

Evaluation of Economic Indicators of Small and Medium – sized Enterprises in the Slovak Republic after the Outbreak of Coronavirus Crisis

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Abstract: The aim of the article is to evaluate the development of economic indicators of small and medium – sized enterprises in the Slovak Republic in the context of the impact of COVID - 19 in 2020. For this purpose qualitative research strategy was applied and research was based on the statistical data provided by the Statistical Office of the Slovak Republic. It can be observed that the effects of the new type of coronavirus have also been reflected in the economic performance of the small and medium-sized enterprise sector. The value added of small and medium – sized enterprises - legal entities decreased by 3.8% year-on-year. The gross production of small and medium – sized enterprises - legal entities also decreased by 4.8% year-on-year. Gross fixed capital formation of small and medium – sized enterprises decreased by 13.6% and profit before corporate tax decreased by 11.8% year-on-year. The outlook for the performance of the Slovak economy in the coming years indicates that the Slovak economy will be affected by the effects of other waves of the pandemic. It will therefore be necessary to continue to make support for small and medium-sized enterprises more effective.

Key Words: Small and medium – sized enterprises, economic indicators, coronavirus crisis

1. INTRODUCTION

Small and medium – sized enterprises (SMEs) represent an important part of the business sector and they have a special significance for the development of the Slovak economy. According to the Report on the State of SMEs prepared by the Slovak Business Agency (2021), SMEs accounted for 99.9% of the total number of business entities in the Slovak economy in 2020. SMEs accounted for 74.2% of employment in the corporate economy and contributed by more than half (53.6%) to total value added.

The year 2020 was exceptional in terms of the development of exogenous factors, which changed the development not only of the Slovak but also of the global economy in an extraordinary way. The COVID-19 pandemic was unconditionally central factor of the economic environment in 2020. However, it was not only a significant drop in economic performance characteristic for this year. Dissemination of a new type of coronavirus in 2020 was to a large extent also associated with a relatively high degree of uncertainty and the risk that was primarily based on the evolving epidemiological situation influencing the economic activity of business entities.

Regarding the importance of the research outcomes, it can be witnessed that appraising the performance of SMEs and understanding their perception toward the economic anxiety caused by COVID-19 can facilitate managing the income deficiencies, influence the economic curing strategies, and inspire innovative dealing with the economic challenges driven by the COVID-19 pandemic.

Empirical studies, like for example Thorgren (2020); Cowling (2020), resp. Cowkertz (2020) emphasized on the impact of covid-19 on SMEs due to impending economic distress occurred in this pandemic and recovery strategies to manage the crisis. Most of the studies conducted on SMEs addressing Covid-19 are based on developed countries. In this regard, our contribution is determined for policymaking, decision-makers, and governmental agencies to build recovery plans and proper actions needed to manage the consequences caused by the disaster against the economic and other developments within the context of SMEs. Overall, there is a clear need to find ways and customize operations to adapt to the new work modes that require social distancing, online operations, and site management. In addition, new alternative modes of SMEs work follow to compensate for the lower working hours from the office and increased online working from home.

The aim of the article is to evaluate the development of economic indicators of SMEs in the Slovak Republic in the context of the impact of COVID - 19 in 2020.

2. MATERIAL AND METHOD

For the purpose to fulfil the aim of the article qualitative research strategy was applied. Within the secondary research (desk research), available secondary sources of data and information were processed, for example, reviews, articles, empirical studies, publications and websites (especially those of the Statistical Office of the Slovak Republic, Ministry of Economy of the Slovak Republic,

Ministry of Finance of the Slovak Republic, Slovak Business Agency).

The development of the main economic indicators is presented in the time series, which includes the analysis of the values before and after the outbreak of Covid – 19 pandemic.

We compared the development in the Slovak Republic with the development of the euro area, resp. with the V4 countries.

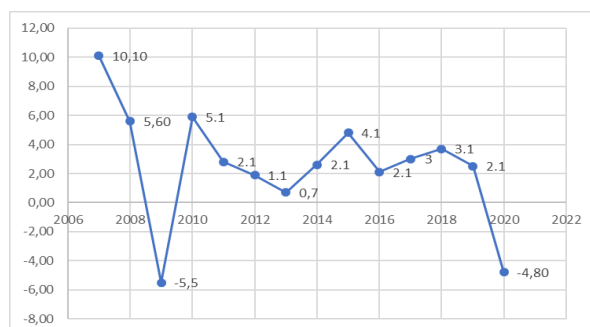
3. MACRO ECONOMIC ENVIRONMENT IN 2020

The initial outlook for the development of the Slovak economy, which was presented at the end of 2019, suggested slowdown in growth, resp. a similar development was expected in 2020 as in 2019. On the other hand, a possible continuity in the introduction of other protectionist measures, which could trigger a recession in several economies, was also signalized. At the beginning of 2020, the forecasts for economic development changed significantly. The reason for the significant change in the predictions of the relevant institutions was the outbreak of a new type of coronavirus.

