JÁN BUČEK

THE FINANCIAL AND ECONOMIC CRISIS IN SLOVAKIA – ITS SPATIAL ASPECTS AND POLICY RESPONSES

1. A HISTORY OF SOCIAL AND ECONOMIC DEVELOPMENT AND ITS REGIONAL PATTERNS

The Slovak economy has had to undergo a large scale transformation to integrate successfully into the new globalised economy. However it has suffered from its heavily industrial past, with a poor structure (heavy industry, machinery and armament industry, chemical industry) and reliance on markets of former socialists countries. The decision to implement a radical transition model towards a market economy in post-socialist Czechoslovakia immediately after 1989 (by the Minister of Finance in Czechoslovakia at that time, V. Klaus) had painful consequences in Slovakia with many uncompetitive enterprises folding and a new phenomena emerging – unemployment. Large scale privatisation was also implemented, often with very mixed results.

During the first period (1993 to 1998) of the existence of the Slovak economy, several issues influenced the economic and social situation (well documented in MESA 10, 1998). An important factor was the controversial Prime Minister at that time, V. Meciar. A more general problem concerned the principle of trust to the new state, its stability, its political culture and institutions abroad. Furthermore there was the need for restructuring, improving economic competitiveness and introducing a new and stable currency, combined with a need for economic growth and political success. As a result economic growth was based mostly on increasing internal and external debt, as well as extensive financial expansion of the central state. Due to the absence of restructuring and foreign investors, the unemployment rate oscillated at about 14%. Central government went on with non-transparent privatisation of companies to its managers, or party protegés (with almost no privatisation to foreigners, or foreign legal entities). Large scale state investments culminated this period (1997–1998), causing problems with the high deficit of payment balance, growing foreign debt, worsening in the field of public finance in general. This period also saw problems with so called „bad credits“, and some banks started to have problems which later led to bankruptcy. In terms of restructuring, modernisation and economic reform, this period was wasted. By the end of the period citizens began to the problems and need for change not only in the political field but also in economic policy approaches.

A more consolidating and reform-oriented period followed from 1998 onwards, when a new centre-right government governed for two consecutive periods. The first few years were focussed more on consolidation and macroeconomic stabilisation with less attention being paid to reform the business environment. Immediate efforts were made to decrease credit rates and stabilise the Slovak koruna exchange rates. The poor situation in the business sphere was not an easy or short-term challenge. Foreign investment inflow grew slowly, with the exception of some privatisation deals in favour of foreign corporations. Export potential also improved slowly. The central government faced large debt payments and the public finance deficit decreased to its worst level below 10% of GDP (2000). Citizens suffered a further decrease in real wages and for a short period higher inflation as well. An important step was the start of banking sector "cleaning" and privatisation. However low economic growth dynamics during 1999–2000 confirmed the need for major reforms and inevitable large scale changes. Preparations began quickly, but implementation proved not such an easy task. The centre-right coalition made use of its second term to make far-reaching reforms in the country and its economy. The main reforms included public finance, public administration and tax reforms (its symbol was the implementation of a flat tax rate of 19%). More stable confirmation of the positive effects of reforms started to be visible, particularly after 2004 – GDP growth increased and unemployment decreased. The country started to be attractive to foreign investors. A better business environment, political stability and the perspective of joining the EU and NATO supported such optimistic visions. Increased inflow of foreign direct investment and a privatised, healthy banking sector, started to fulfil its positive role in the economy. The exchange rate that had exceeded 44 SKK/EUR (1999) started to improve and achieved 40 SKK/EUR in 2004.

The most impressive period of economic growth came after 2004, each subsequent year showing GDP growth of over 6% (on a year to year basis), reaching a peak in 2007 (growth 10,4, see Figure 1). Data on unemployment levels (Figure 2) gives a similar picture. Good predictions prevented financial and economic crisis. This positive period in the development of the Slovak economy was accompanied by the new social-democratic government of R. Fico. He and his political party won the 2006 parliamentary election promising to pay more attention to distributing the economic success of the country among its citizens. In fact he has not intervened substantially in the general economic framework. Nevertheless he has dealt much more extensively with social affairs, wages, welfare benefits and pension issues. The main success of this government has been preparing the country's economy for the Euro, including fulfilling all limits and tasks. There were almost no discussions about this issue, and the Euro was adopted as the national currency in Slovakia in 2009.

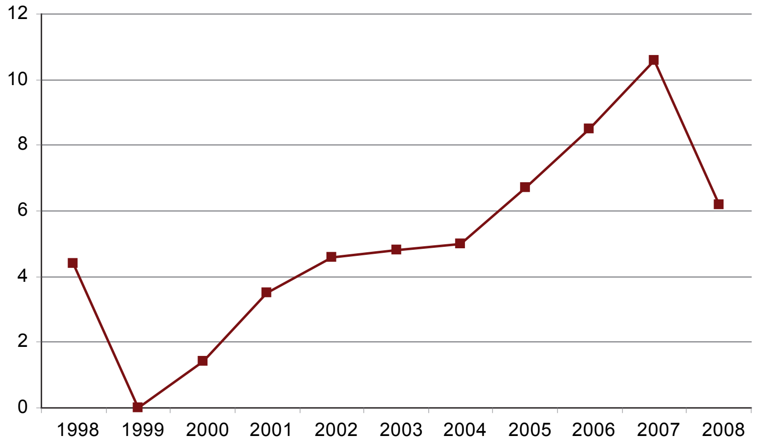

Figure 1 GDP growth 1998–2008 (in %, year to year)
Source: Statistical Office of the Slovak Republic. December 2009.

