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CRISIS IN SLOVAKIA 2009–2010: FROM SAVING THE ECONOMY TO SAVING PUBLIC FINANCE

Although the current global financial and economic crisis seems over, from many points of view by the end of 2010, its effects we will feel for a long period. Despite the short time perspective, we can briefly evaluate selected aspects of the crisis from the point of view of the Slovak economy, society, and regional development. Three main crisis fields are under discussion the most frequently – the banking sector, the economy, and public finance. We can conclude that in the Slovak case, the banking sector cannot be considered as both an important source and a victim of the crisis. It belongs to quite a stable and healthy part of the economy. Much deeper have been the consequences of crises to the economy. The most visible were a decline in production and export and as well as a steep increase in unemployment, which led to the escalation of problems in some regions. Registered unemployment in the most affected districts exceeded 25%. With a certain time shift, as the next stage of crisis, longer accumulated problems in public finances took their toll. The rapidly growing deficit of public budgets and public debt has been in contradiction to the slowly recovering economy, especially during 2010. A specific feature of the anti-crisis struggle in Slovakia is that only moderate measures focused on the financial sector (at the end of 2008). More extensive support was adopted later (especially during the first half of 2009) addressing primarily the business sector and employment. Afterwards, there emerged an urgent need to adopt a new set of measures, focusing on the consolidation of public finance from 2010 onwards.

This contribution begins by examining selected sources of financial and economic crisis vulnerability in Slovakia and its regions. I start exploring relations between the crisis and post-socialist transformation. In particular, it is the nature, the approach applied and the success of economic reforms that considerably influence the scope of crisis-related problems. Further comments address the role of the most important factors such as the structure of the economy, effects of euro adoption, labour migration, foreign direct investments (FDI) etc. Many of them played a role on a national scale, as well as in regional differentiation of the crisis outcomes. There is also a hardly avoidable debate concerning the weaker role of regions in shaping their development. The final sections focus on perspectives of the anti-crisis approaches after the change of government in June 2010, and a set of not yet fully recognized issues relevant for post-crisis economic development. Taken into account are basic economic and social indicators in 2009–2010, as well as existing or planned policy approaches known until the first quarter of 2011.

THE NATURE OF THE POST-SOCIALIST ECONOMIC TRANSFORMATION PROCESSES

The character of post-socialist transformation deeply influenced the current ability of the economy to cope with the crisis. In retrospect, the transformation years have been mixture of successes as well as lost opportunities, linked to various kinds of adopted reforms. The full complexity of transition processes was unknown, especially during the first transition years. Such issues as the structure of the economy, regional development or social affairs were overlooked or simplified under the pressure of a hierarchically higher aspiration – to build a working market economy quickly (not mentioning the task of building a new state). It is matter of discussion, as to whether a more elaborated and maybe more gradual transformation process could have exploited inherited economic potential better, e.g. in reducing the negative side effects. Criticism concerns, for example, the privatization processes, their deformations and related outcomes. A more positive development trajectory started in Slovakia after 1998. The newly elected government (led by Prime Minister Mikuláš Dzurinda) was aware of the critical situation (not only in the economy) and realized a wide set of reforms. Nevertheless, the effects of reforms do not change the life of the most public immediately. Prime Minister Robert Fico and his coalition government (from 2006 to 2010) offered citizens a more promising perspective – the already achieved economic growth should be converted into the better real life of all citizens. In fact, during this period of government, no substantial changes to the existing social and economic regime in Slovakia were adopted. Nevertheless, positive economic development allowed more extensive welfare state building. This optimistic development was disturbed by the financial and economic crisis. Fico's less reform-oriented government lost power in the 2010 elections. The new government coalition (in part similar to the 1998–2006 government in its composition) has been forced to adopt many new reforms. However, this has been in a different post-socialist and late anti-crisis setting.

A crucial role in the economic development of the country is played by the nature of the transformation processes. The first years of transformation were influenced by the “shock” approach to economic reforms. Rapid transition to an open market economy with mass privatization was accompanied by a rapid decline in output, rise of unemployment, inflation, not mentioning unclear practices during privatization processes. It led to immediately emerging regional disparities. However, they were not incorporated into the shaping of the main transformation processes (such as privatization) as an important factor. The initial adoption of the shock therapy was replaced by later approaches advocated by the controversial Prime Minister Vladimír Mečiar. His government (especially during 1994–1998) preferred direct sales of privatized enterprises to politically loyal managers, partly in an attempt to build a strong strata of Slovak managers and owners. This emerging “Slovak business class” paid only a small part of the total price of privatized enterprises (e.g. 20%), with limited obligation for future investments. Privatization, as well as company operations were backed by soft loans from state banks controlled mostly by managers affiliated to the same elite group. Foreign investors were excluded from such non-transparent privatization processes. Such approaches resulted in frequent cases of inefficient ownership (e.g. too dispersed, inexperienced), and a deformed business environment, with numerous non-effective companies. Increased problems in the banking sector led later to the bankruptcy of some commercial banks. Resulting from extensive government spending, public finance ran into serious troubles. Such huge scale economic mismanagement meant that Slovakia was on the verge of an economic crisis in 1998 (Mathernová and Renčko 2006), and this mobilized democratic citizens to change the government. Privatization in the regions reflected such general approaches and caused social and economic troubles. Regions often depended on a few companies that were given new owners (e.g. representing the regional political elite), often unable to manage and restructure their companies successfully. They were often more focused on taking money out of the companies. In many cases, such companies went bankrupt, or in better cases, incompetent owners sold them to new owners after a few years. Under different conditions, potentially more economic units could have been successfully transformed, more foreign investors could have come (Slovakia at that time was not very attractive for foreign investors), the business environment would not have been so deformed (more new businesses could have started), the credit market more realistic and, at least in some regions, the situation would have been better.

