The efficiency of economy and living standard of the Slovak Republic in the context of EU in the years 2005-2010

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Abstract. The period of the years 2005-2010 was very rich in important external and internal events which influenced the development of Slovakia. Its economy experienced a rapid boom, but also a fall caused by economic crisis in the world. It was the industry which was an engine of the economic growth but also the reason of the fall of economy. The efficiency of the Slovak economy was gradually getting close to the average GDP per capita of the EU. This process was stagnated by the crisis. Our wages and retirement benefits are markedly lower than in the EU. The income structure of inhabitants is being deformed. Formation of people as economic as well as intellectual beings is inevitable.

Key words: economy, living standard, industry, constructing industry, economic crisis, gross domestic product, wages, pensions, income structure of inhabitants, man as a economic being, intellectual nature of a man

Introduction

The span of the years 2005-2010 was an exhausting phase, full of many important external and internal events and changes, which greatly influenced the development of Slovakia. The social changes demanded by the people in November 1989 culminated in the Slovakia’s accession to the European Union in the year 2004. It signified transition from transformation of society to its convergence in the European structures.

In the year 2008 we were invited to the euro zone and in January 2009 we extended it. At that time we were the poorest member country.

The rise of the financial and economic crisis in the USA in the year 2008 was a new event in the world economy which greatly influenced the Slovak economy and caused its rapid fall.

It was a double exchange of governments as a result of the elections to the Slovak National Council in the years 2006 and 2010, which was one of important internal factors having impact upon formation of the society and economy of Slovakia.

1. The turbulent development of Slovak economy in the years 2005-2010

1.1. Slovakia among the most growing economies

After the 5.2% growth of the Gross Domestic Product of Slovakia in permanent prices in the year 2004, in the next quarter years of 2005, our economy accelerated its year-on-year change. The year-on-year increase of GDP (in permanent prices) in the year 2005 was 6.5%.

The growth of economy was caused especially by the investments. The household consumption maintained a relatively high growth. The economics growth was being slowed down by net exports.

Having reached an average yearly GDP of 5.3% in the years 2002-2005, we got to the top of the central European region [3] and we belonged to the most quickly growing economies of the EU. The only countries developing more quickly were Lithuania, Latvia and Estonia.

In the year 2006 the GDP increased by 8.5%, which was a new record. Slovakia belonged to the three most quickly developing states, the quicker developing ones being only Estonia and Latvia. Our growth was three times faster than the average of the EU.

According to the forecasts of the European Commission, the peak in the development of our economy should be reached in the year 2007. The GDP growth (a year-on-year growth) in the year 2007

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was 10.4%. The economic growth of this period was driven by the industry. The record growth of GDP in the year 2007 supported the industrial production growth by 12.8% [10] as well as the growth of exports. Its enormous increase was caused by the new car producing factories which were starting production.

At the beginning of the year 2008, the Slovak economy slowed down its growing speed. Its dynamics fell in the first quarter year of 2008 to 9.3% and in the second quarter to 7.9%. There was an enormous slowdown of the GDP growth in the third quarter year falling to 2.5% as compared with the same period of the previous year. It was caused mainly by the weak foreign demand. The GDP growth was documented only in four countries, namely Slovakia, Cyprus, Greece and Poland. In the year 2008 the growth of Slovak economy was evidently lower than in the previous year and it reached only 6.4%.

1.2 The economic crisis in Slovakia and the beginning of its overcoming

Since we were and still are an open and to a great extent an export-oriented economy linked predominantly with EU market, it was obvious that we had to count with the consequences of the recession. The crisis started in the last quarter year of 2008. It came real in our economy at the beginning of the year 2009. The country entered the recession for the first time since the year 2000. Our recession was caused by the two major business partners of ours, namely by Germany and the Czech Republic, which were facing the fall of economy. According to some economists, besides the global economic crisis, it was also caused by the fact that we accessed the euro zone with a too strong exchange rate. In the first quarter of 2009 Slovakia’s economy suffered a rapid fall, one of the highest falls in the union, as at that time it fell (a year-on-year change) by -5.4%. It was even worse than the euro zone average, which, according to the Eurostat, in the quarter year reflected the decline of GDP of -4.8% and the EU decline was -4.5%. In the year 2009 Slovakia became one of the most quickly collapsing countries. It was caused by the previous high economic growth and a highly open economy. In the early months of the year 2009 it suffered mainly from the global crisis, but for some time also from the involuntary stoppage of production in some companies due to the cut in the gas supply. The year 2009 was the hardest one in the history of Slovakia. After the fall of economy in the first quarter year, in the second quarter year it was -5.3%, in the third quarter year -4.9% and in the fourth quarter year -2.6%. The Statistical Office confirmed the fall of economy of the Slovak Republic in the year 2009 by -4.7% in comparison with the year 2008. The Czech economy fell by -4.3%. The economic crisis caused great damage for Slovakia. The originator of that dramatic fall was the industry. The year-on-year growth of the Slovak industrial production stopped in October 2008, mainly in the automobile industry. The industry collapsed. In December 2008, the year-on-year production fell by tremendous -35.7% [7].

