Economic Effects in Slovakia within Integration in the European Union

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Abstract: The wide interest, application and membership of Slovakia in European Union enable to study the economic effects in general terms. In our study we are going to analyze the economic cooperation of Slovakia before and after membership in EU. We will discuss whether economic cooperation between Slovakia and EU members increased or decreased after EU membership. This article provides a comprehensive and contemporary comparative analysis of the economic performance, the economic structure and the trade relations between Slovakia and EU countries, allowing us to detect basic trends and developments. We will compare the economic performance of Slovakia and other EU members (including Czech Republic and Slovenia), looking at aggregate figures from integration in EU such as foreign trade, FDI, GDP and its structure, level of structural unemployment and employment, inflation and level of income.

Key words: EU Membership · Foreign Trade · FDI · GDP · Unemployment · Inflation

JEL Classification: F4 · F14

1 Introduction

The idea of peace and stability of a united Europe was the dream of philosophers and visionaries. On the ruins of World War II grows into the forefront the effort to create a new structure of Western Europe, based on common interests, based on treaties guaranteeing the rule of law and equality between all countries.

Basis for the future unification of Europe was laid on 9th of May 1950 by French Minister of Foreign Affairs Robert Schuman and economist Jean Monnet. They developed a plan of the European Coal and Steel Community, known as the Schuman Plan or Plan ECSC Treaty. This proposal was unanimously welcomed by Germany, Italy, the Netherlands, Belgium and Luxembourg. These countries, together with France were founding members of the European Coal and Steel Community, which preceded the European Economic Community (EEC) and the European Union today.

One of the most important products of the integration processes is a common internal European Union market. Towards the creation were concluded agreements, treaties and pacts and such developed through debates and economic integration to the form in which we know it nowadays. Not ideal and it is not in final form yet but its existence for us appears to be justified.

2 Methods

The main objective of the paper is assessment of the level of development of Slovakia within the European Union integration. The methodology in this paper does not use any structural model, but we used available information, databases and publications to compare the stage of development of economic indicators such as Gross Domestic Product per capita (GDP p.c.), unemployment rate, inflation and gross average monthly wage in Slovak Republic within its integration in the European Union. In order to better study the economic growth of Slovakia we analyzed several macroeconomic indicators such as the level of unemployment and risk of poverty. The implementation of comparison of chosen indicators with other countries as Czech Republic and Slovenia are given to get better overview of the issue.

Source data are drawn from the statistical database of the European Union (EUROSTAT), the Ministry of Agriculture of the Slovak Republic, and Statistical Office of the Slovak Republic. Paper is providing a synthesis of the available sources and for better illustration and clarity will be used rendering methods.

3 Research Results

3.1 Accession of the Slovak Republic in the EU

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The first steps towards independence for Slovakia were the first democratic elections for the federal parliament of the former Czechoslovakia by Czech National Council and the Slovak National Council, on 08-09 June 1992. The elections gave the possibility to choose two prime ministers, each in their republic, one for Slovakia, and the other for Czech Republic. Disagreements between the republics were intensified and it became clear that the previous federation may not survive. Slovakia was more interested in independence, because in July 1992, declared a sovereign state.

First diplomatic relations between the European Union (at that time called the European Community and the former Republic of Czechoslovakia was established in September 1988. The first agreement between them was the four-year deal for trade in industrial products, which entered into force in April 1989.

European Community signed another agreement with Czechoslovakia in 1991, called the "European Agreement". This agreement was not only for free trade but regulated many areas of economic and political cooperation. The provisions were similar to the members of the European Union in the first phase (1958-1961). This new agreement replaced the former agreement in 1989, but not entered into force, since Czechoslovakia split into two new republics, the Czech Republic and Slovak Republic and had to be made two new agreements with the European Community.

The "European Agreement" with the Slovak Republic was signed on 4 October 1993 and entered into force on 1 February 1995. This new agreement, added new relationships, such as, cultural and financial cooperation and formulated the overall goal for full membership in EU. Full free trade of goods had to be done during the 10-year period.

Slovakia submitted a formal request for accession to the European Union on 27th June 1995. Two years later, the European Commission published its opinion on the application for membership of Slovakia. European Commission (1997) stated: "Slovakia doesn't have stable institutions, fundamentally lacks in political life".