Due to their exceptional nature, unexpected events from the beginning of 2020 in the field of exogenous factors (outbreak of COVID-19) extraordinarily changed the predictions of the overall development of the Slovak economy, the global economy and were unconditionally the main factor of the economic environment in 2020.

With the outbreak of a new type of coronavirus, Slovakia's continuous economic growth was interrupted in 2020, with the most significant drop in economic activity recorded in the second quarter of 2020.

Figure 1: GDP growth rate (%)



Source: own elaboration according to the World Bank data

As figure 1 depicts, the performance of the Slovak economy affected by the pandemic decreased after years of continuous growth in 2020. As mentioned, the greatest drop of almost 11% was recorded in the

second quarter of 2020. In the second half of the year, the Slovak economy succeeded slow down the pace of its decline. The fall in gross domestic product (GDP) in the second half of the year was significantly lower (in the fourth quarter it represented - 2.1%).

Regarding the development of GDP, from the point of view of the production side, the economic downturn of the Slovak economy was related to a decrease in gross production (by 9.0%), intermediate consumption (by 11.7%) and value added (by 4.7%). Net taxes on products decreased by 4.8% year-on-year. The downturn in the Slovak economy was also related to a decline in domestic demand. Household final consumption decreased by 1.1%. General government consumption recorded stagnation after previous growth.

In general, the COVID-19 pandemic does not affect economic activity in the same way. The decline in demand has been recorded globally in traditional industries and services, which have been directly linked to the measures taken to prevent the spread of coronavirus in order to protect health and lives. Many operations, especially in the services sector, have therefore been closed. The crisis associated with the spread of coronavirus, on the other hand, has led to an increase in demand for sectors and services with a penetration of digitization (eg., this has been reflected in an increase in demand for ICT products). It turns out that the technological readiness of the country, respectively. the digital transformation of the country may be crucial in this direction in the near future.

The decline in economic activity did not only occur in Slovakia, but it was also typical for other countries. Among the V4 countries, Poland managed to cope best with the negative consequences of the pandemic. The performance of the Polish economy decreased by only 2.7% year-on-year. Slovakia (down by 4.8%) and Hungary (down 5.0%) were well behind Poland. Due to the difficult pandemic situation, the Czech Republic's economy experienced the deepest downturn (by 5.6%). Performance of the EU as a whole declined by 6.1%, mainly due to the downturn in major European Union economies such as France and Spain.

Investment activity also recorded a negative development in 2020. Gross fixed capital formation fell by 12% year on year. From the point of view of individual sectors, the negative development in the area of investment was evident especially in the sectors of agriculture, industrial production, construction and transport. Investments were reduced in machinery, equipment and means of

transport. The decline in investment recorded in the industrial production sector was also related to lower investment activity in the vehicle production sector.

Compared to 2019, total exports of goods and services also decreased by 7.5%. Goods and services in the total value of EUR78,469.8 mil. were exported from Slovakia.

The decline in the performance of the Slovak economy was also reflected in the labor market. In the months of April and May 2020, there had already been a year-on-year decline in employment in almost the entire spectrum of sectors. The release of anti-pandemic measures during the summer of 2020 has been a sign of temporary improvement in labor market situation. At the beginning of the fourth quarter of 2020, the labor market situation which was affected by second wave of the pandemic and by tightening of restrictions, worsened again. Entrepreneurs active in the field of accommodation and restaurant services dealt with employee retention problems. The construction and industry sectors were among other sectors with a significant drop in employment. The information and communication services sector was the only sector of the economy in which demand for labor grew.

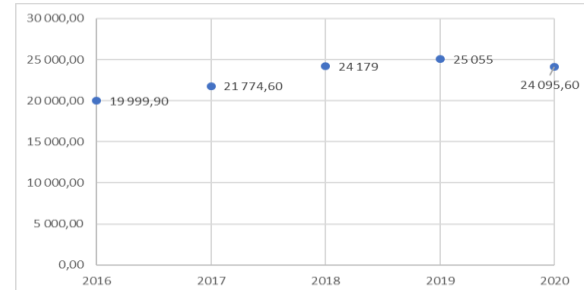
In 2020, SMEs achieved a 74.2% share in employment in the corporate economy. The share of SMEs in total employment in the Slovak economy was 59.1%. Despite of support measures to maintain employment, the average number of persons employed in the category of SMEs (including FO - entrepreneurs) decreased by 2.1% year-on-year (i.e. by 29.9 thousand persons) to 1,400.9 thousand employed persons. Employment decreased year-on-year in all size categories and legal forms other than micro-enterprises, which saw a year-on-year increase in numbers of employed persons by 1.4%. They were mostly small enterprises with the problem of retaining employees (year-on-year decrease in the number of persons employed by 4.5%) and medium-sized enterprises (by 3.3%).

