

## **ECONOMY CRISIS AND ITS IMPACT ON MARKET SUBJECTS IN SLOVAK REPUBLIC**

Stanislava Strelcová, Ing. PhD.<sup>1</sup>,  
Jan Šinovský Ing.<sup>2</sup>

**Abstract:** All the subjects of the market – companies, consumers and government, where affected by the economy crisis. Each subject is affected in a different way. The main common challenge they have to face is a decreasing employment rate.

**Keywords:** economy crisis, employment, unemployment, economy activity, gross domestic product

### **1 COMPANIES AND GOVERNMENT FIGHT AGAINST DECREASING GDP**

Slovak Republic, as the only EU country recorded GDP growth in the last quarter of 2008. But there was rapid fall in the following quarter. Gross Domestic Product fell in 8.6 % during the first three months of 2009, what was the 3<sup>rd</sup> highest fall in EU, following Latvia and Lithuania. This rate was four times higher than average EU-27 GDP growth/fall rate.

The annual growth/fall of Slovak Gross Domestic Product was equal to average annual growth/fall of European Union.

The fall of Slovak Economy stopped in the 2<sup>nd</sup> quarter of 2009. The GDP has since slowly increased. There are only few growing economy sectors. Therefore Slovak government should look for solutions and to make steps to motivate foreign investors to enter Slovak market and make them use the advantages connected to introduction of the Euro.

How long will last the Economy recovery? And is it long term or just short term trend? That's hardly possible to predict. Viliam Páleník from Institute of Economic Research, Slovak Academy of Sciences said in one discussion that: "following growth should evoke 'W'shape." [Mihók, 2009] It means another fall of Economy after present short period of growth.

### **2 HOUSEHOLDS WERE THE MOST AFFECTED BY UNEMPLOYMET**

Although, Economy Crisis lasts more than one year the end of it still seems to be far and unpredictable. Decreasing of General Aggregate Demand connected to increasing number of unemployed and decreasing employment is the most significant sign of the crisis.

Slovak republic belongs to the countries with the highest unemployment rate within European Union, nay it's again on the bottom of the list of all the EU members.

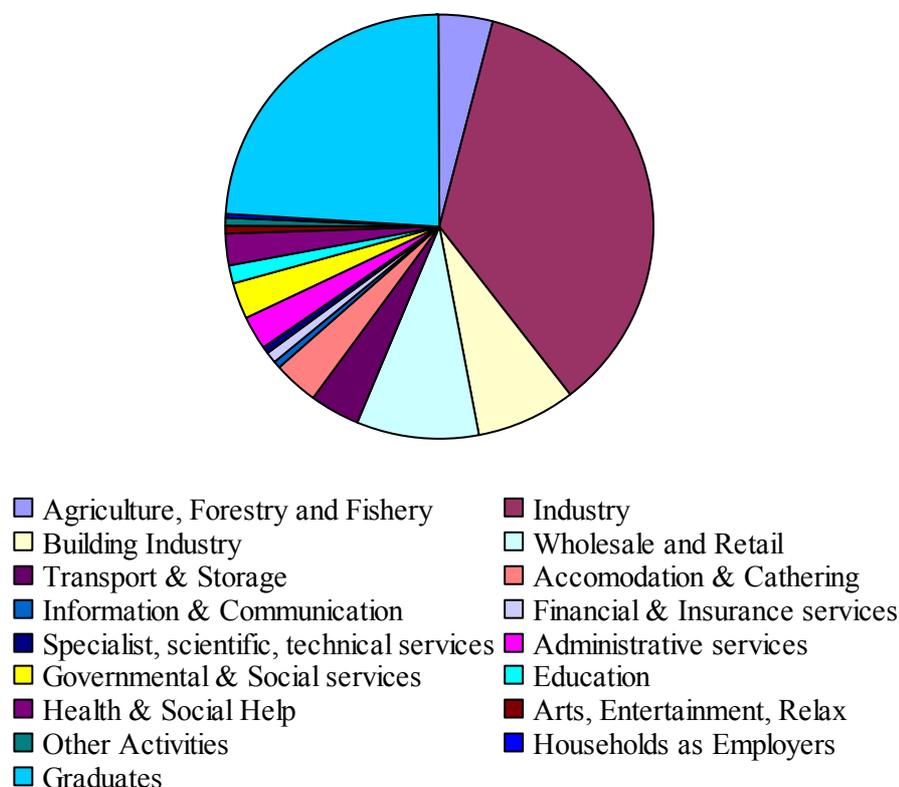
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<sup>1</sup> Žilinská univerzita v Žiline, Fakulta špeciálneho inžinierstva, Katedra krízového manažmentu, 1. mája 32, 010 26 Žilina, tel.: 041 513 6708, fax 041 513 6620, stanislava.strelcova@fsi.uniza.sk

<sup>2</sup> Žilinská univerzita v Žiline, Fakulta špeciálneho inžinierstva, Katedra krízového manažmentu, 1 mája 32, 010 26 Žilina, tel.: 041 513 6720, fax 041 513 6620, jan.sinovsky@fsi.uniza.sk

According several Slovak analytics, the unemployment rate supposes to grow also in next months and reach its maximum during the 1<sup>st</sup> or 2<sup>nd</sup> quarter, 2010.