The Accession Partnership since 1998 was supported by financial assistance through instruments: PHARE, ISPA and SAPARD. From PHARE program (The Programme of Community aid to the countries of Central and Eastern Europe) funded a variety of projects in support of minorities, the functioning of the courts, control of migration, Small and medium Enterprises (SMEs), Non Governmental Organisations (NGOs), privatization of banks and cross-border cooperation, with a total amount of 570 million Euros.

From ISPA (The Instrument for Structural Policies for Pre-Accession) instrument was financed highway section D61 in Bratislava, modernized three rail sections and more sewers were built or reconstructed with a total amount of 55 million Euros per year. SAPARD (Special accession programme for agriculture and rural development) was agricultural assistance, implemented in Slovakia in 2002, with amount of 18.6 million Euros a year.

According to European Commission (1998) the first publication of the Progress Report of Commission was on 4 November 1998, for all candidates from Central and Eastern Europe. At the report were provided positive assessments of Slovakia for the good organization of the parliamentary elections and the implementation of most of the reforms necessary for the establishment of functioning market economy. Due to changes implemented in 1998, Slovakia has met the Copenhagen political criteria. The Council decided to begin accession negotiations with Slovakia in February 2000.

The fifth and final publication of the Progress Report was released on 9 October 2002. As the European Commission (2002) mentioned European Council meeting in Copenhagen in December 2002 were officially closed the accession negotiations with Slovakia and nine other candidate countries.

The European Parliament has approved the expansion of the EU on 9 April 2003 and the accession treaty was signed on 16 April 2003 during a meeting of the European Council in Athens. The Slovak Parliament approved the agreement on 1 July 2003, by that Slovakia became a full member of the EU on 1 May 2004.

3.2 Economic effects in foreign trade of Slovakia after EU integration

Slovakia's accession negotiations to the EU had a great impact on the growth of foreign trade. Even before joining the EU, the largest foreign partners were members of the EU. In 2012, the main export partners of Slovak goods were members of the EU with 84%, as follows: Germany 21.3%, Czech Republic 14%, Poland 8%, Hungary 7.2%, France 5.4%, Austria 6.7%, Italy 4.6% UK 3.9%. The main exported products in 2010 were: machinery and transport equipment (56%), raw materials (22%) and chemicals (3%).

On the other hand, in 2012, mainly also imported from members of the EU, with 64%, as follows: Germany 16.6%, Poland 3.6%, Czech Republic 9.6%, Austria 2.3%, Hungary 3.6%, Italy 3%, and Russian Federation 9.9%, South Korea
9.4%, China 6.2%, and in 2010 the mainly was imported: machinery and transport equipment (43%), raw materials (20%) and chemicals (6%).

Exports of goods and services from 2000 to 2012, was growing continuously, except in 2009 when the crisis began in the EU, dropped by about 20%. Slovakia registered the highest value for its exported goods and services in her history in 2012, 68.3 billion euro. The growth of exports of goods and services from 2000 to 2012 was 311%. As the exports of goods and services was growing for these 12 years, constantly was growing imports of goods and services, except in 2009, when it fell by about 22%. Highest value of imports of goods and services, Slovakia has registered in 2012, 64.8 billion euro.

For the Slovak foreign trade it’s important that these last two years, actually for 2011 and 2012 is in surplus, and the record reached in 2012, with 3.5 billion euro. The share of goods and services, in exports and imports, is much higher in goods, with more than 91% in 2012, see Figure 1.

**Figure 1** Export and import of goods and services of Slovakia from 2000 to 2012 (in millions of euros)

Source: Statistical Office of the Slovak Republic (2013)

### 3.3 Foreign direct investment, GDP and its structure in Slovakia

In Slovakia, the development of the economy was achieved during the last twelve years. The membership in EU, NATO (North Atlantic treaty Organization) and OECD (Organisation for Economic Co-operation and Development) heavily affected the continuity of the increase in foreign direct investments and the growth of real GDP in Slovakia.