We can consider the two consecutive electoral periods of reform government in 1998–2006 as a positive episode in Slovakia's post-socialist transition. It provided enough time for the implementation of quite radical reforms, often lacking in some other transition countries. They allowed manifold consolidation of the country's economy, society, and institutional environment. Almost a full eight years of Dzurinda's government meant that one political concept and related reforms were applied (despite an uneasy political coalition that combined centre right and centre left parties). The extensive package of reforms and policies (e.g. in pensions, taxation, public administration) help Slovakia in promoting economic growth until the global financial and economic crisis expanded. Efficiency of reforms confirmed the ranking of Slovakia as the top economic reformer on a global basis by the World Bank in 2004. Slovakia started to be attractive for foreign investors and successfully build its image as good location for business (based for example on a flat tax rate, more flexible Labour Code, financial incentives and tax holidays to investors). This was multiplied by joining the EU in 2004. Despite loss of power in the 2006 parliamentary elections, this government era left the country with very good economic prospects (e.g. with a consolidated banking sector and many new investments). This period provided much greater opportunities to regions, as it confirmed more investments and better economic results. Nevertheless, some regions were more successful, while others benefited from reforms to a lesser extent.

For inspiration, we can follow the approaches that recognize the first (basics of market economy, democracy) and second generation of post-communist reform (favourable investment climate). While during the first generation of reforms Slovakia was considered as a reform laggard of Central Eastern Europe, during the second generation of reforms Slovakia achieved recognition as one of the most exemplary cases (e.g. O'Dwyer and Kovalčík 2007). Being sometimes overshadowed by its better progressing neighbours during first generation reforms in the nineties (namely the Czech Republic and Hungary), Slovakia attracted attention by the reforms it adopted during the first half of the next decade. Thanks to improved implementation of the second generation reforms, Slovakia progressed better compared to its competitors in various fields. It provided more suitable general conditions and unintentionally better preparedness towards unexpected social and economic events. Both generations of reforms also provided different opportunities to regional economies. The first generation caused partial "collapse" in some of regions (besides the inherited uncompetitive section of their economy) through privatization methods, economic mismanagement, and the absence of attractiveness to invest. The second generation provided more opportunities. It opened the way to a more developed market economy in more regions and their economic and social upgrading, although regional differentiation was hardly avoidable.

It should be mentioned that within the last twenty years, Slovakia faced many challenges that meant giving high priority to some major issues that were crucial from a nation-wide perspective. During the first years of transformation, the issues of a market economy and democracy were dominant. Later, the main agenda became the formation of a new state, and the building and adapting of its institutions. During Dzurinda's government, the urgent issue was to consolidate the economy and public finance after the previous Mečiar government. Such over-emphasis on the big issues, with related concentration of capacities, time, and resources of a substantial part of the state establishment, led to the underestimation of many important partial policies. They were not among priorities, were underfinanced, less elaborated, or even did not exist. It meant that some important issues were put on the second track. However, their underestimation caused problems later on. Among the most critical cases have been the absence of a more elaborated economic policy focusing on its structure, or regional policy (as those relevant to this contribution, but we could find other cases as well) for more than a decade (see e.g. Buček 2002). These aspects were almost missing in practical policy-making and they have only started to be more intensively debated since the turn of the millennium. Slovak society lost a lot of time focusing on its own basic big issues during nineties. Underestimation of certain fields of action caused delays in application of many policies and tools e.g. in support of regional development, compared to neighbouring countries. An important role is played by the too centralized, state administration dominant governance, not providing enough space for regional and local initiatives, or other non-state actors.

THE STRUCTURAL BACKGROUND OF ECONOMIC DEVELOPMENT VULNERABILITY IN SLOVAKIA

One of the main sources of problems related to the vulnerability of the Slovak economy concerns its structure. In fact, it reflects the very traditional debate addressing the substance of the development process. A small economy has to balance carefully a reasonable level of specialization and sufficient diversity. It should avoid an inefficient, less advanced or too diverse economy, as well as one which is extremely specialized, although advanced, concentrated on just a few sectors. The Slovak economy facing transitional and globalization circumstances have not built the most suitable structure until now. During the transition period, it needed to replace its traditional dependence on industry. Despite a shift towards a more post-industrial economic structure, with a leading role of services, the role of industry is still significant. Unfortunately, it is concentrated on a narrow mixture of sectors with the important role of a minor number of large corporations. Part of industrial branches collapsed or did not develop sufficiently during the post-socialist transition. Later, under the influence of globalization and increased international competition, other branches collapsed. The shift towards a services-based economy is evident, but spatially uneven. Besides basic services, there emerged investments in more advanced business services as well, but they have been extremely spatially concentrated to the largest cities. It seems that a high number of viable services sectors have not been developed satisfactorily until now.

Slovakia could not so easily leave its industrial tradition aside in its development model after 1989. However, at the same time, it should reduce its strong dependency on industrial employment and export. Summarizing the development of the Slovak industry within the last twenty years, we can see signs of quite large-scale restructuring. The first years of post-socialist transformation were typical, with the collapse of inherited "old industry", accompanied by the closure of many companies and frequent substantial reduction of production and employment in many other surviving companies. Since most of the industry had developed within the so-called socialist industrialization, working mostly outside market competition, part of industrial sectors, sometimes important, almost disappeared. For example, the armament industry employed about 130 thousand employees close to the end of socialist period in Slovakia (for more see e.g. Pavlínek 1995). Now, military production almost does not exist. This development generated a substantial time gap in economic growth. Old industry collapsed to a large extent, produced less, and needed a smaller number of employees. At the same time, new, larger, competitive industries did not emerge and did not replace this lost economic capacity immediately. Very limited flow of foreign investments due to the bad reputation and unattractive business environment of the country during the nineties also did not contribute substantially to economic development, not mentioning assistance to necessary restructuring. We can find only a limited number of positive cases concerning industrial development in Slovakia during the first years of the post-socialist decade.

The situation in industry partly improved, and there ensued what we can call a "new industrialization", strongly based on foreign investments inflow, especially since the end of nineties. However, this post-socialist industrialization has been in many aspects contradictory to the previous "socialist" one, so important in the development of the Slovak economy after World War II. Of course, this "new industrialization" as a set of individual market based decisions has been different to the centrally planned socialist industrialization. It has not aimed to cover all the country in a more or less homogenous way, providing industrial jobs to all regions, or cities. Its effects are concentrated on a reduced number of regions, leaving many “socialist” industrial regions aside. For example, Korec (2009) identified urban functional regions with an economy based on the secondary sector, located mostly in the western part of the country, attractive for foreign investors in industry. Neither can the scale of this industrialization be compared to the socialist one in scope (share of total economy, number and size of units, employment). It cannot be perceived as a clear leader responsible for overall economic development, but only one of them. It has been an industrialization in times of globalization, a services and knowledge oriented global economy. The positive effect is in transferring modern technologies and industrial organization into the country. The last important point is that the new industrialization is much narrower and more selective in terms of the structure of developing industrial sectors. Only some industries have expanded while others have collapsed (while during socialism all sectors were more balanced within the existing planned framework, although e.g. in Slovakia heavy industry was very important, not mentioning CMEA-based specialization). As a result, new production units related to the car industry and electronic industry developed predominantly, accompanied now with an already dense network of contractors. Nevertheless, a set of other industrial branches represented by a narrow group of its companies survived and modernized their capacities (e.g. the steel and chemical industry). Industrial diversity also suffered under the pressure of globalization, under which whole sections of industry substantially reduced their role in the economy. Among the most typical cases, we can mention the textile/clothing industry (see e.g. Smith and Swain 2010). Thus post-socialist transition and globalization both had important consequences on industrial employment in many regions.