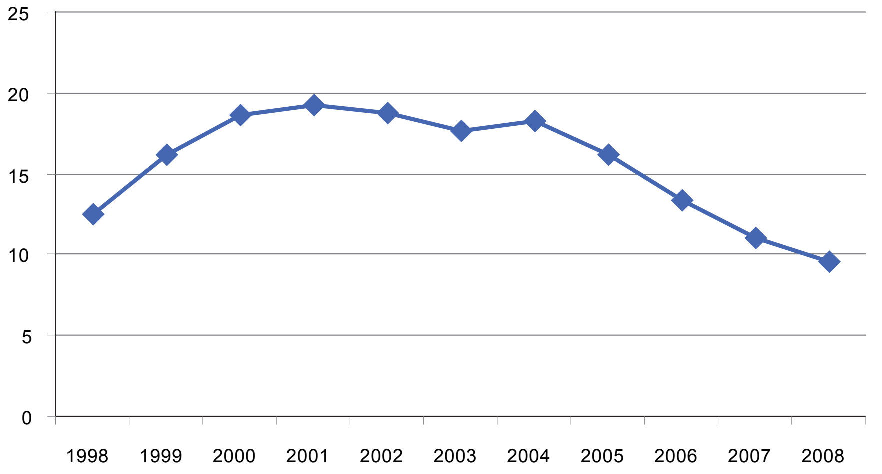

Figure 2. Unemployment rate by LFSS
Source: Statistical Yearbooks of the Slovak Republic 1996–2008. Statistical Office of the Slovak Republic.

The current regional differentiation in Slovakia is the result of long term processes. The beginning of the current regional development pattern can be traced from the second half of the 19th century, with the building of railway lines between Bratislava – Žilina and Košice – Bohumín (in the present Czech Republic, e.g. Korec, 2004). During later phases of development, areas alongside these transport axes were always the most developed. It was the most attractive territory for investments in industry during interwar Czechoslovakia. During the socialist period, an attempt for a more balanced distribution of development partly modified this traditional pattern. However, it was more artificial, respecting centralist political will, often not linked to local potential. A strong orientation on industry predominated, producing uncompetitive products on a wide scale. Smaller towns emerged, and regions dependent upon a few industrial plants. Large territories of the present Slovakia were without any larger urban centres (e.g. above 50 thousand inhabitants), and thus without larger and more diversified local economies. One new differentiation factor was the building of a motorway, once again connecting the most developed region again alongside Váh river.

These inherited features of regional, settlement and transport spatial structure substantially influenced regional differentiation after 1989. The structure was also supplemented by a newly emerging east-west gradient. Thanks to their location on the western border – a border with developed Western Europe, with Austria and later with the well-developing Czech Republic (including traditional economic links), western regions were in better situated. Western Slovakia and especially Bratislava took on the role of a gateway region for foreign investors. They started to use the potential of Slovakia in its most suitable and accessible area in Western Slovakia. Many small local economies depending on obsolete factories collapsed at least for a certain period. Following Korec (2005), we can not forget one new important factor - the large Roma communities concentrated in central and eastern Slovakia. The combination of old and new factors deepened the differentiation among regions. There were winners and losers under the new post-socialist market conditions. West and north-west regions clearly appeared better off, while regions in south-west and north-east of the country suffered higher unemployment and loss of investments. One group of less-developed, backward districts were concentrated on along the eastern side of the axis between Nové Zámky (south west Slovakia) and Bardejov (north east Slovakia), with the exception of areas around Košice and Prešov. This regional pattern was valid until the period of economic growth in 2003–2004. The situation then improved towards the west of Slovakia, including its southern part (in this case partly thanks to a growing economy in neighbouring Hungarian regions). Nevertheless, the situation remained poor in the marginalised regions of south-central Slovakia and north-east Slovakia. Despite the existence of tools in favour of regional development in backward regions, more state aid for investments was again directed to more developed regions (see e.g. Uramova, Marcinekova, 2008).

2. THE CURRENT CRISIS FROM A NATIONAL PERSPECTIVE

We can conclude that **crisis in Slovakia is above all a response to the external global economic crisis.** Potential internal reasons leading to crisis phenomena were minor, and to begin with Slovakia "profited" from the positive reforms made at the beginning of the decade by the pro-reform oriented M. Dzurinda governments. The tight budgetary behaviour in the few years before the introduction of Euro in 2009, substantially limited risks in the public sphere and finance. Banking and financial sectors were transformed and can be evaluated as more conservative. Nevertheless, the Slovak economy as a small and very open economy can hardly avoid the scope of a crisis if it concerns the global economy or its important business partners. As such, it is in a very vulnerable position during a crisis situation, expanding in external development. Strong dependency on export was combined with acceptance of the Euro, which brought advantages as well as risks. Structural conditions also influenced the decline of the Slovak economy to a large extent. A certain delay in the expansion of the crisis was caused by predominant economic relations with EU countries. Nevertheless October 2008 can be considered as the starting point of the crisis, as reflected by basic macroeconomic data (Figure 3 and 4). Unfortunately the economic crisis has been multiplied by the so-called "gas crisis" caused the stopping of the gas supply from Russia throughout the Ukraine in January and accompanied by the regulation of energy consumption in Slovakia, thus limiting operations in the business sphere at the beginning of 2009. Finally, we may say, with some caution, that initially the economic crisis in Slovakia has been a predominantly industrial crisis.

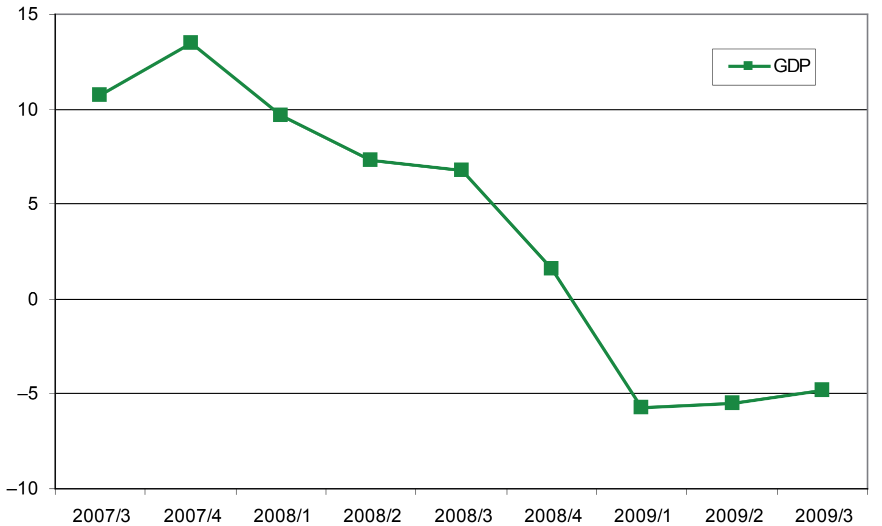

Figure 3. Quarterly GDP development on year to year base
Source: Statistical Office of the Slovak Republic. December 2009.