Figure 2 points that foreign direct investments in Slovakia, starting in 2000 to 2012 grew by about 200%. The highest value of FDI (Foreign Direct Investment) in Slovakia was achieved in 2006, 5.8 billion U.S. dollars, and lowest when the crisis started in the EU actually were negative with minus 6 million U.S. dollars. The FDI of Slovak companies that invested in other countries was highest in 2010, 946 million US$ and negative in 2012, minus 73 million US$.

Real GDP was around 20 billion US$ in 2000, and has grown to four and a half times compared to 2012, 92 billion US$. The highest value of GDP was achieved in 2011, 96 billion US$. GDP per capita grew by four and half times, from US$ 3,775 in 2000 to 16,738 US$ in 2012, and the highest value was reached in 2011 with 17,545 US$.

The share of FDI in GDP was very low before EU membership, and then in 2002 with 24% became the highest. FDI as a percentage of GDP of Slovak companies in other states were highest in 2006, about 1.1%. Overall, FDI were in the automotive sector, electronics, chemistry, metallurgy and processing of metals, rubber, plastics and machinery. Slovakia's comparative advantage in attracting foreign capital was excellent geostrategic position and the tax system. Moreover, the advantage of Slovakia is considered its cost-effective and well skilled workforce and proximity to European markets.

It is notable that the major investments have been made in research and development, design and innovation, technological centers, information and communication technologies and software development, outsourcing - regionally based, high technology and tourism centers. The main investors in Slovakia are from USA, Germany, Japan, Korea, France, Spain and the Netherlands. Also it is significant that the manufacturing sector has an important role in the
economy of Slovakia. Long tradition in the production, along with relatively low labor costs and raw materials, explains the large inflows of foreign direct investment. The share of agriculture in GDP decreased from 4.46% in 2000, to 3.63% in 2012.

**Figure 2** FDI and GDP in Slovakia during 2000-2012 (in millions of US$ and per capita)

![Graph](image)

*Source: UNCTAD (2013)*

**Figure 3** Structure of GDP in Slovakia from 2000 to 2012 (in %)

![Graph](image)

*Source: Statistical Office of the Slovak Republic (2013)*

### 3.4 Level of structural unemployment and employment in Slovakia

The unemployment rate in Slovakia was twice higher than in the Czech Republic and also much higher than in Slovenia for the period from 2000 to 2012. The highest unemployment rate was registered in 2001, 19.2%, and the lowest after joining the EU, in fact in 2009, 9.6%. The number of unemployed in 2012 was the highest in last eight years, in fact since 2006 when it reached 16.2%. Rising unemployment in Slovakia was caused by the global financial and economic crisis that hit the country in 2008, and the recession in the Eurozone and the weakening of economic growth of Germany in 2012, which means moderately slow growth of foreign demand, considering that 85% of Slovak production ends in Eurozone countries. In this regard were the measures adopted by the Slovak government, for example increase in direct taxes, income taxes and tightening of the Labour Law which have the greatest impact on the creation of new jobs.
Our empirical findings show that Okun’s Law does not hold for the Slovak labour market because the unemployment rate for the period 2008-2012 have increased by 4.4% and Real GDP have decreased only by 2.8% for the same period.

In Slovakia the number of employees in the agricultural sector has declined steadily and reached 4.35% in 2012, comparing to year 2000 when it was 7.16%. On the other hand, the number of employees in services grew from 67.82% in 2000 to 74.82% in 2012, while the number of employees in manufacturing has decreased from 25.02% in 2000 to 20.83% in 2012. Labour productivity (value added per worker) in agriculture in Slovakia grew over the period analyzed. (See Figure 5)

**Figure 4** Level of unemployment in Slovakia from 2000 to 2012 (in %)

Source: Statistical Office of the Slovak Republic (2013)

**Figure 5** Employees level in Slovakia according to economic activities from 2000 to 2012 (in %)

Source: Statistical Office of the Slovak Republic (2013)

### 3.5 Inflation in Slovakia
Slovakia faced an average rate of HICP, which varied from 8.4% in 2003, compared to the prices in the same period last year, actually was the highest inflation rate recorded for the entire analyzed period from 2001 to 2012, and the lowest inflation rate of 0.9% was registered in 2009. Figure 6 shows that in 2012 inflation have been 3.7%.

