange rate mechanism ERM II as a part of the Maastricht exchange rate stability criterion was

fulfilled at the end of November 2007. The Slovak koruna entered the ERM II on 28 November 2005, already half a year earlier than planned in accordance with the Euro adoption date,[9] with the central parity set at the level 38.455 SKK/EUR and standard fluctuation band ±15 % around the central rate. At the time of launching of the convergence reports in 2008, the Slovak currency accounted for 29 months of the ERM II membership, during which it fluctuated mostly within the stronger part of its fluctuation band.

After the convergence reports were published, the exchange rate continued to appreciate and approached even more to the bottom edge of its fluctuation band in the ERM II, namely to 30.126 SKK/EUR. Upon the agreement of the ministers of finance of the Euro zone countries, the president of the ECB and the ministers of finance and the central banks governors of the countries participating in ERM II on the revaluation of a central parity by almost 18 %, the abovementioned bottom edge of the fluctuation band became the new (already the third one) central parity, effective from 29 May 2008. By this act, Slovakia became the first country in a history which has revalued its central parity twice,[10] moreover, the new central rate was set at the level which had never been achieved by the SKK/EUR exchange rate by then. After positive statements expressed by other European institutions as regards Slovakia's accession to the Euro zone, the ECOFIN Council approved on 8 July 2008 a conversion rate at the level of the last central parity, namely 30.126 SKK/EUR. Having Slovak koruna fixed to the Euro helped the country to preserve national currency stability until its accession to the monetary union, while other currencies of the Central European region experienced a relatively significant depreciation of theirs exchange rates.

By introducing of the Euro, Slovakia loses its autonomous monetary policy and conforms to the common monetary policy of the ECB based

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[9] Earlier entrance of the Slovak koruna into the ERM II was motivated by the effort to mitigate the impact of regional markets development in the frame of V4 group on SKK/EUR exchange rate.

[10] 19 March 2007 was the first time when a central parity was revaluated due to strong appreciation pressures on the currency, in concrete by 8.5 % to the value 35.4424 SKK/EUR.

on overall analysis of the Euro zone as a unit entity. Therefore it was necessary to converge the NBS key interest rates towards those of the ECB at the time prior the monetary union accession. In the first three quarters of 2008 the Slovak official interest rates were set at the level of 4.25 %. In the last quarter, the NBS had to cut them three times, reflecting to a deepening global and financial crisis in accordance with the ECB steps and thus adjusting the rates to their Euro zone level. In October, they were reduced by 0.5 p. p. (to 3.75 %), in November by next 0.5 p. p. (to 3.25 %) and historically the very last decision of the NBS was a reducing of the key interest rates to 2.5 % in December 2008. The National Bank of Slovakia performed such step in reaction to the most significant reduction of interest rates by the ECB in the history of the Euro zone. In order to ensure more fluent and smooth transition to the Euro currency, the NBS approved the last two changes unusually earlier – not waiting for its regular end-of-month meeting.

More significant cuts in the key interest rates in the last quarter of 2008 have been subsequently reflected in the market rates, but also in the clients interest rates on deposits by non-financial corporations and households. Interest rates on the short-term credits (loans) decreased too, while interest rates on the long-term credits increased as a consequence of an aversion to a long-term lending and tightening of lending conditions in general. Interest rates on household loans almost did not respond to the rates reduction.

As per 1 January 2009, the NBS lost its competencies in the area of monetary policy, decision-making on measures and managing of monetary policy have been delegated to the ECB and the key interest rates of the NBS were replaced by the ECB key interest rates. The National Bank of Slovakia thus became a national executor of the ECB monetary policy, or the ECB decisions implementing body, however it continues to manage foreign exchange reserves, it conducts integrated supervision of the financial market, regulates the payment system, ensures liquidity flows and performs other functions.

6. PUBLIC FINANCE

In case of the Slovak economy the negative effects of the economic and financial crisis began to occur in the second half of 2008 with a direct impact on the general government financial administration. The general government budget for 2008 – 2010 was compiled on the basis of a favourable external environment seen in the previous years, as well as on the assumption of the stable economic growth of the Slovak economy approaching approximately the level of 5 % in the years 2009 and 2010. In 2008, the economic growth projected in the assumptions for the 2008 – 2010 budget has actually achieved the level responding to such dynamics (6.4 %), however, yet at the end of 2008 it was obvious that the budget assumptions will not be valid over the whole three-year period.[11] Another, but not less important fact is that an increase in revenues (thanks to the strong economic growth in the last years) has not been used to improve the expenditure structure. The sectors which had been underfinanced in a long-term perspective did not receive sufficient financial resources, in favour of other areas where disposal of financial resources does not represent any significant contribution to the prospective economic growth.

Similarly to the previous year 2007, an important factor that influenced a fiscal discipline in 2008 favourably, was the obligation to fulfill the Maastricht fiscal criteria and thus to qualify for a membership of the Economic and Monetary Union. The central government deficit accounting for 1.3 % of GDP in 2007 and 1.0 % of GDP in 2008 ensured the criteria fulfillment and contributed markedly to a maintaining of the Maastricht level. (Development of the state budget financial administration is analyzed in details in the next parts of the text.)

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[11] A deficit projected in the budget was estimated at the level of 1.9 % GDP in 2009 and 0.8 % GDP in 2010. Also the assumption of the economic growth seemed to be unrealistic. Although the economic growth in 2008 affirmed the accuracy of the assumptions for the general government budget, in the coming years it is necessary to count with a significant slowdown of economic growth, or even its contraction.

In spite of gradual deterioration of external environment and deepening impact of the financial and economic crisis, the general government budget succeed to maintain its administration within its outlined limits in 2008. As regards the actuarial view, the budget administration can be considered as a successful one, although largely supported by the high rates of economic growth and related positive impact on the revenue and expenditure side of the budget.

According to preliminary data listed in the Final Account of the State Budget, the general government deficit reached 2.2 % of GDP in 2008. The result was better by 0.1 p. p. than previously projected and in nominal terms a deficit accounted for SKK 44.5 billion.

As compared with the values previously budgeted, the best result was attained by the Social Insurance Agency which has managed a surplus reaching SKK 8 billion, and also by the State funds managing a surplus of SKK 1.3 billion, as well as upper-tier territorial units (VÚC) with their surplus of SKK 1.0 billion. A surplus amounting to SKK 358 million was attained by the public tertiary education institutions and SKK 294 million by Slovenská konsolidačná a. s. (Slovak Consolidation Agency).

On the contrary, the budgetary result of the National Property Fund of the Slovak Republic was notably negative when it ran a deficit of SKK 8.7 billion comparing with the value previously budgeted.[12] The overall negative result was influenced also by the Slovak television's financial result amounting to a deficit of SKK 273 million compared with the value planned, but also by the contributory organization of the upper-tier territorial units with their deficit of SKK 372 million, health insurance companies with a deficit of SKK

[12] Cash surplus of the National Property Fund, that was higher by SKK 1 491 million than estimated in the budget, has worsened due to amendments related to the risk guarantee coverage by the paragraph 30 of the Act on mass privatization no. 91/1992 Coll. by the level of SKK 4 671 million and due to lower incomes from dividend that are not of the dividend payers economic activities origin (so-called super dividend) by the level of SKK 4 272 million (MF SR, 2009).