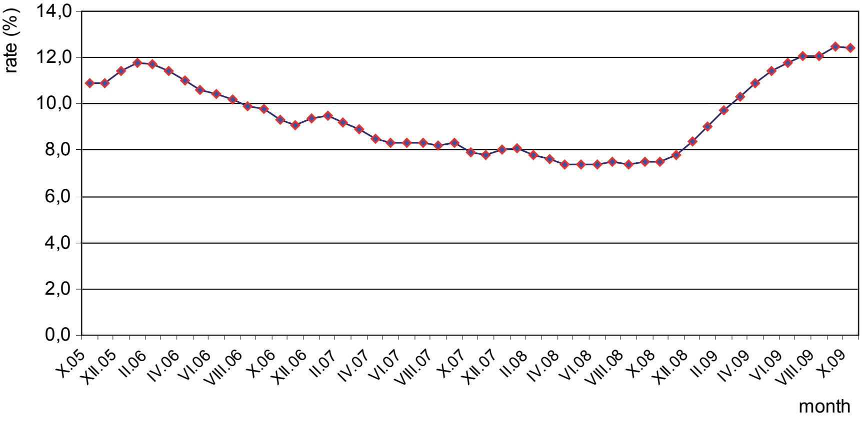

Figure 4. Registered unemployment rate October 2005 to October 2009
Source: Office of Labour, Social Affairs and Family. November 2009.

The financial sector in Slovakia, as one of the most sensitive sectors on a global scale, cannot be counted among the sources of crisis in Slovakia. As mentioned earlier, the banking sector was consolidated a few years ago and fully privatised. Slovak banks kept up more conservative behaviour, following its previous experiences with bad credits during the transition period. This internal memory of banks combined with know-how from its foreign owners as well as more conservative Slovak bank customers meant that there were almost no problems. Customers of Slovak banks were not keen to take advantage of more advanced, oversophisticated financial products. Here we should mention an important factor that limited mass interest in new financial market products. Over two hundred thousand Slovaks lost about 48,4 bln SKK (1,6 bln EUR) in so-called non-banking operations during the first years of the decade. These bodies, which operated outside banking supervision and/or similar licence, attracted a large number of savers by mass marketing, and promised extremely high returns (the most known were companies like Horizont Slovakia and B.M.G.). However, the substance of these institutions' functioning followed the logic of so-called "pyramidal" games (or "Ponzi" scheme). This widely discussed and media-covered cases substantially increased the risk awareness of citizens. At the same time, the mortgage market is young, expanding only in the last few years, but combined with reliable payment discipline. No problems have been reported related to financial crisis in Slovak banks caused by excess bad credits or mortgages, and there has been very limited trading with „toxic" financial products. The increase in mortgage problems has been very modest and despite debates, specific measures have not been adopted. Nevertheless, the profits of Slovak banks have decreased considerably compared to 2008 (e.g. all three main banks reported a profit decline for the first half of 2009, compared to the same period of previous year). This is mostly due to loss of profitable business in currency conversions, as the country started to use the

Euro, and more prudent approaches in risk assessment, visible in the increasing risks cost of banks (e.g. reported by Slovenska Sporitelna – the largest bank in Slovakia).

One of the internal risks emerged **as the unexpected effect of a stronger exchange rate of the Slovak Crown against the Euro and full use of the Euro since January 2009**. The strengthening of the SKK was rapid and reflected positive economic development. The positive effect of the Euro has been welcomed by citizens, though less so in business circles, although in principle it was generally accepted. An unexpected effect emerged after the crisis expanded to CEE. The floating local currencies of neighbouring countries, their depreciation and the stable Euro in Slovakia had altogether contradictory effects. Besides a positive stabilisation effect on the economy in general, there emerged accompanying effects in lost competitive advantages. One of the most visible has been the rapid increase of shopping tourism, easily available to almost all Slovak citizens. This has caused a decrease in retail turnover, accompanied by a decrease in related tax incomes (VAT) and a reduction of employees in retailing and wholesale. This situation started to be partly reversed after a strengthening of neighbour states' currencies and tax systems changes, plus the adjustment of prices in Slovakia to a more competitive level.

Extreme export dependency is an inevitable feature of small economies such as Slovakia. The decrease in export was 25,1% for the first three quarters of 2009 according to available preliminary data. We can find signs of positive trend when focusing on monthly data between October 2008 until September 2009 only for last two months (e.g. in both months decrease of export only at about 15%). Similar development is evident in imports. The total balance of foreign trade is 954 mil. EUR surplus for the first three quarter of 2009. There has been no chance for economic improvement in Slovakia, while the crisis 'flourishes' in the economies of west European and neighbouring countries. The highest decrease in exports was documented for Germany and the Czech Republic (in both cases more than 30% during period January to May 2009).

Other internal problems influencing the depth of the crisis concern the unbalanced structure of industry, especially related to exports. The most important industries in Slovakia are the manufacturing of transport equipment ("car industry"), basic metal and metal products, computers, electronics and optical equipment ("electronics") and rubber and plastics (following NACE data on turnover for 2008). Nevertheless, with the exception of electronics, the rest of the most important branches are related to a large extent to car production (e.g. metal plates or tyres). This structural imbalance and dependence on export to other countries has resulted in a serious crisis situation in the Slovak economy. The Slovak economy in fact inherited metal industry (now especially US Steel Slovakia) and heavy chemical industry as traditional national industries (combined with the oil refinery Slovnaft). During its restructuring after 2000, industry began to move forward firstly in car manufacture (VW, Pegueot-Citroen, Kia), only later developing the second new "pillar" of its industry – electronics (Sony, Samsung, Panasonic). Nevertheless this second pillar has not had such large macroeconomic influence as the car industry and related branches.

As a result of the slowdown in demand abroad, Slovakia has faced a substantial drop in its industrial production. Its growing phase finished as early as September 2008. Since than, industry plummeted until January and February 2009 (Figure 5). Small regeneration is visible only in June 2009 (the short-term increase in March 2009 is related to a lower comparative base in March 2008). Slovak industry produced about one quarter less during first half of 2009, compared to the same period of previous financial year. More promising seems industrial production growth observed in August and September 2009, indicating possible stabilisation of the production on higher level, but still behind the pre-crisis production level.