Despite some less advantageous features, a development model that accepted the important role of industry seemed inevitable in Slovakia during that period. It reflected a realistic perception and evaluation of the country’s possibilities and comparative advantages. New industrialization was accepted as a promising and easy available option for economic development. Combining traditions and reforms, a skilled and cheap industrial workforce, Slovakia turned into an attractive location for industry in times when many global corporations sought to locate their production units on new markets. As a result, industry is still very important for the country’s economy. Nevertheless, the structure of industry, and its role in export and employment is under discussion. A more diversified structure and more industrial sectors/specialization would be more suitable. Although a small economy cannot avoid some sort of industrial specialization, it needs more branches as pillars, including more advanced industrial production. Taking into account new investments announced during the crisis in the car industry (e.g. new production units of VW and KIA) and electronics (AU Optronics), other new industrial sectors with comparable economic significance are still missing.

Long-term employment trends document a strong shift towards employment in services (in June 2010 almost 60% of total employment). While large parts of services like retailing, public services (education, health), tourism etc., follow more dispersed pattern of spatial distribution, more advanced and knowledge based services are spatially concentrated. One of the important sources of new workplaces has been business services of various kinds. Slovakia has attracted an important number of workplaces in back-offices, customer centres, and call centres that serve large territories outside Slovakia. However, these kinds of activity are very much concentrated in the largest cities, with clear dominance of Bratislava (among large employers in Bratislava we can find such companies as IBM, HP, Lenovo, Dell, etc.). Surprisingly, the economic crisis has helped some other locations (large cities outside Bratislava) to attract some such workplaces, thanks to pressure on corporate savings and relocations to cheaper locations compared to Bratislava (e.g. to Košice, Prešov). Such decentralization of activities we can see mostly in Slovak companies, or in companies operating in Slovakia for a long period. This rational location choice still means lack of such activities in regions where large cities are missing (e.g. south central Slovakia).

THE MAIN FACTORS CONCERNING THE CRISIS AND RELATED POLICY RESPONSES

The Slovak economy demonstrated a certain level of internal resistance to the crisis. This was especially thanks to the restructured and more conservative banking sector, the adoption of the euro, the large scope of foreign direct investments, the opening of labour markets in many EU countries and companies' internal adaptation. On the other hand, the crisis revealed risk aspects related to strong export dependence and extreme Euro-Atlantic orientation of foreign trade. Of course, the approach of central government and the efficiency of adopted measures can be debated.

The scope and character of the crisis in Slovakia positively influenced the successfully restructured banking sector. In 1998, approximately 35% of all loans in the banking sector classified as non-performing and the banking sector urgently needed state assistance. The government initiated restructuring and subsequently privatized key banks to a well-established foreign banking group. Despite the high costs of such restructuring (an estimated 13% of GDP in 2000), it is considered as the most effective public investment (Mathernová and Renčko 2006). The banking sector that went through such deep troubles respected more prudent approaches. Certain kinds of institutional memory prevented them from too rapid expansion and from entering into more risky operations on the financial markets. The banking sector has also adapted during the crisis. It underwent a more than 10% reduction of its employment (between December 2008 and June 2010), but achieved a 40% increase in net profit to 288 mln EUR comparing January–July 2010 to January–July 2009 (National Bank of Slovakia 2010).

One of the best decisions adopted (in principle from the middle of this decade) seems to have been the adoption of the euro in Slovakia since 2009. It is true that there are some contradictory aspects. For example, it caused difficulties to part of the Slovak economy due to the stronger exchange rate of the euro during the earlier phase of the crisis, e.g. compared to floating currencies in neighbouring countries. Nevertheless, in the longer-term perspective it forced even the less competitive part of the Slovak economy to adjust to the eurozone competitive environment and finally forget the “pillow” of former Slovak koruna currency oscillations. It has also provided more stable conditions to the business sector during the crisis. The perspective of joining the eurozone encouraged positive expectations in the business sphere and reasonable behaviour in the public sector. Among other important effects, it reduced the risk of taking credits in foreign currency (that flourished and caused difficulties in some countries) and initiated restrictive approaches of central government that prevented excessive public spending and budget deficits in the years preceding the crisis.

Foreign direct investments have had a crucial role in Slovak economic growth during the last decade. There are no doubts that they substantially assisted in changing the economy, with a whole range of positive effects. However, even in their case, a series of important themes emerge. The sectoral affiliation of these investments is partly responsible for the lack of diversity in the economic structure. There is a permanent debate regarding the insufficient foreign investments in research and development, creative industries, advanced business services, and multi-national corporate headquarters. The spatial distribution of FDI is very uneven, with statistically 60% of all FDI located in Bratislava (partly caused by the headquarters effect, with most Slovak headquarters of foreign investors located here), and a strong presence in the western part of the country and largest cities (regional centres). Some foreign investors, especially in industry, suffered during the main period of crisis. However, most of them proved able to resist the crisis. They adapted quickly to new conditions (mostly by increased productivity and modernization) and are returning in many cases to production close to pre-crisis levels already in 2010. It is a matter for discussion, but foreign investments are an important factor in the quick revival of the economy. From this point of view the steep decline in new foreign investment flow to Slovakia in 2009–2010 is alarming (only 0.5% of GDP in 2010, as indicated by UniCredit Bank 2011). This is surprising for those arguing that the adoption of euro will multiply FDI inflow into the country. Such a development is, for example, one source of enduring crisis in the construction industry (together with a reduction of infrastructure projects and slowly recovering mortgage market and related housing construction).