84 million and the Slovak Land Fund with its negative contribution of SKK 74 million.

The approach towards the budget setting process differs from the past – as regards the revenue side of the general government budget it has shifted from a conservative forecast to the more realistic forecast. While in the past years the estimations of revenues were of a quite conservative character, the budget set for 2008 operated with markedly more realistic financial allocations. The consequences of such approach combined with the external impacts have been revealed partially in a slightly weaker implementation of the state budget revenue side in 2008. This fact has emerged more visibly while preparing the general government budget for 2009 – 2011, whose version at the time of the State Budget Act approval was based on unrealistic assumptions and did not reflect the changed conditions in domestic, as well as the world economy.

State budget

A closer look at development of the state budget management in comparison with the previous years confirms above mentioned trend of a diversion from the conservative estimates in budget setting process particularly on the revenue side of the budget.

Total revenues of the state budget reached only 98.2 % of the level previously budgeted (table 16). Total revenues were less by SKK 6.2 billion compared with the plan, when the most significant drop-off was recorded in the VAT and excise tax collections. VAT (value added tax) receipts were lower by SKK 2.4 billion and the excise tax receipts were less by SKK 3.3 billion. However in total, the tax revenues were higher by SKK 849 million compared with the plan, thanks particularly to the corporate income tax receipts exceeding the plan by SKK 5.4 billion, as well as slightly higher personal income tax receipts (by SKK 422 million) and withholding taxes receipts higher by SKK 574 million. Lower VAT collection in 2008 was a sign of

the financial crisis hitting the Slovak economy, the negative influence of which will emerge markedly – as regards the state budget – in 2009 in expected lower tax receipts.

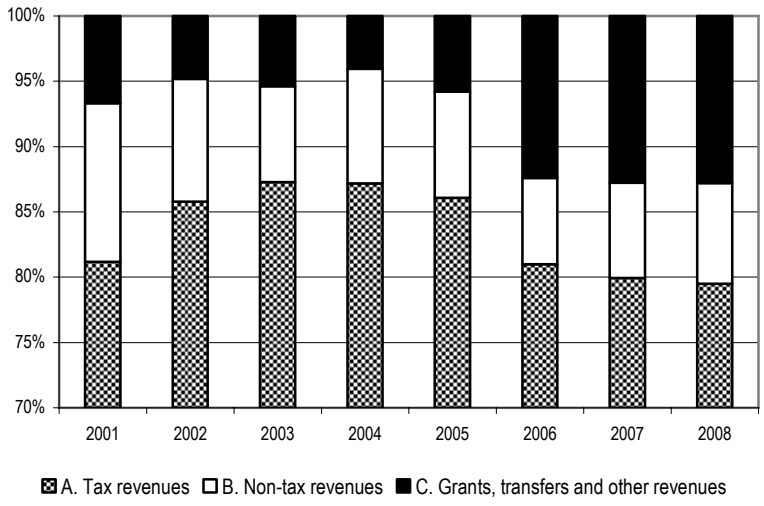
Table 16
Development of the state budget revenues and expenditures in 2003 – 2008

	Actual implementation (in SKK billion)						The 2008 budget implem.,%	Index 2008/ 2007
	2003	2004	2005	2006	2007	2008		
Total revenues	233.0	242.4	258.6	291.9	322.2	342.0	98.2	106.1
of which:								
A. Tax revenues	200.0	209.4	222.5	236.2	258.2	271.8	100.3	105.3
of which:								
Tax on income and capital assets	70.1	60.5	48.7	54.7	61.4	73.6	109.6	119.9
Tax on goods and services	123.2	144.2	172.3	180.5	195.7	196.9	97.1	100.6
Taxes on international trade and transactions	4.0	1.8	0.5	0.6	1.0	1.1	115.8	110.0
B. Non-tax revenues	17.0	21.1	21.1	19.4	23.5	26.3	117.9	111.9
C. Grants, transfers and other revenues	12.4	9.8	14.9	36.2	40.4	43.8	79.8	108.4
of which:								
EU budget funds	.	4.5	13.9	20.4	25.6	26.0	72.3	101.6
Total expenditures	289.0	312.7	292.5	323.6	345.8	363.2	95.5	105.0
of which:								
A. Current expenditures	250.0	.	261.1	282.8	297.0	314.8	92.5	106.0
B. Capital expenditures	31.1	.	31.4	40.8	48.8	48.4	121.6	99.2
C. Loans and equities	7.8	.	.	.	.	.	.	.
Surplus (+), Deficit (-)	**-55.9**	**-70.2**	**-33.8**	**-31.7**	**-23.5**	**-21.2**	.	.
Share in GDP (in %)	**4.7**	**5.3**	**2.3**	**1.9**	**1.3**	**1.0**	.	.

The share of the revenue side individual components in total revenues of the state budged has not changed dramatically in 2008 (graph 18). Previously anticipated increase related to the EU structural funds receipts was actually not realized due to low drawing and thus did not influence the share of the component grants, transfers and other revenues, whose share remained rather unchanged in comparison with 2007. Some modest decline

(by 0.6 p. p.) was observed in tax revenues in favour of the non-tax revenues change.

Graph 18
Share of individual revenue components in total state budget revenues 2000 – 2008 (in %)



The state budget expenditures were budgeted at the level of SKK 380.2 billion and were actually implemented by 95.5 %. In nominal terms they were lower by SKK 17 billion comparing with the plan. The most significant savings were achieved in the components of current expenditures, namely in goods and services (SKK 13.8 billion) and current transfers (SKK 11.4 billion). In a more detailed view at the expenditure structure, in the frame of the current transfers the least budget drawings were recorded in a category of the grants to non-financial subjects with savings totaling to SKK 4.6 billion and in social benefits category with savings reaching SKK 3.5 billion (since the unemployment rate was declining at that time). Contributions to the EU's common budget amounted to SKK 15.6 billion, what represents savings

of SKK 2.8 billion as compared with the level previously budgeted. Unlike current expenditures, the implementation of capital expenditures was higher by SKK 8.6 billion than projected in the budget approved.[13]

Implementation of the EU structural support in the programming periods 2004 – 2006 and 2007 – 2014

The results of the budget management repeatedly confirms already mentioned insufficient level of a drawdown of financial sources from the EU budget even in 2008. Compared with initial state budget proposal approved, the revenues in this category were lower by SKK 10.7 billion.

Drawdown of the Community financial resources for the budgetary period 2004 – 2006 has been developing in a quite satisfactory manner by the end of 2008, prevalently thanks to the longer period of their implementation. As regards the Structural funds, by the end of 2008 resources amounting to EUR 1.07 billion have been received from the programming period 2004 – 2006 budget, what equals to the drawdown rate reaching 91.98 %. The highest amount of the resources not absorbed has been recorded (by the end of the year) in the Sectoral Operational Programme (SOP) Human Resources – at the level of EUR 39.6 million (SKK 1.2 billion) and in SOP Industry and Services at the level of EUR 19.8 million (SKK 596.8 million). Regarding the final date set to 30 June 2009 – a deadline for recipients until when the resources can be drawn, we can expect more intense implementation during the first half of 2009. Drawdown related to the ISPA/CF projects, when defined as the amount specified in applications approved by the Slovak payment authority, reached 90.0 %. The volume of funds drawn from the Cohesion Fund (CF) amounted at the end of 2008 to the level of 67.65 %. The financial allocation of the CF from the first programming period can be implemented by the end of 2010.