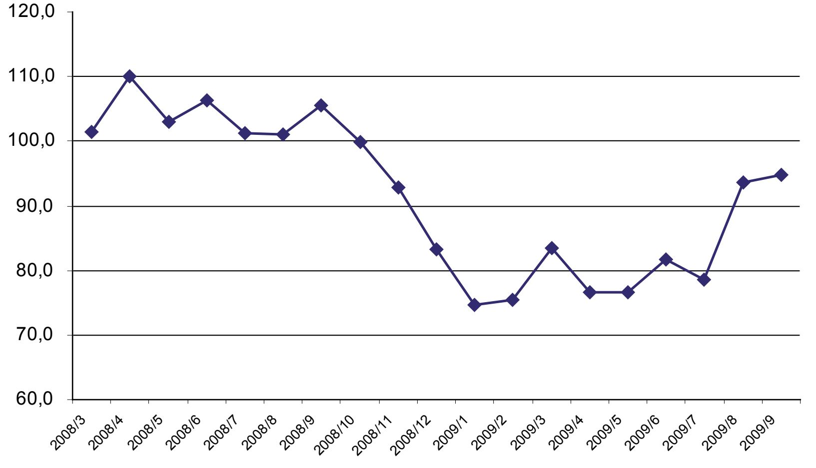

Figure 5. Industrial production index

Source: Statistical Office of the Slovak Republic. November 2009. (data adjusted according to number of working days, 100 = the same period previous year)

The development of Slovak industry is also well visible in Figure 6, which presents turnover according to the key branches of industry. It documents the deepest collapse during the period December 2008 – February 2009. Industry stabilised afterwards at a much lower level and shows very slow and unstable signs of improvement until summer. Much sharper increase in leading industries production is evident only since August 2009. However, key industries, such as car production, metal industry and electronics provide different trajectories. The most optimistic seems to be development reflected in transport equipment production, however induced to a large extent by a wave of car buyers' support. There is minor improvement in the metal industry and in rubber and plastics production until September 2009. The good condition of electronics worsened especially during second quarter. However, it seems that this sector follows its traditional production cycle (main products are TV sets and LCD monitors produced especially during 3Q for the "Christmas" market) and is not seriously hit by crisis in Slovakia. It is also the effect of the latest investments into new capacities in this sector.

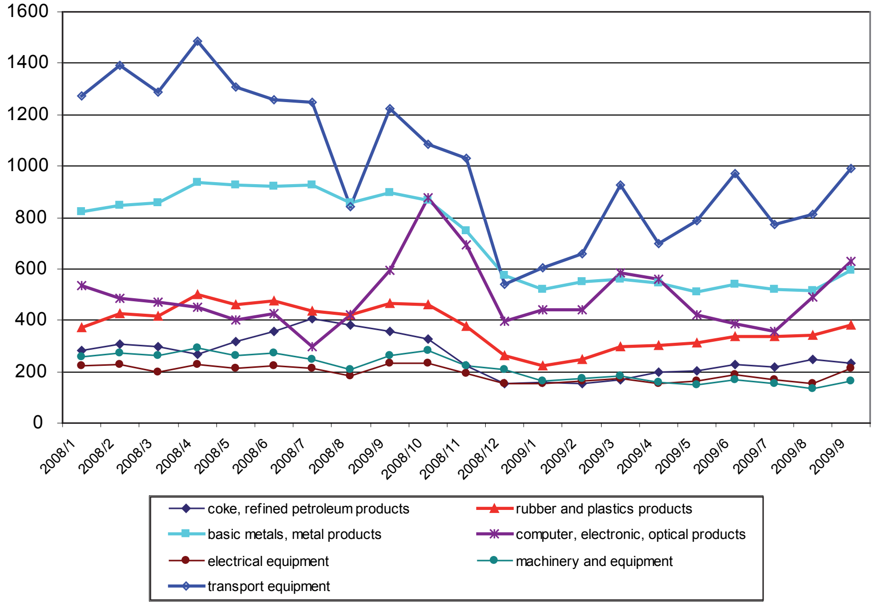

Figure 6. Turnover development according to main branches of industry (mil. EUR)
Source: Statistical Office of the Slovak Republic. November 2009.

It should be pointed out that crisis affected smaller contractors especially and to large multinationals to a lesser extent. While the latter reduced their workforce to a certain extent (by cutting the flexible part of employment, so-called "contract workers" and motivating employees to leave by extra bonuses), small companies had to solve difficulties by reducing workplaces. Between September 2008 and September 2009 Slovak industry lost almost 110 thousand of workplaces (18% of total employment in industry). In many cases companies reduced working hours, or introduced a temporary halt in production. Some of the problems in the car industry are related to production of the higher segment of car market which previously enjoyed a good position e.g. on the US market (in particular, the VW Bratislava plant is mostly specialised on the large off-road car VW Tuareg, Audi Q8, Porsche Cayenne).

So far, the situation in the construction industry and real estate sector has developed differently. Basic data on the construction industry confirm its relative resistance to crisis. Surprisingly, the construction industry has been able to absorb and sustain workforce until September 2009. During first three quarters of 2009 the employment in construction had been higher comparing to same period of previous year. For example, construction production also was almost the same in June 2009 (99,8), comparing to June 2008. This indicates the positive influence of building projects already underway, as well as the stable support of public projects under construction. On the other hand, the real estate market reaction to the crisis was much more dramatic. Demand and subsequently prices of real estate property fell rapidly. According to Narodna Banka Slovenska monitoring and evaluation of average prices for housing, they decreased from 1549 EUR/m2 (2Q/2008) to 1322 EUR/m2 (3Q/2009). This average does not reflect the decrease of prices exceeding 20% in some segments of the housing market reported by real estate agents. Since September 2008 the number of new mortgages was very low compared to previous months (first half 2008 – 12545, second half 2008 – 6379, first half 2009 – 3268, Source: NBS). This reflects prudent criteria introduced by banks. They are more careful in evaluating potential mortgage customers and have changed the criteria for approval of mortgages which now do not usually exceed 70% of the real estate value (previously bank products on this attractive market allowed 100%, or even 120% financing). The crisis has hit developers in the field of their new and planned activities. They now face difficulties in finding customers for their already completed apartments or other commercial buildings. Their opportunities to finance new projects has decreased substantially. Banks now require a much larger portion of their own resources, in the case of commercial projects this is usually combined with documents proving interest of future customers. Some of them, facing financial troubles, have sold their projects under construction and postponed the start of new projects. Such development is carefully observed and can caused difficulties in the construction sector in the near future, when demand for construction works will reduce. Turning point seems to be September 2009 when employment in construction has been lower on year-to-year basis for the first time in 2009, and turnover in similar comparison had been 13,4% worse. Further decrease in employment is hardly to avoid. Such decline in turnover, accompanied by less new credits and mortgages indicates troubles in construction with approximately one-year delay comparing to many other industries.