Inflow of FDI has been supported by various sorts of state intervention which are not so successful in optimizing the structural and spatial aspects of economic and social development. This effort represented tools applied by the central government, specialized state agency SARIO, as well as regional and local governments. The primary interest to attract investors to industry has been in principle successful. Less attention had been paid to attract investors into knowledge-based and creative industries, or advanced business services. More elaborated strategies and measures in attracting investors to such sectors were missing or appeared later. Each level (central, regional, local) were glad of any investment coming in, and deeper structural considerations were more theoretical than practical. In a similar way, despite various motivations to invest in peripheral locations, they have not been able to redirect investments to lagging regions to a larger extent. The priority has been to attract investments to Slovakia, if possible to regions with higher unemployment. In reality, most investors preferred locations in the western part of the country, or locations at least close to large urban centres. Only smaller industrial investments found their way even into such lagging regions, mostly attracted by the cheaper, but qualified labour force.

Foreign trade relations have primary importance for Slovakia. As the only possible way for economic expansion in a small country, improved export performance has a very positive effect. However, the latest positive development has generated one-sided orientation on Euro-Atlantic trade partners, primarily EU members, and even among these on a narrow group of countries. Export to EU countries comprised 84.4% and import 66% of total volumes in 2010 (Statistical Office of the Slovak Republic 2011a). Two countries – Germany and Czech Republic are the destinations of one third of total Slovak export (in 2010). Under such scope of dependence, even a small decrease of demand on these markets generates large difficulties in Slovakia. Activity is less extensive on other markets, including those working more successfully during the economic crisis (e.g. BRIC countries). Although it is part of overall global trade relations, including EU external trade relations, Slovak export should be more balanced from a structural as well as spatial point of view. Diversification is needed to reduce extreme dependence on energy resource import, predominantly from Russia.

Slovakia enjoyed the opening of labour markets and the possibility of workforce migration in the EU. It substantially helped in coping with the high unemployment rate before the crisis. It is estimated that about 220–230 thousand Slovak citizens worked in EU countries (in 2006), which means almost 10% of all employed persons in Slovakia (e.g. Divinský and Popjaková 2007). The global economic crisis revealed certain negative features of labour migration from Slovakia. The return of a large portion of migrants back to Slovakia is strongly related to its sectoral affiliation. Both in neighbouring countries (Czech Republic, Hungary), and in more remote working migrants' destinations, they were employed in sectors seriously hit by crisis. Such sectors include manufacturing, construction, hotels and restaurants, retailing. Only small numbers of those working abroad were in highly qualified jobs (a higher share in the Czech Republic, the most traditional country for Slovak citizens working abroad). A large portion of migrants were from regions with higher unemployment and their return caused further culmination of unemployment there.

Business sector in Slovakia showed certain resistance to the crisis thanks to its own internal adaptation. Larger companies, companies owned by foreign capital stayed in business. They preferred reduction in employment and production times. There has not been any significant number of larger company closures or relocations to other countries. Companies used their reserves, attempted to protect core employment, and substantially improved labour productivity. Combined with still existing uncertainty, it has meant limited new job creation even after the deep-crisis months. This is especially the case of large companies that did not collapse and are able very quickly respond to marked demand. Small and medium-sized companies have been damaged much more, including more closures. Particularly, signs of a "jobless recovery" induce calls for improvement of the business environment in Slovakia.

The response of the central level was confused by the previous positive economic development. The scope/number of measures and resources allocated were influenced to certain extent by misleading introductory suppositions. They included the hypotheses that the crisis in Slovakia would not be so deep (after a few years of high growth rates); that crisis economic development and measures adopted were backed by a good situation in public finances (so there would be no problem with expanding expenditures and financing measures); and that the crisis would be short and growth would return soon. However, crisis in the economy was in fact quite deep especially during 2009. Public budgets strongly influenced the combined effects of government spending (resignation from any cuts in government spending especially in 2009), the costs of adopted measures and crisis consequences (e.g. decline in tax income). At the same time, the duration of the crisis was longer and economic recovery fragile. Central government activity to help many segments of the society was too ambitious – help for businesses and citizens suffering during the crisis – while forgetting its own limited capacities and impact on public finance.

Among the problems of anti-crisis measures adopted in Slovakia, is their high number (about sixty) and diversity. The efficient application of all of them on a reasonable scale has not been an easy task. There is also evidence of unclear identification of problems and pressure of various interest groups within society to have their "own" measures. Certain underestimation of the crisis is confirmed by the size of resources planned for all measures compared to other states. Planned anti-crisis measure costs of 350–400 mln EUR a year (for 2009 and 2010) have been dispersed to a large number of measures. It also seems that part of these resources had not been spent. Even more complicated are the evaluation of measures. Some of them were highly administratively demanding, while others were more easily accessible (contributions to prevent layoffs). There were measures that were in place within a few weeks, as well as measures that needed months for real implementation. Such time aspects were not always taken into account. It is already clear that part of the measures has been applied in a much reduced number of cases (e.g. microloans, SME's in incubators). Among the more successful are the contributions for new workplace creation, contributions to cover insurance payments of workplaces threatened by layoffs, as well as support of local public workplaces. More efficient were programmes focused on housing – credits for insulation, or subventions for solar panels and biomass heating. Reasonable success has been shown by the amendment of the Labour Code in favour of more flexible employment, as well as changes in tax legislation concerning depreciation, or non-taxed income. In permanent use are standard measures such as investment stimuli for large investors (with regional differentiation of support). High attention was given to large investments supported by the central government – motorways (under the PPP scheme) and power stations (built by private investors). Among the most problematic has been support of so-called social enterprises, being costly and affecting competition on relevant markets. However, there have been no specific measures addressing regional differences. The whole series of Fico's central government meetings in regions (accompanied by the allocation of minor resources on regional public sector projects), can be viewed more as political propaganda than real and systematic support of regions in social and economic troubles. Regional and local self-governments did not participate in shaping anti-crisis measures with central government. Thus, despite political rhetoric indicating the sufficiency of measures and return of economic growth, there were some shortcomings, not mentioning other approaches and measures that could have been useful.