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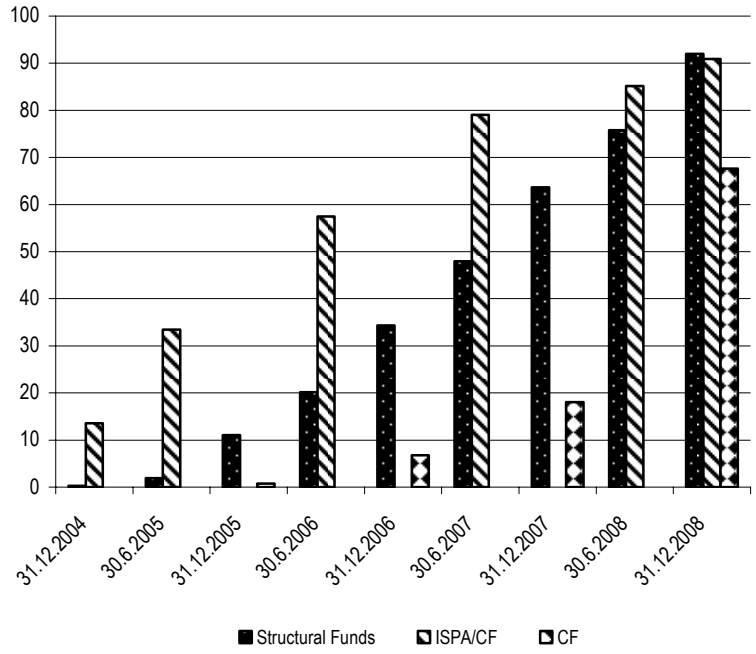
[13] More detailed analysis of the budget revenues and expenditures as regards their structure will be possible only after the Final account of the state budget is published.

While drawdown for the previous period 2004 – 2006 shows – also due to a length of implementation allowed – quite sufficient results, current programming period reveals relatively serious shortcomings as regards the intensity of structural support drawing. By the end of 2008, the amount of EUR 27.9 million has been paid out for particular projects, what represents only 0.25 % of the total allocation accounting for EUR 11.3 billion in the frame of eleven existing operational programmes (OP). A majority of resources has been drawn in OP Technical Assistance for a technical support for individual operational programmes, and partially in the frame of OP Employment and Social Inclusion.

Graph 19

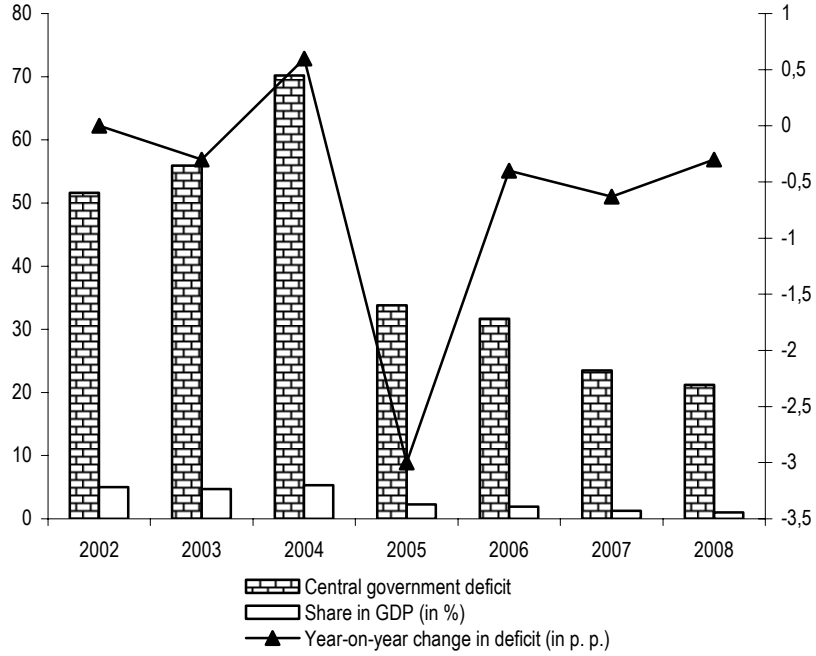
Development of implementation of the EU structural support from the programming period 2004 – 2006 (in %)



Central government deficit

Central government deficit attained a value of SKK 21.2 billion in 2008, what is at the nominal terms one of the lowest levels ever recorded in a history of the SR. In comparison with a deficit projected (SKK 31.9 billion), the actual deficit was less by SKK 10.7 billion and its share in gross domestic product reached 1 %. Comparing with the previous year, it improved by 0.3 p. p. mostly due to slightly higher revenues and markedly lower expenditures drawn from the state budget.

Graph 20
Development of the central government deficit in 2002 – 2008

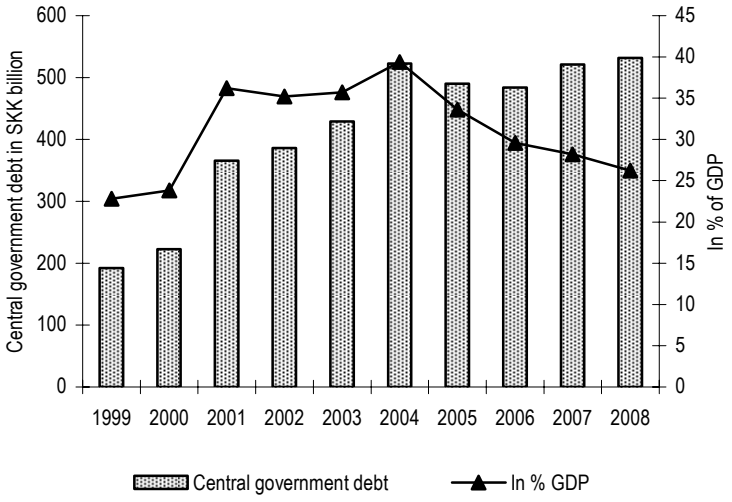


General government and central government debts

The general government debt amounted to SKK 560.7 billion, responding to 27.6 % of GDP. On a year-on-year basis its share in GDP decreased by 1.7 p. p., mainly thanks to a strong economic growth and slower dynamics of the general government debt growth rate. The biggest contribution to the general government debt was made by the central government debt with its share totaling to 94.8 % of total debt.

The central government debt (as a consequence of running a permanent state budget deficit) amounted to the level of SKK 531.7 billion in 2008 (graph 21). In comparison with the previous year it has increased modestly in nominal terms, however, regarding the strong economic growth it has decreased as a share in GDP, namely by 2 p. p. to the level of 26.2 %.

Graph 21
Development of the central government debt in 1999 – 2008



Favourable development of the central government debt was influenced to a large extent by a strong economic growth in the past years, but in the coming years the prospective growth will not provide the government with such generous space to fulfill its own priorities as it used to be in the past. Constrains resulting from the Euro zone membership clearly outline the limits of a fiscal policy. The revised Stability and Growth Pact provides the member states with some flexibility. The general government deficit ratio may exceed the benchmark reference value only for the limited period and upon the EC's approval. The financial and economic crisis effects will eventuate over the coming year in a growth of central government debt and general government debt in the nominal terms, as well as their share in GDP.[14]

7. OUTLOOK FOR 2009

It is extremely difficult to predict further development in the year 2009. Decisive determinant of the future Slovak economy development – the global financial crisis and economic recession – is an external factor and thus can be influenced by the Slovak economy or the Slovak authorities only marginally. Domestic determinants of the development in 2009 become of a minor, second-place importance.