A sharp decline of industrial production in Slovakia continued also at the beginning of the year 2009, when there was a year-on-year fall of -25.6% in January and -24.8% in April. The automobile and electrotechnical industries suffered the most.

In spite of a deep fall of the Slovak economy in the year 2009, a switch to the growth was expected in the year 2010. That positive opinion was also supported by the economic results of Slovakia for the first two quarter years of the year 2010, i.e. 4.8% and 3.9%. The crisis started to be driven back by the Slovak industry which claimed comeback to the old times. According to the Statistical Office, in the year 2010 there was a year-on-year increase of 18.9%. In this year there was a significant increase in the automobile industry from 463 140 cars in the year 2009 to 576 000 cars. The industry was driven by demand from abroad. [9]

1.3 The convergence of the efficiency of the Slovak economy to the EU average

In the year 2005 Slovakia was the fourth poorest country of the European Union 25. Generation of GDP measured by the purchasing power standard per inhabitant of Slovakia represented only 57% of the average of the GDP. When comparing the efficiency of our economy with the EU average 15, the figure was even lower, approximately half of it.

There was a high disparity of Slovakia in generating GDP per capita in the parity of purchasing power in comparison with the most developed countries of the EU. The highest GDP generations per capita
were reached by the following countries: Luxemburg 251% of the EU average, i.e. 4.4 times higher than Slovakia, Ireland 139%, i.e. 2.4 times higher than us, Holland 126%, i.e. 2.2 times higher than Slovakia. The average GDP generation of the 12 members of euro zone reached 106% of the EU average, i.e. it was 1.85 times higher than the Slovak one.

In the year 2005, as far as the economic effectiveness is concerned, we were behind some post socialist states which were members of the European Union. As for our neighbours, the Czech Republic with her 19,500 US dollar GDP per inhabitant in the parity of purchasing power was ahead of us with our 16,300 US dollars, i.e. 83.6% of the Czech level. Hungary was at the same level as us. Poland reached the level of 13,300 US dollars, i.e. 81.6% of Slovakia.

Our shift to the fastest growing economies in the union fastened approaching out GDP per inhabitant to the average GDP per inhabitant of the European Union faster.

In the period of five years, i.e. in the years 2004-2008 Slovakia considerably approached the EU average in generation of GDP per inhabitant. According to the statistical office Eurostat we „climbed” to 72% of the EU average. Despite high economic growth in those years Slovakia was at the end of the second ten of the European twenty seven states in the scale of „advancement”.

In the year 2009 the efficiency of the Slovak economy stopped approaching the EU GDP average. The main reason was the crisis. According to the prognosis of real convergence of the states 27, which was announced by the statistical office Eurostat in the year 2009 the Slovak GDP per inhabitant decreased from the preceeding 72.2% to 69.3% of the EU average. It also pointed out that our shift away from the union average was the first one since the year 2000.

The material issued by the National Bank of Slovakia stated that Slovakia could forget about the quick process of reaching the economy of the European Union. But it expressed its expectations to reach the union, and that process would not stop, it would only slow down.

2. The living standard of the Slovak Republic in the EU is considerably lagging behind

In the second quarter year of 2005 as compared with its first quarter year, the increase of household consumption was slightly accelerated. It was caused mainly by the long-lasting growth of incomes of inhabitants. The average wage reached te level of 16,736 SKK (555.6 euro), i.e. it increased in the nominal value by 8.2% and the real value b 5.6%. An average gross monthly wage in the year 2005 was 17,274 SKK (573 euro).

At the time the regional differences in average monthly wages according to the counties were increasing. The highest wage was in the Bratislava county, i.e. 134% of the Slovak average and the lowest one was in the Prešov county, only 77.2% of the Slovak average.

In the lst quarter year of 2006 it was for the first time that the average salary in Slovakia reached the level higher than 20,000 SKK, exactly 21,131 SKK (701 euro). In average, in that year the gross income of workers was 18,761 SKK (623 euro), which was over 8% more than in the year 2005. The real wage increased by 3.3%.

In the year 2006 the profits of companies were rising more quickly than incomes. While the companies earned almost by 26% more than in the year 2005, the wages grew three times more slowly.