All the sectors were not affected equally by the current economy crisis. Picture 1 shows the structure of unemployed people in the first nine months of 2009.



Picture 1 Unemployment structure sorted by the economy sectors. Adapted from: [Nezamestnanost', 2010]

The first impression says that Industry is most affected sector by the Economy Crisis because the absolutely highest number of the people lost the job in this sector. More than 279 000 people lost the job in the Industry during the first nine months in Slovakia. When we look at the problem of unemployment by relative optic, we should say that the highest fall in employment was in the sector of Information a Communication. This sector fell by more than 22 %, what means more than twice higher fall comparing to Industrial sector. The second highest relative fall was recorded in the free-time activities like arts, entertainment and relax, where 16 % of employees lost their jobs.

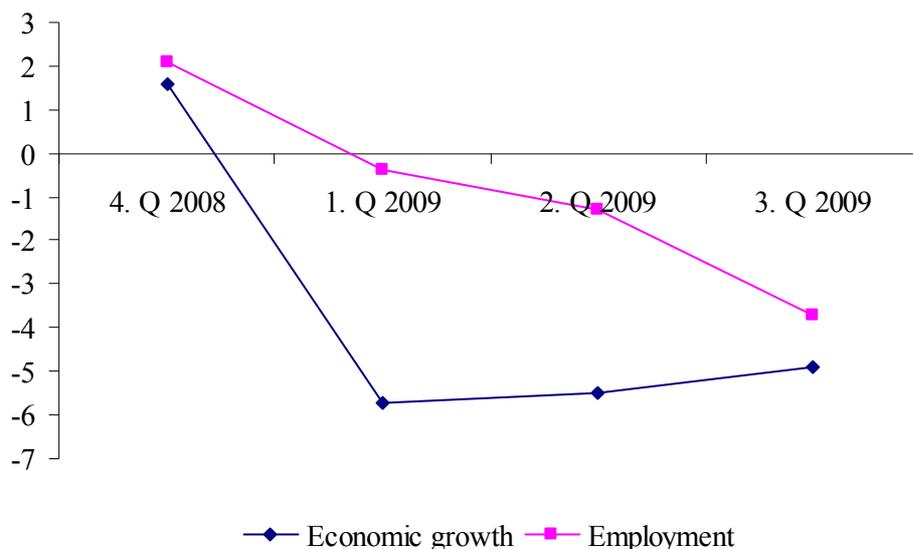
The Economy Crisis didn't affect all the sectors in negative way. Agriculture, forestry, fishery recorded the 7.23 % raise of employment and educational sector raised in 6.56 %.

There are several reasons of decreasing number of employees. When looking for them we cannot ignore pro-export orientation of Slovak Republic. The main export partners are Germany, Czech Republic, France and Poland. The beginning of the year 2009 can be described by decreasing of demand for Slovak goods in Poland and Czech Republic as a result of entering European Monetary Union by Slovak Republic. Economy Crisis and another factors affected both Czech crown and Polish zloty exchange rate against Euro and Slovak goods suddenly became expensive for Czech and Polish consumers. Many Slovak companies had to face decreasing number of Orders therefore they shortened the working week on 4 days, in first reaction, later they were forced to decrease number of employees. This fact was reflected in the general employment rate.

### 3 EMPLOYMENT AND GROSS DOMESTIC PRODUCT CORRELATION

There is a direct correlation among GDP and employment. Employment within the Country grows along with its Economy growth and contrariwise. This relation is partly influenced by technology and workflow procedures involved. Using of modern technologies might increase the Labor productivity with the fewer employees.

Changes in the Economy growth were reflected in Employment with certain delay, as seen on the Picture 2.



Picture 2 Flow of Economy grow and Employment during the same period. Adapted from: [Vývoj HDP, 2009, Vývoj nezamestnanosti 2009]

The Delay was recorded already during the falling of Economy when employment fell slower than Gross Domestic Product. This delay is much more remarkable in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of the year 2009 when trend of strong decreasing of employment is in the contrast with stabilization of Economy.

This situation should be caused by the length of Notice period which is required from employers when releasing their employees; and on the other hand the slower reaction of employment rate to the Economy Fall puts pressure on producing costs optimization whereby Costs on Salaries and Tax payment belong to significant ones.

When there is called for growth of employment is needed, there have to be a significant expansion of Economy recorded, at the same time.

Vladimír Vaňa, the main analytic form Volksbank Slovensko Research says that we can derive the Economy growth rate needed to be strong enough to create new working opportunities. This rate could be derived from the available macroeconomic statistics. "We can hope in improvement by annual economy growth rate higher than 3 %." [Viac, 2009]

There are some PPP projects (Public-Private Partnership Projects) currently running. These projects should bring better quality to the transport network in Slovakia, improve public services and water-supply services in some Slovak localities, and at last they should help to solve the problems of employment.

## CONCLUSION

Economy crisis seems to slowly disappear, but it takes some time when its effects fully affect Slovak Economy. Gross Domestic Product starts to grow, as we showed, despite of it we can not offer any statements concerning positive trends of employment growth. Even if there is a continual Economy growth, the employment will follow this trend with certain delay.

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