External determinants of development

At least two external factors complicate the economic development of Slovakia in 2009: namely the global financial crisis coupled with economic recession; and the energy crisis. Their active interference brings so strong

[14] As a result of a dropout on the revenue side of the budget, as well as due to anticipated contraction in the economic performance.

negative impact which cannot be offset by any economic policy performed by domestic authorities.

Global financial crisis and economic recession

This is the most influential factor of the Slovak economy development in the year 2009. At the time of preparation of this forecast, the world economy has been experiencing the deepest recession since the Great Depression in 1929 – 1933.[15] Not even the generous state programs (on a world-wide scale) aimed to support the financial sector and recover economies were able to restore confidence in the future economic development among the market players so far. This fact influences the development of a composite indicator developed by OECD *Composite Leading Indicator* (CLI), which expresses the expectations of economic agents.[16]

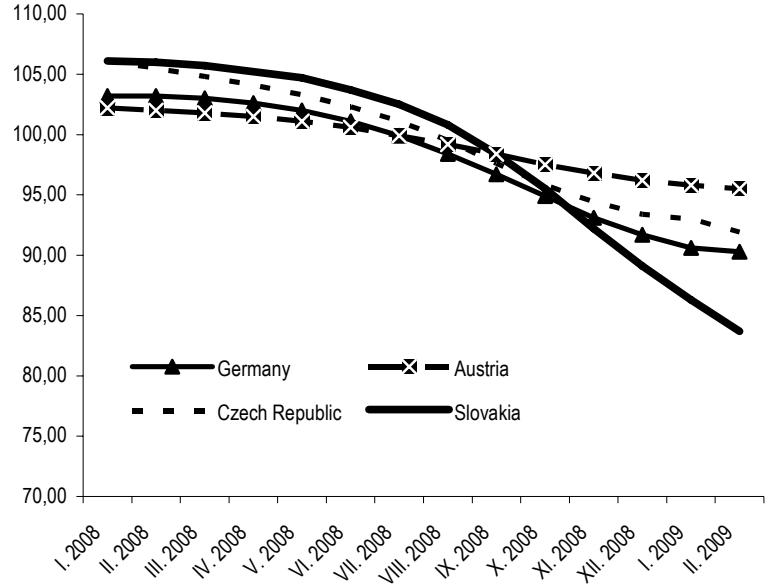
An obvious slump in the CLI values can be seen in graph 22 since the third quarter of 2008. It is interesting that the lowest CLI value recorded in February 2009 is attributed to Slovakia (also among all OECD countries). Similar expectation measure is presented by the index called *Ifo Business Climate.*[17] Its April's value for Germany (which is the most important trading partner of Slovakia) represents a slight improvement after several consecutive months of significantly negative development.

[15] The arguments supporting such statement, as well as detailed analysis of the global financial crisis and economic recession can be find in IfW (2009) or EEAG CESifo (2009).

[16] It can be expected that using the indicators of that type, the development in economy is being predicted approximately half a year in advance.

[17] See: Ifo Business Survey <www.ifo.de>.

Graph 22
Development of the OECD's *Composite Leading Indicator* **in selected countries** (long-term average = 100)



Source: OECD (2009).

It is hard to predict the bottom turning point (trough) and beginning of the economy recovery at this moment. There are some factors that can help the Slovak economy to overcome such external shock more smoothly:

- The Slovak banking sector is still relatively stable, thanks to a prudent policy also during the "pre-crisis" period. In Slovakia, the banking sector consist prevalently of the smaller banks (domestic branches of the mother banks established abroad), their assets and liabilities are related predominantly to the SR and thus they are not affected by the problematic securities or toxic assets to a large extent.

- The Slovak economy can still make use of its competitive (even though weakening one) advantage of low labour costs. This opens wider chances for preservation of production also at the time when production purchasers or final consumers are extremely cautious. However, in V4 region, this advantage is diminishing due to a depreciation of the domestic currencies against the Euro[18] at the beginning of 2009.
- A notable performance gap can be seen between the Slovak economy and other countries of the EU common market. It is dampening the recession in the domestic economy even when unfavourable global development occurs.
- Slovakia has substantial experience with a macroeconomic stabilization policy execution. The question is whether there will be an ability and willingness to use such experience in an extraordinary situation.

However, one can find also a group of factors which may complicate the crisis overcoming:

- Certain global decisions were taken, which did not (and do not) reflect the situation in the Slovak economy. The strategies of mother companies are being transferred to their daughter branches. Thus for example relatively sound Slovak banks can apply the practices their mother banks affected by the crisis are using abroad. This results in a blockage of the financial flows, which can substantially endanger also the enterprises that would be otherwise evaluated as the perspective ones and would not be the victims of tight credit conditions.
- The other complicating factor is a character of the Slovak companies' engagement in the production chains. Production's dependency on the development and policy of the transnational corporations transmits the recession from other regions of the world economy into the domestic one. Especially

[18] For details see e. g. Trend, 17 February 2009.

problematic is a dependency on a small number of the TNCs concentrated to a small number of branches extremely sensitive to the business cycle swings. In some periods, it is a positive feature (possibility of a fast expansion), however, during the current depression it is a factor contributing to a deepening of the domestic economy recession.

- The Slovak economy is exceedingly open, with a small domestic market. This implicitly brings a very high sensitivity to external shocks. We expect GDP contraction of the most important trading partner of the SR (Germany) and decline in the Euro zone economic performance as well (table 17). This represents an impassable barrier for the Slovak exporters.
- Industrial production is considerably concentrated (namely to manufacture of passenger cars and its components), not enough diversified. Insufficient diversification increases vulnerability in case of a crisis.

Table 17
Prognosis of the selected macroeconomic determinants in external environment

Country / grouping	Real GDP growth in %		Increase in consumer prices (harmonized index) in %		Unemployment rate in % (ILO methodology)	
	2008	2009	2008	2009	2008	2009
EU 27	0.9	-4.3/-1.2	3.5	0.2/1.6	7.0	8.1/9.4
Euro zone	0.8	-4.5/-1.4	3.3	-0.1/1.2	7.5	8.7/9.9
Germany	1.3	-6.0/-2.2	2.8	0.3/0.9	7.3	7.8/8.6
CR	4.4	-2.7/1.7	6.3	1.1/2.4	4.4	5.3/6.1
Hungary	0.5	-6.3/-1.0	6.0	1.6/4.4	7.9	9.0/9.7
Poland	4.8	-1.4/2.0	4.2	2.3/3.1	7.1	7.7/9.9

Source: The table contains a selection of the most optimistic and the most pessimistic value from the following prognoses:
European Commission (2009).
EEAG CESifo (2009).
IfW (2009).

The energy crisis of the beginning of 2009 and the risk of its return

The period of large enterprises being restricted to run at their necessary technological minimum (due to cut offs in gas supply from Russia) lasted only for a short time, however, it has accelerated destruction effects of the global crisis. Moreover, the risk of a reappearance of the similar situation is real. Thus a vulnerability of the Slovak economy became more visible, what can be a disadvantage when trying to attract investors in the future.