The first quarter year of 2007 started with the lower average wage than the one of the fourth quarter year of 2006, when, in the first quarter year, the amount of 18,511 SKK (614 euro) was reached. But the fourth quarter year of 2007 reached as high level as 22,925 SKK (761 euro). The average wage for the year 2007 was 2,146 SKK (669 euro). The real growth represented 4.3%.

The average nominal wage of the year 2008 rose to 21,781 SKK (723 euro), i.e. compared to the year 2007 by 8.1%. Its real growth was 3.3%

The internet survey on the page www.nase-platy.sk of September 2008 showed that almost 47% of the Slovaks were no able to put aside even one cent monthly, i.e. half of the Slovaks just managed to live on their income by the next month. According to the analysts it was conditioned by low wages as only a small number of people were earning the average wage and more and more household got in debt.

At the end of the year 2008 people could feel the impacts of the crisis on their incomes. According to the Statistical Office of the Slovak Republic, in October the wages and salaries were rising more slowly
than the prices. While the rise of wages and salaries in September represented 9.5%, in October 2008 it was only 4.4% which was less than the growth of inflation. The growth of incomes slowed down.

In May 2009 wages and salaries in industry fell year-on-year for the first time since February 2006. The average nominal wage decreased in comparison to May 2008 by 1.3% and the real wage decreased by 3.4%.

The poor were the most depressed. The poor region inhabitants lost the most jobs. The employed in the poor regions got the lowest wages. [8]

The average wage exceeding the Slovak average, which in the first quarter year of 2009 was 710 euro, was earned only in the Bratislava county. In average, people there were earning a gross income of 960 euro monthly. They did not experience the impacts of the crisis so much.

The poorest region was that of the Prešov county. Not only was there the highest number of the unemployed, but those who were employed were earning the least of all counties. In average only 536 euro. It was more than 40% less than in the Bratislava county.

The data of the Statistical Office of the Slovak Republic indicated that in spite of high unemployment and prevailing crisis, in September people working in most branches of economy earned more than a year ago. One of the main reasons was the increasing unemployment which is a paradox. The companies were making mostly workers with the lowest wages redundant. Thus the wages could statistically be rising. Another reason could be the tendency of companies to reward those who had more work to do.

Although the economy in the third quarter year of 2009 fell, the average salaries were rising. The growth was slower than at the beginning of the year 2009, but it continued to be above zero.

The average wage in Slovakia for the year 2009 increased by 3%, i.e. to 745 euro. Wages had not been rising at such a slow pace for 20 years. It was claimed that „if there were not the generousness of public administration and playing with the statistical figures, the growth of wages and salaries would only be slightly above zero“. As far as the development of the average wage of Slovakia since the year 2005 is concerned, it rose in the nominal value from 525.29 euro in the year 2004 to 722.51 euro in the year 2009 (in the third quarter year), i.e. by 37.5%. The real growth of average wage for that period was 18.5%. In the year 2009 the gross average wage was 744.50 euro. Fewer than 55% of workers were earning smaller amount. In the year 2010 employees were earning 769 euro monthly.

As far as development of the average hourly wage of the employees in Slovakia is concerned, it rose since the year 2005, i.e. in the years 2005-2008 1.59 times. There was a faster growth than in the neighbouring states. When compared with the level of the developed states, we were still the last. [5]

According to the average wages in the EU for the years 2002-2008 calculated by Dalibor Holý of the Czech Statistical Office, who did not put the wages in relation with the living costs in individual countries, when comparing our average hourly wage per person in the year 2008 with the ones of the neighbouring post-socialist countries, Slovakia ranked the last with the amount of 4.13 euro. It was 4.33 euro in Hungary, 5.2 euro in Poland, 5.65 euro in the Czech Republic (the best of the former socialist countries).

There are several times larger differences when comparing the average hourly wage of Slovakia with average hourly wages of developed states of the EU. The largest disparities are compared to the following states: Denmark 24.62 euro, Ireland 20.41 euro, Great Britain 18.44 euro, Sweden 17.40 euro and Austria 14.03 euro.

There are also demonstrable differences in the level of our remuneration with the foreign companies when comparing the mother country and their branches in Slovakia. For example the Slovak-German Commercial and Industrial Chamber made a research of the salaries with almost 11,000 working positions in 51 German companies in Slovakia for the period from July 2007 to June 2008. According to the study on remuneration (Klenbaum SNOPK) the workers in Germany earned six to seven times more than their counterparts in the branches in Slovakia. The top managers had four and a half up to five times higher salaries at home. [2]

The great disparity in the level of remuneration in Slovakia in comparison with the developed countries of Europe is also documented by the minimum wage, the grounds of which are also being
discussed in Slovakia. The minimum wage in Slovakia rose since the year 2004 from 6,550 SKK (215.8 euro) to 295.5 euro in 2009 and 307.7 euro in 2010. It is one of the lowest in EU.