Within other sectors crisis has most seriously hit activities in restaurants, travel agencies and wholesale. A 20–30% decrease on a year to year basis is reported for the first three quarters of 2009 in these businesses, when measured by employment as well as turnover. Transport and storage activities have been influenced negatively in a more selective way, with the most critical developments in railway and water transport. Both earning mostly on transporting voluminous products, as well as cars, they have lost an important share of their activities. This has caused very serious difficulties for the almost monopoly state rail transport company in Slovakia ZSSK Cargo. Being in permanent and long-term economic difficulties multiplied by the decrease in the transport needs of the economy, the central government has approved 133 mln EUR extra support to this company (officially, the government lent this sum, but there is almost no hope that the money will be returned to the state). This is the largest support package provided to a single company in Slovakia during the crisis up to now.

A different, better picture of the Slovak economy can be witnessed in other market services, accommodation, retail trade and sale. They report only minor decrease in employment below 10% on year to year basis in September 2009. However, there are no signs of improvement and employment is permanently slightly decreasing. The development in these sectors is accompanied by much deeper decline in turnover, comparing to decrease in employment. We can estimate only minor chance to increase employment in these kind of economic activities, and further layoffs are possible. The employers will not be able to sustain current employees, if economic situation will not improve in larger scale

The sector of information and telecommunications had been for a long time the only one providing more positive information. These activities reported a 9,7% increase in turnover comparing the first halves of 2008 and 2009. This improvement reflects the positive development in motion pictures and TV productions, but above all in information services, including software production and advice. Nevertheless, since 2009 summer months also this sector documents minor year to year decrease in turnover and employment as well.

It is not easy to make predictions with regard to overcoming the crisis. The only available data provides an indicator of economic sentiment. It shows slightly improved expectations for the consecutive months since May 2009. The indicator of economic sentiment achieved 79,4 point in November 2009, compared to 70,2 points in July 2007, or to its the lowest value of 66,3 points in May. This positive trend reflects increased trust in improvement of the economic situation. However, all partial components of the economic sentiment are still deeply below long-term average. From this point of view, situation in industry is evaluated better comparing to retail trade and services (November 2009).

3. REGIONAL PATTERNS

There are not enough reliable indicators available for a more balanced picture of the regional dimension of the crisis in Slovakia. The main source of information is labour market data concerning unemployment, or free work places. We can use them to provide a basic assessment at the level of regions (Slov. kraj) and districts (Slov. okres).

The increase in unemployment is clearly visible in all regions as documented by data from June 2008 to October 2009 (Figure 7). When focusing on the first period, which covers the second half of 2008, the highest increase emerged in the Prešovský region (more than 1,5 percent). The sharpest increase in unemployment in all regions can be observed during 2009. Although the picture of the spatial distribution of unemployment seems unchanged, it can not be simplified. The response of regions to the crisis is not proportional. Surprisingly, the three regions faring best regarding unemployment (Bratislavský, Trnavský, Trenčianský) more than doubled their number of unemployed, while two regions typified by the highest levels of unemployment (Košický, Banskobystrický) increased their unemployment by less than 40 per cent (based on registered unemployment data). At the same time, while in June 2008 three of the best regions according to unemployment contributed less than

15% of the total number unemployed, in June 2009 their share was almost 20% (19,6%). It confirms that these regions are not immune to the crisis. The most visible is the case of Trenčiansky region, since the 1930s, the most traditional industrial region in Slovakia, covering the middle part of river Váh valley. Despite its restructuring it still comprises more sensitive branches of industry such as machinery, car components, textile and shoemaking. Trenčín is also the smallest regional urban centre, with a less diversified and service-based economy. It altogether makes this region more vulnerable. The crisis pressure in Bratislavský and Trnavský region is balanced by more jobs in business services, or electronics, not to mention typical employment in the public sector in capital cities. The opposite case is provided by the Košický region. Surprisingly its response to the crisis is better than one would expect. Over the years this region, mostly thanks to city of Košice, diversified its economic base, and attracted companies in the business services and IT sector. The effect of the local economy, historically too dependent on the steel industry (or industry in general), is partly reduced. It also includes one of the largest Slovak and industrial park in Kechnec, which is still expanding (despite departure one of the largest foreign investor Molex).

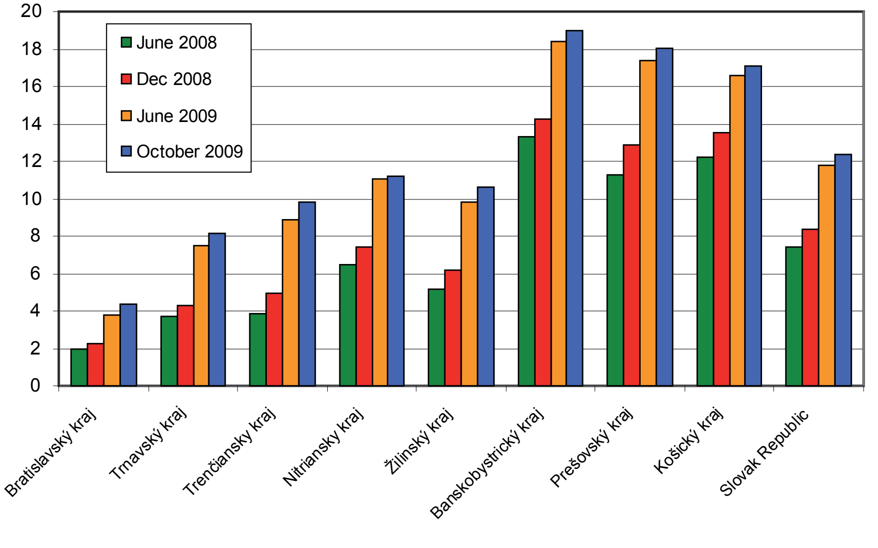

Figure 7. Unemployment rate according to regions
Source: Office of Labour, Social Affairs and Family, November 2009.