Internal determinants of the economic development

As we have already mentioned above, internal (domestic) factors will have secondary, but not a "zero" importance when determining the economic development in 2009. We assume particularly the following factors to be influential:

- *The political cycle impact.* In 2009, already the second half of the regular electoral term is under way. Escalation of the conflict between the economy's requirements and political proclamations made by the government might be expected. Hence, such situation can occur, when exactly at the time of the most serious recession appearances and public finance destabilization, a demand for the measures in favour of social cohesion, poverty reduction and disparities elimination will expand.
- *Public finance destabilization.* The real economy development will probably lead to a significant deterioration of some fiscal parameters. This can enforce the government to adopt some correction measures, which can however be in a conflict with the anti-crisis measures (and these aspire to recover the economy or to minimize the recession impacts).
- *The government's response to the economic crisis*. The crisis itself is being understood as an external factor, but we consider the reaction of domestic economic-policy authorities as an internal determinant. The government has approved several packages of measures to mitigate the crisis consequences. Such measures, adopted under the pressure

imposed by the risk of serious crisis impacts, are usually atypical and raise the threat of their disharmony with the long-term requirements of the economic development. The government's anti-crisis measures cannot be considered as sufficient correction factor in the frame of such open economy like the Slovak economy is. They should be understood as the instruments to "soften" the economic downfall only.

- *The impact of a new currency.* In the previous period an appreciation of the domestic currency performed as an anti-inflation influence (it has moderated so-called imported inflation). By adoption of the common currency, the economy loses this anti-inflation barrier. However, it will be replaced in 2009 by the anticipated disinflationary impact of the recession (drop in the prices of strategic energy resources). Implementation of the new currency indeed manifests that the Slovak economy is able to achieve a sound level of stability (of course it will be probably violated during the economic recession). Therefore the adoption of the Euro is a positive signal for the investors.

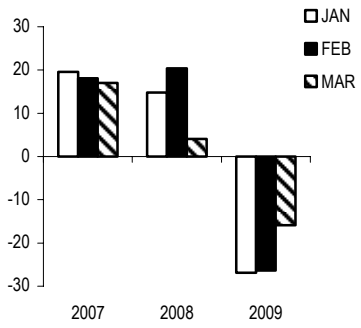
Forecast of the economy's performance development

At the time of preparation of this outlook, the data for the first quarter of 2009 were available. However, they served as only a weak support in such an extraordinary difficult situation. Production development has worsen dramatically in the first months of the year 2009 (graphs 23 to 26). It was a period affected by the time concurrence of the financial and energy crisis (with hardly isolated influence of any of both negative factors). Moreover, the last-year basis for comparison was high, what results in extremely unfavourable values as regards the beginning of 2009. We suppose that by the end of the year, (also) a decline in the last-year reference basis will contribute to less dramatic year-on-year downfall.

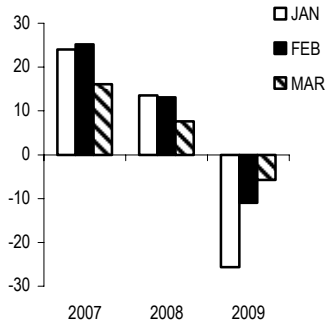
The level of the Economic Sentiment Indicator (ESI) was at the beginning of 2009 lower than the level observed before or during the economic

growth slowdown in 1999.[19] The expectations of the economic subjects are thus more negative than during the last sharp economic slowdown (graph 27).

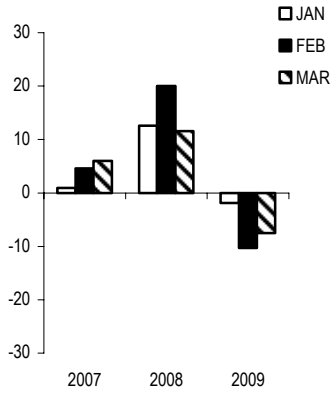
Graph 23
Industrial production
(year-on-year change in %)



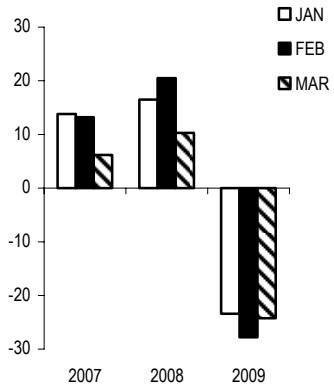
Graph 24
Construction output
(year-on-year change in %)



Graph 25
Sales in retail trade
(year-on-year change in %)



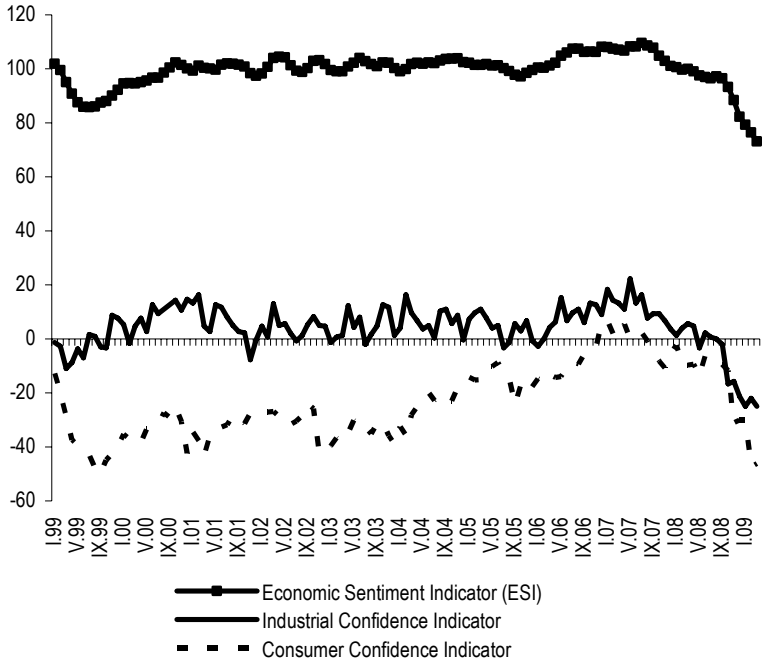
Graph 26
Sales in wholesale trade
(year-on-year change in %)



Note: Changes calculated on the basis of constant prices.

[19] Also in 1999 it referred to the expected slowdown in the economic growth dynamics, although caused by the different factors this time. It was related to an accumulation of the economic imbalances effects and the packages of the measures for stability restoration.

Graph 27
Development of the Economic Sentiment Indicator and its selected components in case of the SR
(long-term average = 100)



We assume that declining production will influence also lower GDP formation, however not with the same intensity. While analyzing a dynamics of GDP formation, we suppose that:

- *Sharp decrease is expected in the volume of turnover and related gross production.* Such decrease is indicated by the outcomes given by graphs 23 to 26 (for selected sectors) as well as by the data on year-on-year decline in gross production in the first quarter of 2009 by 14.2 % at constant prices. The impact of the global depression will be fully reflected in a decline in turnover and gross production.