THE ROLE AND POSSIBILITIES OF REGIONS IN CRISIS MITIGATION

A number of reasons influenced the potential role of regions in mitigating the crisis. As one of the most important, we can consider the absence of attention to regional development and policy in the nineties. The suitability of current divisions of the country at the regional level is questionable. Although there have been about ten years of more intensive building of the regional level institutional environment (with leadership of regional self-governments), its real functioning is still not fully efficient. It is a less powerful level of government, lacking more extensive powers and resources. Their potential role and initiatives have further diminished the financial scarcity caused by the crisis. Combined with some other reasons, the regions have played a less significant role in mitigating the economic crisis in their region.

Regional development and policy was marginalized during the nineties. It caused delay in building the grounds and tradition of taking regional economic and social differentiation into consideration, as well as well-elaborated policy formulation and implementation. Buček (2002) summarized the main features concerning this field in this period. Among the main shortcomings, he mentions institutional scarcity and instability (at both central and regional level), no legislation addressing regional development policy, lack of financial resources, and no system of planning, programming, and implementation. Under such conditions, even attempts for certain support of regions were symbolic, unsuccessful, and applied on an insufficient scale (e.g. during 1996–1998). Regional policy penetrated into practical policy at the turn of the millennium. Surprisingly, the main spiritus movens was not the existing regional differences and problems with regional development as such, but the perspective of joining the EU and its regional policy framework adoption in Slovakia. After years of debate, the new ministry (Ministry of Construction and Regional Development) was established at the end of 1999. Attention to regional development increased and extensive activities in the field of regional policy began. Basic legislation concerning regional development was adopted within a few years (including the main Act on Support of Regional Development, 2001). Later it was accompanied by a set of other legislation with support tools in related fields (e.g. employment, industrial parks, investment stimuli). Regional policy effects were multiplied by access to EU funds. Paradoxically, within the crisis period, this Ministry was cancelled (as part of public spending cuts to June 30, 2010) and its agenda dispersed among a number of other ministries. Thanks to such timing, the backing of regional development issues diminished during the crisis. Nevertheless, the central level still plays the leading role in shaping regional policy although now with slowly expanding participation of the regional self-governments.

Two aspects of territorial division of the country have been disputed in relation to regional development. These concern the spatial delineation of the country in self-governmental regions (1) and NUTS 2 regions (2). The first problematic case is the administrative division into eight regions, originally introduced in 1996 to serve regional state administration. However, this has also been used for self-governmental regions institutionally working since 2002 (also NUTS 3 level). These regions were delineated by breaking the usual criteria of regional division (e.g. traditional regions were not respected, territorial division was not balanced – 4 regions in Western Slovakia and only 4 regions in Central and Eastern Slovakia, hierarchy of regional centres was ignored), and this complicates processes of self-organized development from below. Similar questions concern the division of the country at NUTS 2 level, important in EU programming and funds distribution. The Slovak Republic delineated units combining usually two administrative regions. This generates complication in practical regional development processes depending predominantly on the NUTS 3 level institutional environment. There is a specific delimitation of Bratislavský region (Bratislavský samosprávny kraj) as a separate NUTS 2 unit. Under such delineation Bratislava region is the only one that by far exceeds the 75% limit for more extensive EU regional policy support. The remaining regions are far below the EU average. These doubly artificial spatial construction of regions complicate potential for more natural, bottom-up, endogenous regional development initiatives and consensus building on development priorities in regions.

Regional self-government is still not at a powerful enough level compared to central and local levels. As emphasized by Buček (2011), the very low participation in regional elections goes to show that perception of the role of this level of government among citizens is still very low. Regionalization as one of the organizing principles of the country is questionable, and regional identity and internal cohesion of regions is not sufficiently developed. Such missing regional identity and cohesion will develop possibly within the next few decades. However, it will be difficult without wide-scale effort, e.g. regional identity building is difficult if there is lack of regional printed and electronic media. Regional self-government will need more electoral periods, or decades to develop and transform into a well-working and efficient institution strongly linked to its region. It also needs more powers and resources. The role of regional (as well as local) self-government in coping with the crisis has been limited. Besides limited powers, it also had to deal with huge difficulties in regional and local self-government finances. They are strongly dependent on income from shared tax (Personal Income Tax) which declined during the crisis. There was a 17.5% decline (or almost 70 mln EUR less) in this income transfer to regional self-governments between 2009 and 2010 (according to the Tax Directorate of the Slovak Republic 2011). This has meant the prolongation and deepening of a bad situation that had begun in 2009. It has led to strong reductions in investments, reduced operation costs, and, in some cases, it has threatened debt payments. Under such conditions regional self-governments have had little chance to adopt their own efficient measures. The greater part of their expenditure has been spent to cover obligatory public service functions. Their financial situation was worsened by the unexpected cost related to large floods during 2010 (e.g. infrastructure reconstruction). Regional and local governments belong more among the victims of the crisis and less among active players in mitigation of the crisis in Slovakia.

Within the last decade there developed quite a dense regional institutional environment oriented on various aspects of regional development. Regional development agencies, advisory centres, first contact points, incubators, etc. serve mostly to support small and medium businesses, or to assist in developing particular development projects. However, they were only a potential recipient/transmitter of minor measures in support of new businesses (e.g. in incubators) and have served for dissemination of information on selected measures. Their initiatives during the crisis had to follow their standard possibilities, without more rights or any additional resources. Their capacities and skills were mostly underestimated.

ECONOMIC CRISIS AND THE POLITICAL ENVIRONMENT IN SLOVAKIA IN 2009–2010

The economic crisis has inevitably become an important part of political competition in Slovakia. Already in spring 2009, leading political parties were aware that approaches and results of crisis mitigation could significantly influence their success in next the parliamentary election in June 2010. This was well expressed by the programme conference of the leading party of the governing coalition SMER-Social Democracy held in May 2009, and the special anti-crisis programme of the leading oppositional party SDKÚ-DS (Slovak Democratic Christian Union – Democratic Party), published in September 2009. It seems that the crisis agenda originally better served the opposition parties that formed the new government after June 2010. Approach to the crisis has been one of factors that led to a change of the central government coalition.