**Figure 6** Average annual rate or HICP in Slovakia for the period 2001-2012 (in %)

The index of consumer prices was the highest in 2003, almost 108.5, which means 8.5% inflation, compared to the same period of one year ago, and the lowest was in 2010, 101.0, which means 1% inflation compared to the same period last year.

**Figure 7** Consumer Price Index for the period 2002-2012

Apart from the difference in prices in the current year, comparing to the same period last year, in the paper we analyzed the difference in prices of the current year compared to the December 2000, with the coefficient 100. Thus, we concluded that consumer prices since 2002 to 2012, grew continuously and reached coefficient 161.9 in 2012, in fact the cost of living for the Slovaks as a result of convergence with EU became more expensive by 62 per cent. In 2012, prices grew mostly in education with 272.2 and health services with 203.4, followed by housing, water, energy and fuel with 244.7 and alcoholic beverages and tobacco with 187.0, compared to December 2000. On the other side, prices for furniture and furnishings in 2012 fell by 12.2%, with coefficient 88.8, compared to December 2000.

### 3.6 Level of income in Slovakia
The European Union Statistics on Income and Living Conditions (EU-SILC) in Slovakia started to be implemented in 2005, together with other European countries that joined the European Union in 2004.

According to OECD (2011) Slovakia together with the Czech Republic belongs to the countries with the least exposed persons at risk of poverty from the member countries of the OECD, also from member countries of the European Union. Slovak citizens with average incomes below 60% from the country’s average in 2011 were only 13%.

**Figure 8** At risk of poverty after social transfers in Slovakia from 2005 to 2011, in % (covering all ages, both genders)

Source: Statistical Office of the Slovak Republic (2013)

Prešov region has the most people at risk of poverty that reached 20.2% in 2011, and the region with least people at risk of poverty 7.2% were in Bratislava in 2011.

**Figure 9** At risk of poverty after social transfers and according to regions in Slovakia from 2009 to 2011 in % (covering all ages, both genders)

The quintile's share of income for the period from 2005 to 2011 varied from 3.4% in 2008 to 4.1% in 2006. In 2011 it was 3.8, which means that the income of 20% of the population is 3.8 times higher comparing to the population with the lowest income.

Slovakia, like the Czech Republic and Slovenia had relatively low concentration of income. The gap between the incomes of rich and poor has decreased in 2011 by 0.2% and was 25.7%, comparing to 25.9% in 2010. Household income was slightly better distributed in 2008, 23.7%, and the worst were distributed in 2006, 28.1%.

**Figure 10** Inequality of income distribution in Slovakia from 2005 to 2011, in (%)

Source: EUROSTAT (2013)

### 4 Conclusions

One of the main goals for economic integration of the member states of the EU is common progress through the expansion of the European common market, by increasing competition in goods, services and factors of production, as well as long-term economic growth. The economic effects of integration of Slovakia in EU led to drastic growth of exports of goods and services from 2000 to 2012 by 311%, with small decrease in 2009. The FDI in 2012 grew by 200% comparing to 2000 when Slovakia wasn’t EU member yet. Real GDP in 2012 comparing to 2000 has grown to four and a half times, 92 billion US$. GDP per capita grew also by four and half times, from US$ 3,775 in 2000 to 16,738 US$ in 2012. The unemployment rate in Slovakia was twice higher than in the Czech Republic and also much higher than in Slovenia for the period from 2000 to 2012. The integration in EU, brought to decrease in unemployment rate, until 2009, reaching lowest rate 9.6%, and after that the country was affected by the global financial and economic crisis, therefore the number of unemployment was increasing every year and in 2012 was the highest in last eight years.

The effect in economic sectors was that the number of employees in the agricultural sector has declined steadily and on the other side the number of employees in services was growing. The highest rate of HICP after EU membership reached in 2011, by around 4%.

Slovakia belongs to the group of countries with the least exposed persons at risk of poverty from the member countries of the Organization for Economic Cooperation and Development. Slovakia from implementation of EU-SILC in 2005, it never reached 14% of its citizens at risk of poverty after social transfers with average incomes below 60% from the country’s average. The government needs to do more to decrease the number of the risk of poverty of the people living in the more affected regions, such as Prešov region. Slovakia, similar to the Czech Republic and Slovenia had relatively low concentration of income.

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