The three worst regions from the point of view of unemployment are the same – Banskobystrický, Prešovský and Košický. Their situation as a group is much worse than other regions. Banskobystrický and Prešovský regions suffer particularly during the crisis due to their disadvantages – poor access, lack of human resources, lack of investment and foreign investment and absence of wider-scale restructuring of local economies, not to mention the problems faced by newly localised companies (e.g. Embraco in Spišská Nová Ves) or expanding sectors like tourism (the region covers such destinations as the High Tatras or Slovensky raj). The worsened situation in these regions is confirmed by the lower number of free workplaces available for unemployed (e.g.509 places in Banskobystrický and 732 places in Prešovský region in June 2009, UPSVAR 2009). The most sensitive among them seems to be the Prešovský region which shows the most rapid increase in unemployment.

At the district level, the highest level of resistance (below 3 percent based on June 2008 to June 2009) to the crisis is evident in the urban districts of Bratislava and Košice, districts neighbouring Bratislava (except the more industrial region Malacky), districts that include regional centres Žilina and Trnava, as well as the districts of Zvolen (with more new investments and a more diversified economy) and Turčianske Teplice (a spa town). Districts with a sharp increase in unemployment can be divided into two groups. The first group consists of districts with smaller urban centres and a dominant industrial function. Many of them had very low level unemployment a few months ago, they are located in the better-off, western part of Slovakia. Such examples include the districts of Ilava (increase of unemployment rate from 2,6 to 8,6% on a June to June basis), Skalica (3,5 to 10,2%), Senica (5,0 to 11,4%), as well as Myjava, Partizánske, Považská Bystrica, Komárno and Detva. The second group covers districts with long term economic and social problems, further deepened by the crisis. Sometimes their problems are related to difficulties in their leading local industry. They are mostly located in peripheral, more eastern parts of Slovakia. Such cases include the districts of Rožňava, Trebišov, Svidník, Vranov, Bardejov and Detva. In some of these districts unemployment exceeds 25% (Rožňava, Trebišov, Sabinov; October 2009). Nevertheless, the highest level of unemployment is documented in the districts of Rimavská Sobota and Revúca (south central Slovakia), in both cases exceeding 30% (October 2009).

In 2009, despite interim development and expectations, an additional pressure came from workers returning from abroad after losing their jobs there as a consequences of the crisis. Typical countries employing Slovak workers have been the Czech Republic, Hungary, Great Britain and Ireland – all seriously hit by the crisis. A second aspect to be taken into account is the changing perceptions of working abroad due decreasing currency values against the Euro. The process of returning home started as early as 2008. This process is indicated by employment abroad that decreased within the first quarter of 2008 to the first quarter of 2009 from 176,7 thousand to 128,8 thousand. Almost 34 thousand people returned during first quarter of 2009. This trend was more important in the Nitra and Prešov regions (48,1% of total number of employees abroad came from these two regions). While in the Nitra region it is a case of cross-border employment (e.g. in Komárom, Esztergom in Hungary), in the Prešov region employment is longer term (Czech Republic) and long term (other mentioned countries). It is reasonable to suppose that the influence of the crisis is based on fact that 60% of employees abroad are working in construction and industry.

4. POLICY RESPONSE

The current Slovak government led by Prime Minister R. Fico and dominated by his social democratic party SMER, started to deal more intensively in anti-crisis measures after the first signs of economic downturn started to be visible in Slovakia in September-October 2008. The first serious measures were an increased retail deposit guarantee to 100% of its value and the introduction of more strict banking supervision from November 2008 onwards. Since November 2008 we can observe systematic efforts at the central level to prepare reasonable measures in various fields of public finance, various ministries, and the business environment. The number (more then 60) and variety of measures was very high and not all of them were accepted and introduced into praxis. While some measures are covered by savings in other areas, (mostly investments), the quantity of measures and individual decisions mean that a large increase in state budget deficit is inevitable. After a time the government retreated even from signs of a restrictive approach and replaced it by fiscal expansion based on public, or public sector initiated investments, calculated on a higher state budget deficit. This has been possible thanks to better fiscal results during previous periods. Nevertheless, such approach has turned e.g. into enormous 4524 mln EUR growth of general government debt between June 2008 to June 2009 (in June 2009 general government debt was 21214 mln EUR). Slovak Parliament also adopted in October 2009 change in 2009 State Budget legislation increasing its deficit from 1009 mln EUR to 3154 mln EUR. The debt of general government will achieve 40–50% of GDP in forthcoming years (it was only 27,6% of GDP on December 31st 2008).

Most efforts against the crisis were organised within particular ministries and the Office of the Prime Minister. Later on a new body was established – the Economic Crisis Council, an *ad hoc* body consisting of the representatives of ministries, the central bank, associations of employers, trade unions, association of towns and communes, and one representative of political opposition (but he was withdrawn after a few months). The work of this Council peaked between February and April 2009. The central government signed treaties on anti-crisis co-operation with main social partners such as trade unions, and the association of towns and communes. Permanent working groups are working in the ministries to monitor the development of crisis, for example publishing regular weekly reports on the development of the crisis at least for certain period.

Despite some earlier measures adopted within the powers of central government and particular ministries, main measures against crisis had been adopted in February 2009. The most important measures have been implemented since March. However, some of them will only be legally valid until the end of 2010. The costs of these measures are covered by a reduction in expenditures within ministries. The total cost of already adopted measures is planned at 332 mln EUR. The mobilisation and acceleration of resources allocated from EU funds is also expected. This sum does not include other individual measures, or measures within existing and functioning economic development schemes (e.g. investment stimuli, support of small enterprises etc.). The total cost of measures will be much higher.

The next stage of central government attention to economic and financial crisis peaked up in November 2009, following interim evaluation of crisis measures in August and debate concerning State Budget 2010 adoption. On its special meeting dealing exclusively with consequences of financial and economic crisis, central government considered whole series of documents evaluating the social and economic development, previous and potential future measures. We can observe search for more active approach, focusing on shift from protecting older workplaces towards generation of new workplaces. Such mobilisation documents pressing situation caused by systematically growing unemployment rate (despite certain revitalisation in economy). As a result individual ministries should prepare new initiatives to support new workplaces formation.