- *However, intermediate consumption is likely to decline even more than gross production.* Reducing the intermediate consumption is supposed to be used by the enterprises as a kind of a defense reaction in their effort to preserve favourable development of their gross value added (which is a source of the incomes of used factors of production). Therefore we expect a decrease in intermediate consumption to be more significant than the one in gross production. The data for the first quarter confirm that the real intermediate consumption dropped year-on-year by 18.2 % (it means by 4 p. p. more than the gross production declined).
- *Since we expect a decline in intermediate consumption to be more profound than the one in gross production, also the gross value added will decrease notably less than gross production.*[20] A drop in gross value added reflects the global crisis impact only "through the filter". Such filter is represented by declining intermediate consumption.

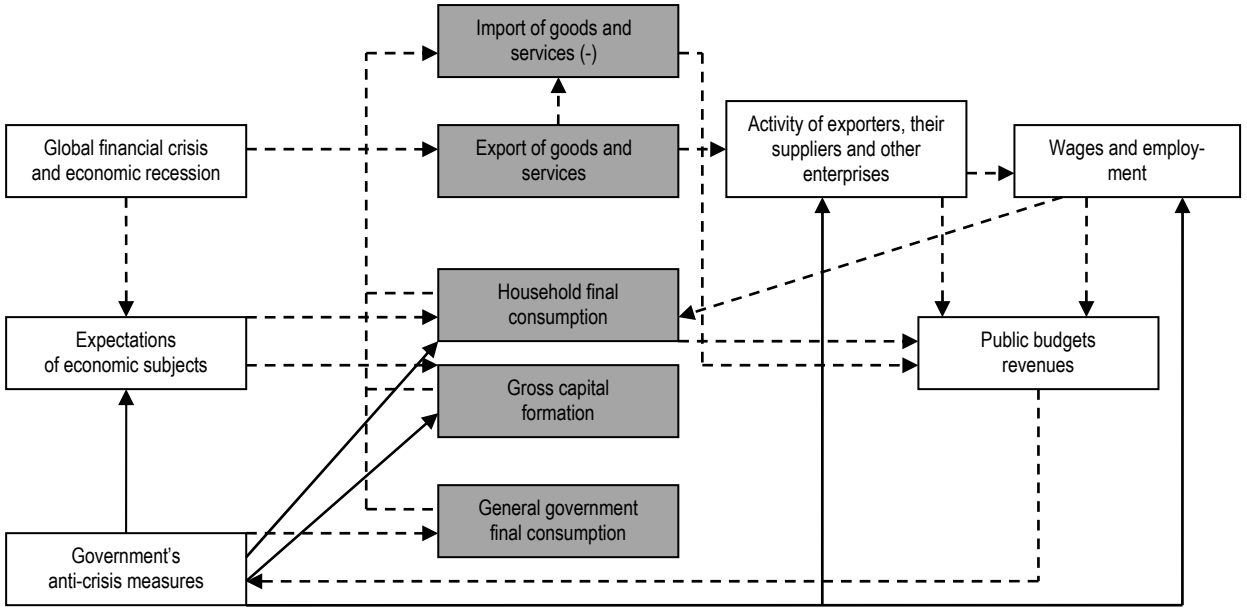
Considering the possible development of GDP use components (expenditure approach), the most remarkable influence of the crisis can be seen in the exports of goods and services. In case of an exceedingly open economy, the export's decline is being transferred also into non-export sectors and through its negative impact on unemployment, wages and taxes also on all components of domestic demand (scheme 1). Despite a fall in exports we do not expect any substantial deterioration of the external balance indeed. Decline in export of goods and services combined with domestic demand slump will lead to a drop in imports as well (due to high import intensity of the exports and domestic demand).

After several years of an extremely strong real GDP growth we expects its sharp contraction by 6.0 % – 7.5 % (table 18). It means that the worse result is expected than the one recorded in the first quarter (-5.6 %). Such slowdown in the economic activity will be implicitly coupled with a decrease in employment, slowdown in nominal wage growth and drop-out in the public finance.

[20] Gross value added = gross production – intermediate consumption.

Scheme 1

A simplified system of the crisis's and anti-crisis measures' impacts on the components of GDP use



Note: Dashed line indicates dampening impacts, full line indicates strengthening effects. To ensure transparency, the scheme does not reflect all flows that can be considered.

Forecast of the labour market parameters development

According to our presumptions, the factors that motivate a decrease in the number of employed will outbalanced those factors that are of an opposite character. Therefore, after a longer period when the labour market parameters have experienced an improvement, we expect a turnabout in this tendency. The following factors performing in favour of the employment decline are supposed to appear:

- *Probable slowdown of GDP and other production indicators.* A decline in economic performance is expected to be transferred to employment downturn with a some time delay.
- *Using the recession as an excuse for solving the effectiveness problems*. The recession provides an opportunity to realize already not-planned and otherwise motivated dismissal of employees. The recession argument can be used against the employees (or trade unions or public administration offices) to excuse the layoffs that may actually be motivated by other reason. That is why a depression period contributes to decreases in the number of employed on behalf of the other than recession's reasons.

The factors which will mitigate a decline in employment include:

- *A fear of the difficulties with employing a new labour force when the recession diminishes.* Even during the "pre-crisis" period some signals of a bottleneck in qualified workforce occurred (strongly regionally differentiated though). Considering the doubts about the availability of this labour force, the employers will probably delay the dismissal of qualified workforce. However, they will be less cautious regarding the unqualified workforce.
- *A time delay between the production decline and employment decline.* The changes in employment dynamics repeatedly lagged behind the changes in economic growth dynamics in the past, approximately with

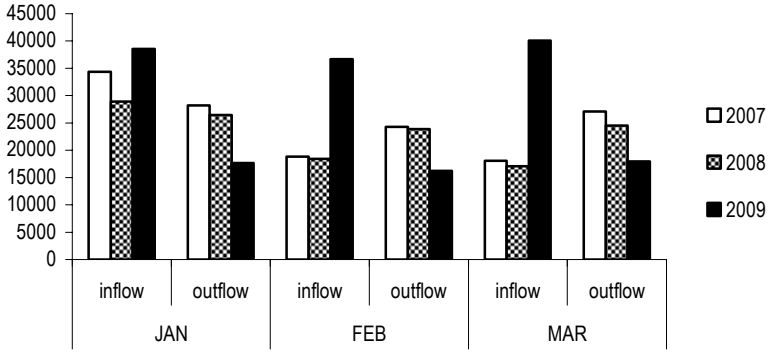
a three-month delay. Either the operational reasons in enterprises or a legal framework regulating employment (e. g. a statutory notice period determined by labour law) contributed to this development. However, this is not a factor preventing a decline in employment, but a factor initiating a delay in the employment decline and thus providing a possibility to prepare for that development.

- *Governmental policy aimed to minimize the employment losses.* To preserve existing jobs is considered to be one of the highest priorities of the government's anti-crisis policy.