Programme conference *"SMER-Social Democracy Against Crisis"* (SMER–Social Democracy 2009) was supposed to formulate guidelines for party approaches during the economic crisis. It stressed its intention to minimize negative impact on people. Great attention was paid to causes of the crisis. They criticized especially the extreme liberalism and individualism that collapsed and cannot be considered as source of ideas in combating the crisis. The conference refused additional measures recommended by the political opposition such as interventions into the Labour Code in favour of employers, or changes in the social and health insurance system. Already adopted measures were summarized, but no new approaches or measures were proposed. This approach reflected the central government rhetoric and documents published during the previous year in power up till June 2010. Primarily, during the first half of 2010, optimistic formulations prevailed. Selected positive macroeconomic indicators were stressed and the imminent end of the crisis proclaimed. One of the latest reports of the 2006–2010 government mentioned signs indicating a turn in the economic cycle development and decreasing fears of long-term and deep recession (Office of the Government, May 2010). During the pre-election campaign, SMER-Social Democracy kept to this presentation of the economic situation. It seems that Fico's government underestimated the complexity of the crisis and relaxed from certain kinds of measures. It turned to passivity and fixation on already selected measures (e.g. PPP projects in motorway construction at any costs) during its last months in power. It strongly miscalculated and underestimated the situation in public finances.

The leading opposition party SDKÚ-DS adopted its special anti-crisis programme – "Programme for Slovakia in crisis" in September 2009 (SDKÚ-DS 2009). It offered 12 points, emphasizing the need for strategic impulses for economic development, growth of employment and middle class support and protection. It criticized the government at that time for the absence of an active economic policy, a worsening public finance situation, and lack of improvement in the business environment. This party document considered the anti-crisis measures of the government as insufficient, not generating sufficient effects for employment protection and new work-place formation. Only small number of measures were considered as useful. Among SDKÚ-DS measures were a reduction of public spending, a less complicated social insurance and tax system, more extensive EU fund spending, changes in favour of a more flexible Labour Code, and extensive qualification improvements of unemployed persons. One programme point explicitly focused on diminishing regional differences. Among the recommended tools was increasing motivation to invest in lagging regions (e.g. changes in investment stimulus distribution), and the expansion of motorway construction with the use of Structural Funds (but including access roads from/to less developed and peripheral regions). Most of these points were more extensively communicated during the pre-election campaign during spring 2010. SDKÚ-DS (as well as other opposition parties) persuaded the majority of voters that the economic situation was not so good and that the country needed a new round of reforms which they were able to perform.

NEW STAGE OF CRISIS, NEW CENTRAL GOVERNMENT, AND NEW MEASURES

The crisis entered into its new stage in Slovakia in 2010. The economic situation started to improve during the first half of 2010 although with an insufficient number of new jobs offered. More attention was attracted by the consequences in the previously overlooked field of public finance. Underestimated by Robert Fico's government, it has been the main agenda for the new government with Iveta Radičová as Prime Minister. The governing coalition has had to mobilize itself to consolidate public finance while not damaging the business environment and social situation of citizens. Its internal diversity (four political parties and other small "political platforms") can reduce the efficiency of measures adopted. It is matter of question, as to whether quite a large set of intentions concerning regional development will be implemented in the face of scarcity of public resources.

The positive economic expectations were confirmed by GDP growth already in the first quarters of 2010 at 4.7% (Q1 2010) and 4.2% (Q2 2010), although we should take into account its low base in 2009. GDP growth was 4.0% in 2010, comparing to –4.8% in 2009 (a longer view on GDP development is provided in Figure 1). Total Slovak export was 22.5% higher in 2010 compared to 2009 (Statistical Office of the Slovak Republic 2010, 2011a). However, although rapid growth of the unemployment rate stopped already during the summer of 2009, the unemployment rate stagnated at a level of 12–13% for many months (see also Figure 2). This indicates economic recovery generating a very limited number of new workplaces. Less positive information is also available if we turn our attention to public sector finance. Public sector expenditures expanded while incomes fell. There were no substantial public-sector employment and wage reductions, no taxes/fees increase, no other new payments applied in 2009–2010. General government debt increased quickly during the crisis since September 2008 to December 2009 from 17.2 bln EUR to 21.4 bln EUR. It increased from 27.8% of GDP (end 2008) to an estimated 41% at the end of 2010 (Statistical Office of the Slovak Republic 2011b). The most critical has been development during 2010 when the gap between budget incomes and expenditures has grown permanently. The general government deficit widened to 7.9% of GDP in 2009 and as negative information we can consider the expected 7.8–8% deficit for 2010 (estimations of IMF 2010 and Ministry of Finance 2010a). Less successful has been the idea to mobilize spending of EU Structural Funds in 2010. This development shifts the Slovak public sector finance indicators back to the beginning of the decade, to pre/early second generation economic reform years. Compared to this period, it means that not only a new round of reforms is needed, but a new kind of reforms and measures. The consolidation of public finance has already started, although it is questionable whether the planned goals will be achieved. The adopted measures should reduce the general government deficit to 4.9% of GDP in 2011 and finally to 2.9% in 2013 (according to Ministry of Finance 2010b).

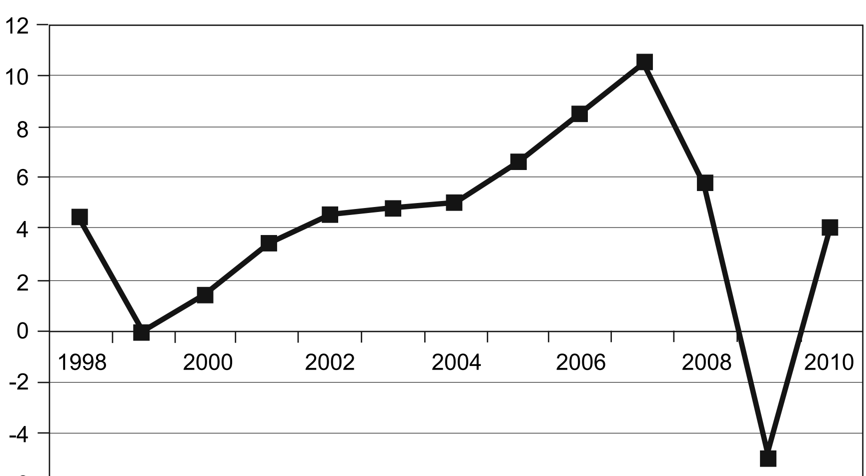

Figure 1 GDP growth 1998– 2010 (in %, year-to-year)

Source: Statistical Office of the Slovak Republic 2011c.