4. RESULTS AND DISCUSSION

The unfavorable economic situation caused by the pandemic also had a negative impact on the added value of the business sector. SMEs, which fought for their survival in the most affected sectors, also had to deal with anti-pandemic measures. In 2020, the continuous growth trend of the value added of SMEs, which has continued since 2014, was suspended. As it is depicted in figure 2, the value added of SMEs - legal entities decreased by 3.8%

year-on-year. However, the decrease was more than half lower than in the crisis year of 2009 (by 9.8%). In absolute terms, the value added of SMEs reached the level of EUR24,096 mil.

Figure 2: Development of value added, SMEs – legal persons non – financial corporations



Source: own elaboration according to the Statistical Office of the Slovak Republic

The negative consequences of the pandemic affected the results of SMEs of all size categories. The most significant drop in value added was recorded by small businesses. In 2020, the share of SMEs - legal entities in the value added created in the non-financial corporate sector reached 53.6%. In the year-on-year comparison, the achieved share decreased by 1.3 pp. The decline in the share of SMEs was recorded after the previous three-year increase. Industry remains the most important sector in terms of SME value added. In 2020, industry accounted for one quarter (25.0%) of the total value added of SMEs - legal entities.

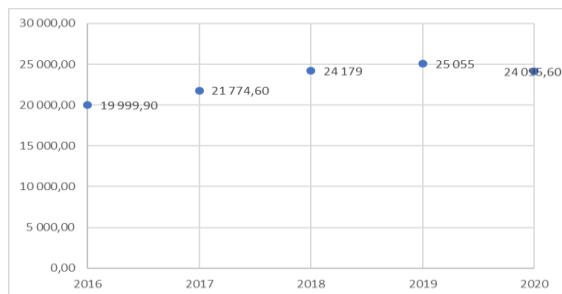
The position of industry in terms of value added of SMEs has weakened slightly in recent years. Trade, which accounted for more than one fifth (22.1%) of the value added created by SMEs in 2020, is the second most important sector. The three most important sectors are supplemented by business services with a similar share as trade (21.4%). In terms of the achieved value added, Slovakia ranks among the countries with a lower level of share.

The lower level of economic performance of the Slovak SME sector is also confirmed by labor productivity. As for EU-27, the labor productivity of SMEs in 21 countries is more than twice as high as in Slovakia. In a year-on-year comparison, other economic indicators of SMEs also decreased. The gross production of SMEs - legal entities decreased by 4.8% year-on-year. The investment activity of small and medium-sized enterprises also recorded a negative development. Gross fixed capital formation of SMEs decreased by 13.6%. Profit before tax of SMEs - legal entities decreased by more than a tenth year-on-year (by 11.8%).

Export-oriented SMEs were negatively affected by interrupted supply and demand chains during the

pandemic and declining demand. As figure 3 reveals, SMEs also recorded a decline in exports in 2020. The decline in exports was 3.1%. In absolute value, SMEs exported goods in the amount of EUR17,526.3 mil. There was a decrease in export activities on the part of all size categories of enterprises, while exports on the part of medium-sized enterprises decreased the most (by 4.0%). A slightly lower decrease was recorded in small enterprises (by 3.1%) and micro-enterprises (by 1.6%). Due to a more significant decrease in exports of large enterprises (by 9.8%) than of small and medium-sized enterprises (by 3.1%), there was a year-on-year increase in the share of SMEs in total exports by 1.5 pp. b., resp. at 29.3%. The territorial structure of SME exports is characterized by strong ties to the EU common market.

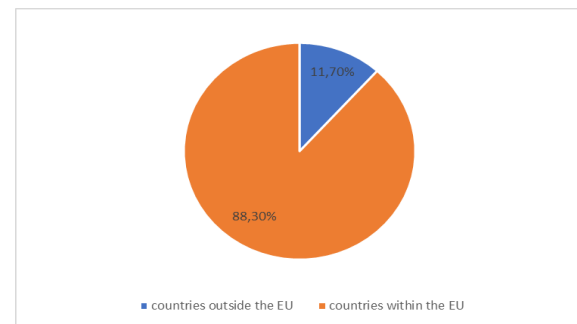
Figure 3: Development of SMEs export, in EUR mil.



Source: own elaboration according to the Statistical Office of the Slovak Republic

Only 11.7% of total SME exports went to non-EU countries (figure 4). Compared to other EU countries, SMEs in Slovakia have the lowest share of total exports to third countries, which points to the need for stronger support for SMEs in this area. As in the case of exports, imports of SMEs also declined. Year-on-year, SME imports decreased by 6.0%. The volume of imported goods reached the value of EUR25,853.4 mil. All size categories of enterprises recorded a decrease in imported goods, while the most significant decrease was in the case of medium-sized enterprises (by 8.7%). The share of SMEs in total imports increased to 40.6%.

Figure 4: Territorial structure of SMEs export in 2020



Source: own elaboration according to the Statistical Office of the Slovak Republic

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