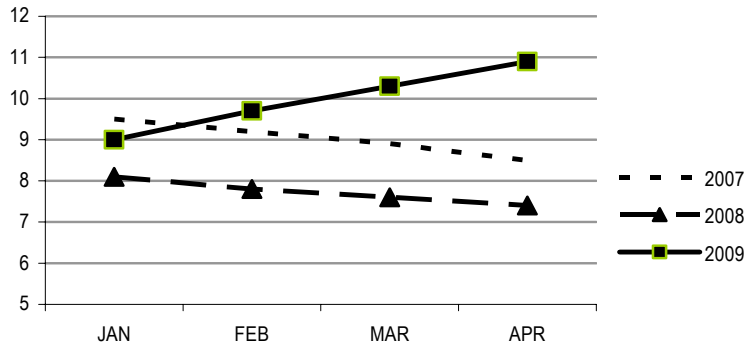
Extremely high inflow of unemployed was registered by the labour offices in March 2009 (graph 28). The inflow has more than doubled in comparison with usual inflows being recorded in March. At the same time, the outflow was lower than in the previous years. The rate of registered unemployment developed differently in the first three months of 2009 than in the past year: instead of usual seasonal slowdown in February and March (comparing with the commonly high value in January), the unemployment rate rose not only on a year-on-year basis, but also on a month-to-month basis (graph 29). Unemployment rate according to LFSS continues to keep its level above the level of the registered unemployment rate (even though the difference will reduce probably). We expect that in 2009 with the number of employed falling by 1.5 % – 2.5 %, the unemployment rate by LFSS will approach the interval 11.2 % to 12.5 %. In the first quarter of 2009 the number of employed declined only by 0.1 % with unemployment rate achieving 10.5 % (the same value as the one recorded in the same period of the previous year). Such development confirms our assumptions of the labour market parameters development lagging behind the development of production indicators. Besides layoffs of employees

announced by domestic companies also a return of the Slovaks working abroad will contribute to the swelling unemployment rate.

Graph 28
Inflow and outflow of job applicants in the first three months of 2007 – 2009



Graph 29
The rate of registered unemployment in the first three months of 2007 – 2009 (in %)



The growth rate of average nominal wage is likely to slow down notably. The factors that will perform in favour of this slowdown in 2009 include:

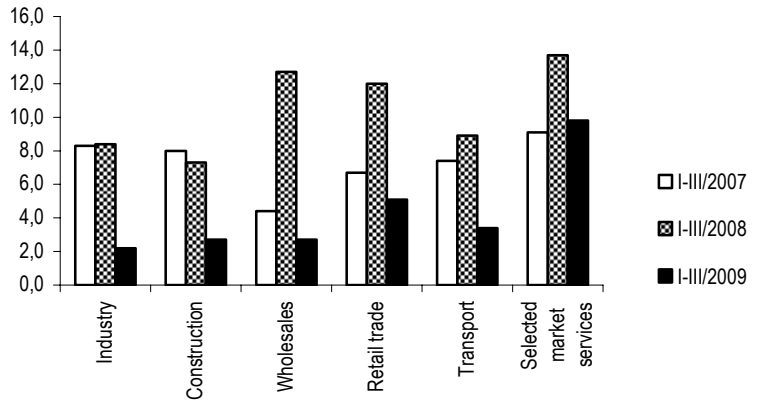
- *A decline in demand for a workforce.*
- *Relatively low inflation rate (low in terms of its long-term development in the Slovak economy conditions).*
- *Uncertain further development which forces employees to prefer to keep their jobs rather than insist on their demands for wage increase.*

- *Relatively sharp wage growth at least during the first three quarters of 2008 which posts a high base for the next year's comparison.*

There are also some factors which will perform against more remarkable wage growth slowdown:

- *Increasing scarcity of utilizable labour force.* Following the demographic forecasts, in a middle-term horizon the Slovak economy will not dispose of a large sources of available labour force (especially the qualified one). This will probably result (already currently) in increased scarcity of this labour force segment, even despite temporary higher unemployment rate.
- *Notable persistence in the wage development.*
- *A statistical paradox:* if the job loss affects primarily the less qualified workers with below-average wages, then the average wage in economy increases.

Graph 30
Year-on-year growth of average nominal wage in the first two months of a particular year (in %)



The data on the average wage growth in selected sectors at the beginning of 2009 reveal especially sharp slowdown of wage growth dynamics particularly in industry (graph 30). For 2009 we predict a notable slowdown in average nominal wage growth to the level 3.9 – 4.9 % (it achieved 8.1 % in 2008). However, even so slowing wage growth will lead – thanks to an inflation rate decline – to a growth in real wages by 1.7 % – 3.0 % (table 18).

Table 18
Expected development of the selected macroeconomic parameters

Indicator	in	2007	2008	2009 forecast
GDP volume	EUR million, current p.	61 501.1	67 331.0	62 281.2 to 63 924.1
Real GDP growth, year-on-year	%	10.4	6.4	-7.5 to -6.0
Year-on-year change in the number of employed by LFSS	%	2.4	3.2	-2.5 to -1.5
Unemployment rate by LFSS	%	11.0	9.6	11.2 to 12.5
Year-on-year change in real wage	%	4.3	3.3	1.7 to 3.0
Average year-on-year rate of harmonized inflation (HICP)	%	1.9	3.9	1.1 to 1.7

Prospects of the price level development

Only in case of inflation development we can talk about a favourable impact of the global financial crisis and economic recession; since the recession suppresses inflation. However, a fall-back in inflation rates coupled with GDP decline and growth of unemployment rates cannot be considered as a contribution to stability and balanced development of the economy.

We assume that in 2009 the influence of deflationary pressures will prevail, representing a barrier for a price level growth:

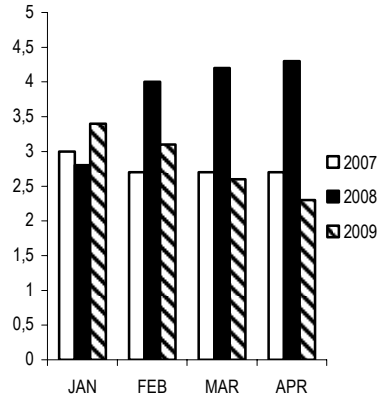
- *A fall in the prices of strategic natural resources in comparison with the pre-crisis period.* It is a typical feature of the economic recession and concurrently it serves as a natural stabilizer of the economy without the need of administrative implementation.
- *A slump in demand (external as well as domestic).* After a significant growth of the aggregate demand for domestic production in the past years, a slump in demand occurs, bringing its deflationary impacts.
- *Political pressure against raising the energy prices.*

Beside this some less important inflationary influences might occur:

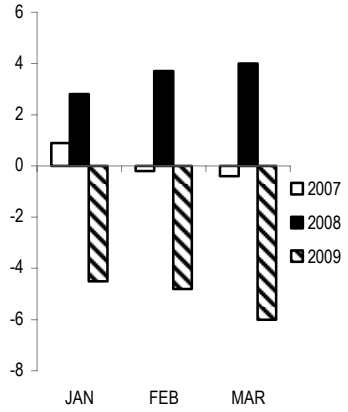
- *An absence of a domestic currency appreciation*. In the past, the anti-inflation barrier was present in the form of an appreciation of the Slovak koruna against the Euro and U.S. dollar as well. Since January 2009 such barrier does not exist any more due to the Euro adoption.
- *Price adjustment and rounding off the Euro prices.* The government adopted several measures against its appearance, however even the enterprises themselves (e. g. the retail store chains) established a co-dex with the aim not to misuse the new currency for price raising. Therefore this inflation factor will occur only in limited extent and with a time delay as well.

In the first months of 2009 a notable slowdown in consumer prices growth can be seen (graph 31); apart from January the rate of inflation was lower than in the same months of the previous year. Even more notable turnabout can be seen in the industrial producer prices development. The fall in industrial producer prices in the first two months of 2009 is in a sharp contradiction with their growth during the same months of the year 2008 (graph 32). Declining prices of the industrial producers will deepen their financial difficulties.