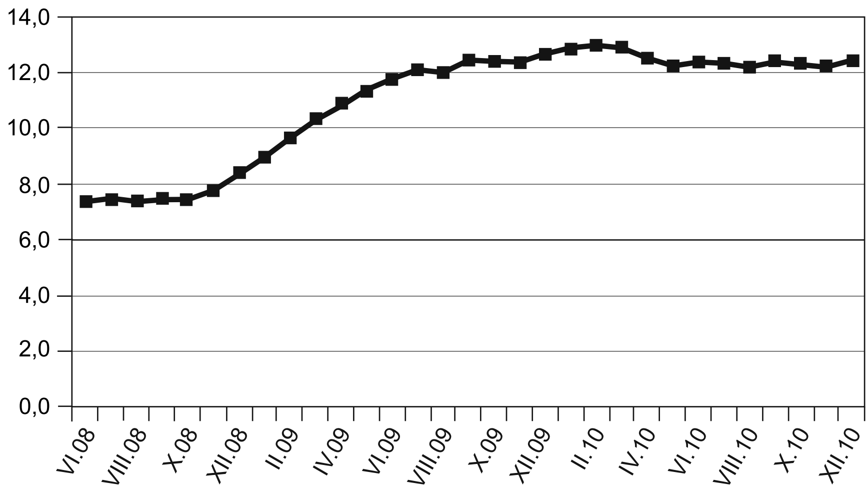

Figure 2 Registered unemployment rate in Slovakia (%)

Source: Office of Labour, Social Affairs and Family 2011.

Despite another electoral victory in the 2010 elections, SMER-Social Democracy party was not able to form a new government. The new government was created by a group of centre-right parties, combining SDKÚ-DS (led formally by former prime minister M. Dzurinda, with electoral leader I. Radičová), KDH (Christian Democratic Movement led by former Euro-Commissioner J. Fígeľ), MOST-Híd (a mostly Hungarian-minority-dominated party, but with Slovak MPs as well), and a new liberal political party SaS (Sloboda a Solidarita, in English – Freedom and Solidarity). The leader of the governing coalition is SDKÚ-DS, who holds the position of Prime Minister (Iveta Radičová, former Ministry of Social Affairs in 2005–2006). This government includes leaders of successful economic reforms made after the year 2000 – Prime Minister Mikuláš Dzurinda from 1998–2006 (now Minister of Foreign Affairs) and Ivan Mikloš (Vice-Premier for the Economy from 1998–2002; Vice-Premier and Minister of Finance 2002–2006; now again Vice-Premier and Minister of Finance). Nevertheless, this government will prefer more socially-balanced approaches compared to the more liberal economic approaches at the beginning of the decade. This shift should mean more respect to less developed regions. We suppose that more moderate approaches will be supported by the current Prime Minister Iveta Radičová (by professional origin a prominent Slovak sociologist). More moderate approaches will also be motivated by an effort to weaken the strong political position of SMER-Social Democracy party (with electoral preferences of about 40% according to opinion polls).

At present, we can only estimate the approaches of the new government coalition to the economic and financial crisis according to its introductory statements and first decisions. They reflect a primary need to react efficiently to severe problems in public finances – the state budget deficit and expansion of public debt. We can summarize and deduce some of the planned steps from the *Manifesto of the Government* (August 2010). Slovakia would like to return to its position in mid-decade from the point of view of business environment quality. Major adjustment of the Labour Code is planned in 2011. Among already adopted measures we can observe a reduction in public sector spending, a minor increase in consumption taxes (alcohol, tobacco), indirect tax increase (VAT increase from 19% to 20%). A plan to introduce a special banking tax is planned, and plans to sell selected state property and privatization has been announced. The central government already retreated from the majority of the planned PPP projects in infrastructure construction (especially extremely costly motorways). The state plans to reduce its intervention by state aid into the fields where it could damage the business environment and market competition. It is also expected that new measures will include pressure on local and regional self-governments for more fiscal discipline (more limits for local and regional borrowing). This may cause further reduction of their activities in developing their regions and communities. There has been discussion on an eventual state-initiated increase in local and regional taxes (by legislation). The state intends to withdraw from public bus transport (the state has a minority stake in most bus companies providing such services). This may open wider disputes concerning good accessibility to places of work by a well-functioning regional bus service. It seems clear that the central government will not use one of the most controversial pieces of legislation related to economic crises and state interests – the Act on Strategic Enterprises (for details see Buček 2010). The validity of this act finished at the end of 2010 without any real application.

The adopted *Manifesto*, in several sections, explicitly focuses on regional development. It well reflects the perception of the government concerning the relation of regional development to other public policy fields. There are explicit links among regional development and the business environment, investments, transport, and tourism. It declares an interest in reducing regional differences in Slovakia by promoting investments mainly in less-developed regions. The whole system of foreign investments inflow support schemes as well as related institutions will be reviewed and transformed into a more functional and better organized system. The government will make the rules for investment aid more transparent. It should support job creation in areas with high unemployment, as well as the transfer of innovations. It declares an intention to implement pilot reference development and public works projects for lagging regions facing high unemployment (e.g. extensive anti-flood works have already been approved). Despite attention to the construction of the main infrastructure (mostly motorways), less developed regions will be supported by better infrastructure links to a higher level of the infrastructure network. Under the influence of the crisis, the new central government intends to redirect more resources from EU funds to the Operational Programme Transport (to replace refused expensive private resources within PPP). There is also an intention to allow use of funds accumulated in retirement pension savings for the construction of motorways and expressways. Motorways and expressways construction will expand in regions which until now were not included extensively in transport infrastructure development. This is also the case in border regions and efficient infrastructure links to neighbouring states. Among the aims, we can find pressure for more rapid and efficient use of EU funds. Under consideration will be the transfer of more powers concerning the distribution of resources allocated in the Regional Operational Programme to regional self-government. Regional self-government should play a more important role in regional passenger transport planning and management in the public interest. Much larger attention will be given to tourism as an important sector influencing regional development. In more cases, Radičová's new government will attempt to redirect more resources in favour of less developed regions (e.g. tourism, rural development, and agriculture). Plans have been announced to elaborate a new concept of territorial development of the country, which should change the position of some regions (or growth poles) and their role in regional development.