The main measures were adopted by the Slovak parliament in February 2009 by a majority of votes (which means partial support from the political opposition). They mostly concerned the fields of employment support, the business environment and investment support. The most important among them are changes in tax legislation (more suitable depreciation, quicker return of VAT to businesses, higher tax deductible minimum). Eximbanka capital was increased (a bank supporting export and import activities) as well as the Slovak Guarantee and Development Bank (altogether 45 mln EUR). The state contribution to employers should be attractive, enabling them to employ redundant workers for at least 60% of their basic wages, instead of dismissing them fully. One specific tool is to support so called social enterprises that should generate new workplaces. Companies can also ask for contributions to cover the compulsory health and social insurance payments for their employees, if they face serious operation troubles (instead of firing them). Book-keeping in SMEs has been simplified, and the micro-loans scheme has been strengthened. Resources have been redirected to stimulate applied research and development. A minor role is played by contributions for starting entrepreneurs (previously unemployed), including farmers. Based on previous experiences more flexible conditions of working time were adopted in the Labour Code as well. Among measures that were not adopted were vouchers to support tourism in Slovakia.

An important part of measures concern the support of citizens, combined with support of demand for products, modernisation and revitalisation of the economy, not to mention certain environmental measures. The most extensive was two rounds of a scrapping scheme focused on revitalising the car industry. Within this scheme about 44 thousand of new cars had been bought. The adoption of this measure had a certain solidarity aspect. A much larger positive effect on the Slovak car industry came as the result of the adoption of this measure in other countries. Measures such as subventions to buy solar panels and bio-mass heating equipment should have similar effects. The latest large scheme concerns loans for improvement of energy standards in buildings, which should protect jobs in the construction sector and SMEs working in this field. This measure has been very successful (applications have to be stopped at certain moment) and will be prolonged in forthcoming years with larger amount of resources available (100–120 mln EUR a year comparing to 71 mln EUR in 2009).

Part of the central state response focuses on public investment or support of private investments. The first signs of restrictions that could mean the withdrawal of some investments (e.g. the costly reconstruction of Bratislava Castle) has been finally replaced by wide expansion of investments into new buildings, roads, etc. Central government has searched for opportunities to protect the construction industry functioning (and its multiplier effect). The most visible is the mobilising effort of investments in the energy sector (for example the completion of a nuclear power station in Mochovce by Slovenske elektrarne jointly owned with ENEL). The second large scale investment effort concerns the start of the PPP motorway projects that should lead to the completion of a main network of motorways (connecting Bratislava with Košice and Banská Bystrica). The high involvement of the state in this motorway project is shown by its willingness to provide a state guarantee for part the required credits. Surprisingly central government decided to go ahead with the building of the National Football Stadium in Bratislava, originally refused during the period of economic growth. There were no limits to such investments, with extensive use of public resources, for example for the Bratislava Airport extension, or the Ice Hockey Arena in Bratislava. The central government is also continuing to provide support for private investors within its scheme of investment stimuli. The largest investments supported by state decision in 2009 are extensions of production capacities in KIA Žilina and VW Bratislava car factories and new greenfield investment in electronic by AU Optronics from Taiwan). The attraction of new investors remains high priority also for 2010–2012.

In truth, within the debate on policy responses and measures, the regional aspect has been marginalised. No special measures have been adopted which have a regional dimension. It seems that there is no clear idea as to whether the crisis hit certain regions more acutely or not. The explicit regional aspect is mentioned in contributions for newly created workplaces, that can be better subsidised in the rest of the country (30% of average salary), compared to Bratislavský kraj (15%). Nevertheless, even this is a procedure which takes into account the higher level of average salary in this region compared to the rest of country. The specific "regional" dimension has had some support in terms of inter-regional migration by special contributions for commuting workers. Nevertheless it seems that regional aspects have been more frequently mentioned during the Autumn 2009, mostly reflecting high and growing unemployment rate in some regions. For example, part of the latest measures should be generation of new workplaces in forestry (various kind of works), especially in highly suffering regions.

The activities of central government have been criticised by the political opposition as well as political analysts and economists. They point out the excess number of measures, some of them not well prepared, or delay in taking action (waiting for the effects resulting from the first package of measures). The fiercest criticism has been directed at the long delay in adapting the state budget and making more radical public finance cuts. State measures against the crisis were the subject of a public opinion poll at the beginning of July 2009 (a representative sample of 1017 citizens, IVO 2009). In this poll, 57% of respondents were critical and expressed concern for inefficient state measures adopted against crisis.

When discussing reform consequences at the regional and local level we should mention the situation of regional and local self-government. They face financial troubles related to their dependence on a stable share (70,3%) of personal income tax yields. The crisis caused an immediate reduction in financial flows from this kind of income and caused financial scarcity in local budgets. At the same time self-governments were asked to contribute to financial crisis moderation and signed a special memorandum with the central government (February 2009). The most important change was the interim option of using capital resources for covering operation costs. Local self-governments obtained guarantees that new legislations would be negotiated with their representative association. They also promised to develop their own anti-crisis measures and adopt a more prudent fiscal approach. As a result of fiscal stress many local governments have re-drawn their budgets (with about a 10–15 reduction of expenditures), by substantially reducing investment activities, reducing staff in their offices, spending their reserve funds and possibly selling property in order to protect the standard of the tasks they execute.

The atmosphere of mutual understanding between central government and local governments was later disturbed. Local governments are not satisfied with the strong restrictions imposed, while central government finances are expanding and various kind of sectoral support exists. During the summer 2009 many local self-governments expressed their disappointment. Mayors from Žilinský region sent an "open letter" to the Minister of Finance mentioning difficulties in executing very important local powers and called to adopt specific measures concerning financial flows to local self-government (this was the reaction to the tax forecast prepared by Ministry of Finance for the rest of the year 2009 declaring about 17% lower income from PIT compared to previous estimations). Representatives of cities unsuccessfully proposed changes in PIT redistribution (75% to local and 25% to regional self-government). Local self-governments are not so longer such trouble-free partner in managing crisis measures for central government as they were during the first half of 2009. They initiated series of negotiation with Ministry of Finance during September and October. Unsatisfactory situation of local self-governments will be mitigated by transfer of 100 mln EUR from state budget, as compensation in lower PIT incomes of local budgets in 2010 (as a result of reallocation and reductions of resources). Within Autumn 2009 debates on anti-crisis measures, local self-government wanted to extend support (more resources, more workplaces) of interim public works financed by state and organised within their framework, as well as support of jobs in their own public entities.