Graph 31
Year-on-year growth of consumer prices (%)



Graph 32
Year-on-year growth of industrial producer prices (%)



The economic recession in 2009 will be probably accompanied by a disinflation. Following our prospects, the average inflation rate measured by the consumer price index will achieve the values of the interval 1.8 % to 2.2 %. When measured by the harmonized index the values might approach 1.1 % to 1.7 %.

Forecast summary

After a period of relatively successful macroeconomic development in 2005 – 2008 the Slovak economy enters the most serious recession since its transformation depression (at the beginning of 90s). The government finds itself in a situation where it temporarily does not have enough space for execution of its initial economic-policy priorities, because the core of its current economic policy is occupied by a defense against the external negative threat. Former priorities of the national governments are temporarily displaced by the effort to minimize the impacts of the global financial crisis

and to accelerate the economy recovery. However, it would be inappropriate if this effort leads to a such change in the institutional framework that would be incompatible with a fulfillment of the long-term priorities of the Slovak economy development.

8. OVERVIEW OF SELECTED LEGISLATIVE AND ECONOMIC-POLICY MEASURES

In 2008, the National Council of the Slovak Republic has approved 142 acts, when 32 of them were the new acts and 109 of them were the amendments to the previously legislated acts.

In the field of employment policy, following the aim to solve the question of vulnerable groups and their access to the labour market, an amendment to the Act on Employment Services was approved. The intention was to adopt the new active measures targeted to the labour market, to increase employability of disadvantaged groups and support their labour market integration and to solve the problem of the lack of qualified labour force in certain regions of Slovakia. The amendment introduces for example a competence of the labour offices to determine a frequency of unemployed person's consultations; a possibility to establish social enterprises supported by the state;[21] an institute called "agent for the job positions"; some new allowances of the active labour market policy etc.

An amendment to the Act on Minimum Wage (no. 354/2008 Coll.) establishes the new mechanism of regular minimum wage increases – it defines only the bottom edge of its raising while the upper limit remains open. Based on this amendment, in case of disagreement of the social partners, the government can decide about the new minimum wage by itself. In 2008

[21] An enterprise where at least 30% of its employees belonged to the disadvantaged groups prior to their employment with a social firm.

the level of the minimum wage was set in accordance with an old mechanism to SKK 8 100.

By the amendment to the Act on Income Tax, a so-called low-income employment premium is being introduced. Employment premium is based on the principle of a negative tax when the low-income groups are not only the subjects to a tax exemption, moreover they are entitled to receive a direct state budget contribution to increase their net income. The average value of the employment premium is estimated at SKK 120 per month.

Introduction of the Euro as a new currency effective in the Slovak Republic from 1st January 2009 has raised some doubts about the rise of prices what resulted in adoption of several legislative measures. Such measures include an amendment to the Act on Prices. The amendment for example expands the state's competencies to regulate the prices of goods and services during a transition period related to the Euro adoption; tightens the obligations of sellers regarding their price records keeping etc. A new advisory body to the government was established – the Price Council of the SR which should monitor the price development and propose measures against unjust price increases in relation to the Euro adoption.

The state's regulation policy involves adoption of the *General economic interest in the energy sector* which introduces the competence of the Ministry of economy of the SR and the Office for Regulation of Network Industries to determine the prices directly and to impose obligations on the gas and electricity producers and suppliers when providing the gas supply for household consumers, gas supply purposed for production of heat for households, and electricity supply for households and small enterprises. Mentioned administrative measures – including the amendment to minimum wage act – increase regulation of the economy and represent a certain shift towards the interventionist economic policy.

Approved Act no. 172/2008 Coll. on Inadequate Conditions in Commercial Relations should ensure adjusting of a new balance in the relation between the suppliers and retailers (retail store chains), especially considering

the unfair business practices of the retails stores regarding the way how the contracts are concluded.

The primary and secondary education system's provisions have been changed by the new education act, namely Act no. 245/2008 on Education and Training. In accordance with the Act, while 70 % of an educational program (as regards the curriculum content standards) is set by the Ministry, 30 % of the program is specified by the schools themselves following their particular needs. Other changes include a reduction in the number of compulsory lessons; a possibility of individual home education (home schooling) provided by parents; a reduction of the maximum class sizes as well as limitations of the enrollment numbers for 8-year secondary schools. The new education act introduces also more strict criteria for the private school financing; increases state control over nomination on the school principals; legitimates a final year of nursery school (pre-primary education) to be free of charge etc.

The State Science and Technology Policy is legislated by the Act no. 233/2008 Coll. which amends and supplements the Act no. 172/2005 Coll. on the Organisation of State Support for Research and Development and on amending of the Act no. 575/2001 Coll. on the Organisation of Activities of the Government and on the Organisation of Central State Administration. The Act stipulates provision for the R&D centres of excellence and introduces categories of the specialised organisations of science and technology such as: science and technology parks, research and development centres and technology incubators. Their main roles should contain support of activities aimed at implementation of the applied research results and preproduction development results in the practice and provision of the science and technology services. This legislative change refers also to regulation of the Slovak Research and Development Agency (APVV).

The Treaty of Lisbon is an important document that regulates Slovakia's relations to the EU. The Slovak Republic was the 13th country of the EU which has ratified The Lisbon Treaty. The Treaty amends and supplements

the treaties establishing and governing the European Union and replaces the Treaty establishing a Constitution for Europe which has not been approved. The Lisbon Treaty for example simplifies the transfer of competencies from the member states to the Community; strengthens the power of the national parliaments and the European Parliament; decreases the weight of the small member states' voting power; implies extension of the qualified majority voting procedure to other areas; introduces a single legal personality for the Union; provides the member states with the right to secede from the Union etc.

At the end of 2008, considering the global financial crisis influence, the Government of the SR approved the package of anti-crisis measures to mitigate the consequences of the global financial crisis. The anti-crisis measures fall into the realm of fiscal (budgetary) policy and refer to the EU funds drawing down improvement, but also for example to supporting the innovations or decreasing the energy intensity.

Over the year 2008, several middle-term and long-term economic-policy documents have been adopted in Slovakia. In order to provide a stimulus for modernisation and to promote rapid and long-term sustainable economic growth, to increase social mobility, to alleviate the pressure caused by demographic change and to improve adaptability of the economy under the condition of absence of its own currency, the Government of the SR has passed a middle-term economic-policy document *Modernisation Programme – Slovakia 21*. The Programme represents a plan of the short-term and middle-term horizon reforms in the area of research, development and innovation; education; employment; business environment; regulation and transparency.

The Government of the SR approved the Energy Security Strategy of the SR. The document defines three general basic objectives of the Energy Policy of the SR: to ensure, at maximum efficiency, safe and reliable supply of all forms of energy in required quantity and quality; to decrease energy intensiveness and to ensure sufficient volume of electricity production necessary to meet demand on an economically effective principle. These objectives

are accompanied by eleven priorities, beginning with replacing of to-be-closed electricity production sources, through diversification of energy sources and transport routes, ending with support of alternative fuels in transport.

The Government of the SR has also introduced a document *A Long-Term Vision of the Slovak Society Development*, which represents the first outcome of a project *Vision and Strategy of the Development of the Slovak Society*. It is aimed to define the long-term trends, risks and opportunities for the Slovak society.

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