SELECTED CHALLENGES IN THE SEARCH FOR A NEW STAGE OF DEVELOPMENT

The current economic crisis indicates that Slovakia should reconsider its development model. It should search for an adjusted profile of industry, as well as new activities and quality in the service sector. We can hardly expect that the country will return soon to pre-crisis figures in industrial employment. During the crisis, industry lost one fifth of its employment. The outcome we can find in more diversified, more productive industry, with a diminished share of total employment. Additional activities are needed in services to improve their global competitiveness. More attention must be paid to knowledge-based development in order for it to penetrate the regions to a greater extent. Finally, the strengthened role of regional level institutions will require a new stage of development.

One of the main barriers to economic development enhancement is the quality of the workforce and quality of education. It seriously limits the shift towards “high end” based regional development. Further inflow of foreign investments, as well as expansion of existing economic activities is inhibited by an insufficient availability of qualified workers. This concerns both the quality of vocational training, as well as the quality of university education. Extensive measures should address the large stock of long-term unemployed. Systematic effort should also focus on the integration of Roma communities and their efficient education.

It is already recognized that the Slovak economy is lacking sufficient performance in research and development, as well as endogenous technological innovation. In these fields, it is strongly dependent on foreign investments. Rehák and Sokol (2007) wrote about the “growth paradox“, which occurred when dynamic economic growth in Slovakia was possible without a coherent innovation system, appropriate institutional thickness or strong localized learning. Despite the adoption of national or regional programming documents and progress in their implementation, no substantial positive shift is observable. The only exception is Bratislava region with the highest concentration of R&D capacities and investments in knowledge intensive services thanks to its natural attractiveness and qualified work-force concentration. The crisis confirmed the opinion that the Slovak economy should pay greater attention to its own innovative capacities and technological progress.

Slovakia could better use opportunities for foreign as well as cross-border employment. In June 2010, there were 130 thousand Slovak citizens working abroad. Now, an already stabilized number of those employed abroad serves to confirm the contribution of this employment to economic stabilization in Slovakia. Further opportunities will be provided by the full opening of labour markets in the EU, including easily accessible labour markets in Austria and Germany. Meanwhile, a new strategy and more encouraging approach should be addressed to the employment of foreigners in Slovakia.

The existing situation in public finance urgently calls for a new, well-elaborated set of measures. The first months of the new government coalition document an uneasy balancing of diverse opinions among the participating political parties. Urgently needed reforms can lose their efficiency if undermined by too many compromises (e.g. in sensitive fields such as changes to the Labour Code). The too heavy focus of the central government on public finance measures can damage the business environment (e.g. in the case of small entrepreneurs). From this reason, measures proposed by the government should follow well-elaborated analysis and require a careful change in legislation. Another risk is presented by the required consultation and approval of EU fund resource re-allocation with EU bodies. This is accompanied by a risk of long delays in implementation (e.g. in the case of infrastructure). From among the measures already adopted, those ones should be selected which have positive effects, are easy to administer and can be implemented at reasonable costs.

The role of regional self-government and regional institutions should be strengthened by more powers combined with strong pressure on their transparent functioning. They should have the necessary powers and resources to execute their own regional policy. Regional policy should not be reduced only to a regional policy framework supported by EU funds, but additional goals and support schemes should be developed through their own initiative. The central government and regional self-governments should pay attention to regional identity and the internal cohesion of regions.

INSTEAD OF A CONCLUSION – NOT SO BAD AS IT COULD BE

Slovakia has been seriously hit by the crisis, although there were only limited internal reasons for its expansion. A small, open economy such as Slovakia can hardly avoid troubles if they emerge in the economies of its main trade partners. More simply, we can conclude that economic slowdown in partner economies means large problems for the Slovak economy, but "vice versa", their growth, means significant growth in Slovakia. It also appears at first sight that the Slovak economy is "easy down and easy up", with a too reactive economy. The size, structure, and dependency on external economic involvement support such an implication. The core of the economy is fully internationalized and production capacities mostly modernized. It is influenced by the strength of its global/foreign owners and the framework adopted by the central state. It inevitably reacts to positive as well as negative global economic trends. However, a strong decline in new foreign investment inflow threatens part of the development model applied in Slovakia and new reforms and policies are needed. It is not only a question of once again improving conditions for business and foreign investors, but in remaking other important sections of society as well.

In fact, the consequences of the current crisis were not so dramatic, taking into account the key crisis indicators in the Slovak economy in 1993, or 1998–2002. A certain positive shift is confirmed when watching and comparing the extreme values of basic indicators for these earlier hard-time periods. We can only hardly imagine the economic and social impacts of the crisis, if global economic crisis had come a few years earlier, when the Slovak economy was not yet sufficiently reformed and partially restructured. Another positive message is that the Slovak economy seems not so "bubble" based and has solid grounds. It is not facing such a deep crisis as some other countries. The ground of economic growth is mostly healthy, based more on a “real” economy. Nevertheless, the crisis offers a very realistic perception of the Slovak economy. It revealed the existence of fragile features of its development on a national level, as well as on the regional scale. Not all regions in Slovakia are equally resistant to crisis. They should reconsider their possibilities and should search for a good mixture of external and endogenous factors of growth with higher potential to generate workplaces and regional well-being.

The effects of measures adopted by the central government can be discussed from various points of view. The whole set of numerous, but less efficiently adopted measures, if they did not help, they at least did not substantially damage the economy or public finance in the short-term. They were similar to those adopted in other countries and the related costs were acceptable. They should be considered as interim and reconsidered later. It seems that the new government is reducing measures that could become damaging in the long-term. Withdrawal from investment plans to build expensive motorways under the PPP scheme confirms such an approach. It is questionable as to whether extremely large public investment projects should be considered as suitable anti-crisis measures. The crisis has not been deep enough to warrant paying such high costs that could generate huge future long-term liabilities for the state budget.

Within the last twenty years many reforms have been executed in Slovakia. This has provided experience in making reforms, although not all of them were fully successful. Now the situation is challenging again. However, there is no chance to achieve new and balanced economic growth by repeating old reforms steps. It is not so easy. There is pressure for more sophisticated reforms, well elaborated, with more analytical work done in advance, with requirements for far-sighted vision and innovative approaches. The question is whether the crisis will serve as an opportunity to start deeper processes of change in many fields of social and economic life, including changing the fate of at least some of the lagging regions. We need to imagine that a new round of successful changes can limit the severity of the next economic crisis (which will no doubt arrive at some point) in Slovakia.

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