The most debated among latest state anti-crisis measures concerns so called "strategic enterprises". Originally initiated by collapse of one of leading Slovak chemical company NCHZ (ruined by heavy penalty of almost 20 mln EUR induced by EC for international cartel participation), it has been turned into important anti-crisis measure. The strategic enterprises according to adopted legislation are enterprises under bankruptcy, important for protection of health, security of the state, and functioning of the economy, with more as 500 employees, having considerable importance in distribution of energy, gas, heating, oil refinery products, or manage power station, public water cleaning company, sewage or water treatment networks. The decision on such status is in hand of the central government. The most sensitive is the right of first refusal to purchase such company by the Slovak Republic (represented by Fund of National Property of the Slovak Republic). This is considered as one of the most important intervention into business environment in Slovakia during last years. Wide criticism came especially from representatives of employers associations and business chambers. They emphasised intervention into private property rights, damaging of creditors, unclear setting of price of strategic businesses, forced protection of employment. Its anti-crisis character supports its limited validity until end of 2010. Nevertheless, this controversial measure will be probably submitted to Constitutional Court for consideration.

CONCLUSIONS

At the present moment, it is not easy to summarise the current trends in the regional consequences of the current crisis. Nevertheless, several features can be outlined and further investigated. It seems that there are two main types of regions hit by the crisis more seriously. The first group are regions/districts with centres in smaller and medium-sized cities with industry playing a major role in their local economies. The second group are traditional regions with social and economic problems, in which even the period of economic growth did not set up a solid developmental base (e.g. large migration for work abroad). They are still very vulnerable. Regional economies organised around larger cities are better off. A better reaction of the Košice region to the crisis can also be observed.

As expected, the large number of measures adopted by central government have not been easy to exploit or introduce into the praxis. Some of them need more complex preparation with well elaborated rules, including harmonisation with EU legislation (state aid). The most successful measures have been in protecting existing jobs (this concerns almost 42,000 jobs), and partly in the support of new workplaces (Office of the Government of the SR, 2009a). There has been approved support only for a minor number of social enterprises. Measures for supporting new business start-ups, including the start of new businesses in agriculture have not been successful, with almost no applicants or contracts. Micro-loan schemes have not worked well, being more administratively demanding. Support of large investments in the energy sector and motorway building is progressing.

Central government activities in stabilisation of the financial system, support of the business environment and job protection are only partially working. Too many measures in various fields hinders implementation. We can expect certain adjustments during the forthcoming months, accompanied by the introduction of new measures. While sometimes considered third round of scrapping disappeared from the agenda, the support to those unable to repay their mortgages is under preparation. Discussion is also pending on if and when the problem of large-scale bad credits will appear in Slovak banks. State budget for 2010 reflects expected restrictions in many fields, but no substantial cuts in public spending or reorganisations (e.g. as discussed reduction of ministries). Such approach is influenced by the fact that 2010 is year of parliamentary elections in Slovakia. Signs of positive development caused improvement of the Ministry of Finance prediction of 2009 GDP decrease from 6,2% to 5,7%, as well as planned GDP increase for 2010 at the 1,9% level. The planned deficit of general government 6,3% of GDP for 2009 should be reduced to 5,5% in 2010 (Office of the Government of the Slovak Republic, 2009b). Large expectation and help to public finance are related to EU funds, until 2009 not very extensively used.

It seems that major consequences of economic crisis as indicated by series of macro-economic indicators culminated during first half of 2009. However, on the other hand, it is also clear that many sectors of economy can face deeper crisis consequences with certain time shift. Reversing the rising level of unemployment also need much better economic results, so the social situation in most suffering regions will not improve so quickly.

REFERENCES

Institut pre verejne otazky (IVO), 2009. Väčšinu občanov znepokojuje nedostatočne účinný vládny balíček protikrízových opatrení. www.ivo.sk. Accessed on 16th August 2009.

Korec, P. 2005. *Regionálny rozvoj Slovenska v rokoch 1989–2004*. Bratislava: Geografika.

MESA 10, 1998. *Sľuby a realita – Slovenská ekonomika 1995–1998*. Bratislava: MESA 10. 175p.

Národná Banka Slovenska (NBS), 2009. Monitoring of real estate market.

National Council of the Slovak Republic (Národná Rada Slovenskej Republiky), 2009. Strategic Enterprises Act (as approved in November 2009).

Office of the Government of the Slovak Republic (Úrad Vlády Slovenskej Republiky), 2009a. Komplexné vyhodnotenie účinnosti prijatých opatrení vlády SR na riešenie dopadov globálnej finančnej a hospodárskej krízy v oblasti zamestnanosti (The complex evaluation of measures adopted by the Slovak government to overcome impacts of global financial and economic crisis in the field of emplyoment).

Office of the Government of the Slovak Republic (Úrad Vlády Slovenskej Republiky), 2009b. Návrh rozpočtu verejnej správy 2010–2012 (General government 2010–2012 budget proposal).

Office of Labour, Social Affairs and Family *(Úrad Práce, Sociálnych Vecí a Rodiny – UPSVAR)*, 2009. Monthly reports on registered unemployment. www.upsvar.sk., accessed since August to November 2009.

Statistical Office of the Slovak Republic, 2009. Statistical data concerning unemployment, macroeconomic data, regional statistics. www.statistics.sk., accessed since August to November 2009.

Ministry of Finance, 2009. Koncepcia obnovy hospodárskeho rastu Slovenskej republiky vrátane finančných nástrojov a časových dimenzií obnovenia hospodárskeho rastu (Concept of economic growth renewal in Slovakia including financial tools and time dimensions of economic growth renewal)

Uramova, M., Marcineková, Z., 2008. Priame zahraničné investície v kontexte regionálnej politiky. *Region Direct*, pp. 88–98.

Ján Buček is Associate Professor at the Comenius University in Bratislava, Slovakia Department of Human Geography and Demogeography. His research focuses on local and regional government, local/urban and regional development, as well as political geography. Currently he is a Chair of the International Geographical Union Commission on Geography of Governance.