The minimum wages in some advanced countries of Europe are several times higher. In Luxembourg it is 1,682 euro, i.e. 5.5 times higher than our minimum wage, in Ireland 1,499 euro, i.e. 4.8 times higher and in Belgium 1,440 euro, i.e. 4.7 times more. [6]

A very numerous but socially much handicapped group of people in our society is most of the retired people. As at 31 December 2006 there were 916,000 retired. Recently there are roughly 1.25 million pensions paid.

In the year 2004 an average monthly pension was 7,738 SKK (256.8 euro), which represented 44.20% of the average wage of that time. 21,741 pensioners received the pension under the level of 4,980 SKK (165.3 euro), which was considered as a minimum pension or the life minimum at that time.

The level of the pension as at 31 December 2009 was 339.73 euro (10,234.7 SKK) and in November 2010 352.37 euro (10,615.5 SKK).

The crisis was also reflected in the incomes of people who had retired. It resulted in the rise of inflation of only 2.4% and the rise of wages of 3.7% and therefore as at 4 January 2010 the pensions increased by 3.05%, i.e. 350.09 euro (10,546.8 SKK).

There are approximately 900 thousand pensioners having the pension lower than 372 euro. About 350 thousand pensioners are above this level. The average monthly pension in EU 27 is 1888 eur, i.e. 5.4 times higher than in Slovakia.

The Trade Union Organisation of Slovakia takes pensioners for one of the most endangered groups of society. In spite of that, in the crisis period, they were not pushing forward their pension concepts. The TUO representative characterized this group of people as follows: Not taking into account those whose pensions are high, the majority of pensioners should be admired for their being able to live on the money they are getting.

A great turning point in the recent paradigm of capitalism in Slovakia is the growing deformation of the income structure of inhabitants and its unfavourable social impacts.

On one hand the recent society is creating people. The middle wave of inhabitants in Slovakia is becoming more poorer.

On the other hand it supports rise of a group of people who do not suffer due to the crisis, on the contrary they misuse it increasing their income and wealth.

The examples are the C.E.O.s in the companies with state ownership who gained millions of crowns in the crisis period. They were earning several times more than the members of Parliament.

In the period of crisis in the year 2009 there were seventy new representatives of the dollar millionaires, thus increasing their number to 2770. Moreover it is outraging that the number of the dollar millionaires in the world has got back to the situation before the crisis. From this point of view we are „poor” as we have not got to the former number of 3,500 millionaires which was already exceeded in the year 2007. [1]

According to the journal Forbes, in the year 2009 the place in the scale of billionaires was reached for the first time, although it was very narrow, by a big businessman of Slovak origin (Andrej Babiš), who ranks the 937th in the world with the estimated property of 1 billion US dollars.[12]

It is sad, if not cruel, that some of our journalists and even some so-called economists are sorry that there are few millionaires or billionaires in Slovakia and they feel it their duty to contribute to the growth of this „golden” group of the rich in our country, whilst many of them got rich due to their dishonest activities to the detriment of the work of the common people. These servants of capital are doing their best to support the luxury of the rich but they are not interested in the mass of citizens who live hand-to-mouth and who form the majority of the society.

CONCLUSION

In the scale of one hundred best countries in the world published by the American monthly Newsweek and published in Slovakia in August 2010, the research of which reflects a long-term trend of development of these countries, the first place was held by Finland, the second one by Switzerland and the third one by Sweden.
Slovakia has ranked the 31st which was due to the fluctuations of the economic dynamics in this decade. According to Newsweek our neighbours the Czech (the 25th place) and the Poles (the 29th place) were better on. Hungary was the 33rd. [11]

We also reached a bad position in the scale of global competitiveness of the World Economic Forum, which published the result of the end of April 2010. Slovakia was the last ever since it had been included in the evolution. Out of 139 countries we reached the 60th position, thus falling the most since the year 1998. In comparison with the year 2009 we fell by 13 positions. We had the worst ranking of the V4 countries. The main reasons of the fall to the lowest position so far were corruption and connections. [4]

An inevitable prerequisite of the future advancement of Slovakia is first of all fast sustainable economic growth. Its most important condition is to create an effective model of socio-market economy which is still absent in our country. But it must be harmonized with the relevant jurisdiction which must be respected consistently.

The efficiency of companies and economy is primary for the development of society but it is not sufficient for a sound and human society. An organic dimension of modern paradigm of the world economy must be the ethics. The results of economy ought to serve all, not only the selected. Therefore the activity of the companies must meet the requirements of their social responsibility.

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