

## Economy of Slovakia – Tatra Tiger

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January this year marked the 20-year anniversary of the peaceful dissolution of the federal republic of Czechoslovakia. On January 1st 1993, Czechoslovakia ceased to exist after 75 years, giving birth to two emerging states - Slovakia and Czech Republic. The newly formed republics which departed from communism and the Eastern Bloc entered the processes of democratization, transition, Euro-Atlantic integration, and re-established their market economies and capitalist production.

The beginnings of this transformation saw Czech Republic as the more successful of the two states. In Slovakia (population: 5,4 millions) the process of transition to the market economy was met with more difficulties, due to the structure of its industry. Namely, before the Second World War Slovakia was a predominantly agrarian country, after the war engaged in swift industrialization and development of, mainly, metallurgy, mining and defense industries. However, after the collapse of communism, Slovakia lost the main segments of its export market, closing down many factories while its unemployment rate grew rapidly. Throughout the 1990s Slovakia faced major crises: the grave economic situation was largely caused by refusals of the authoritarian Prime Minister Vladimir Mečiar to introduce liberal reforms. In 1997, during the peak of the crisis, the negotiations of Slovakia's accession to the European Union were breached.

The situation started changing as Mikulas Dzurind rose to power. He started with the implementation of painful, but efficient economic reforms. Due to a series of (policy) changes, Slovakia managed to attract significant number of foreign investors, especially from the automobile industry with investments from companies like Volkswagen, PSA Peugeot Citroen and Kia-Hyundai. In addition, investments came from the consumer electronics industry (e.g. Samsung, Sony, Foxconn) as well as from the metals industry (e.g. US Steel).

Due to the strong successes of these reforms, Slovakia was sometimes referred to as 'Tatra Tiger' (Tatra is the biggest mountain in Slovakia), after

the so-called 'Asian Tigers' (HK, SG, SK and Taiwan, who received this nickname after a long period of strong economic growth).

Slovakia has been an EU member state since 2004. In 2004 and 2005, Slovakia had one of the highest GDP growth rates in the European Union, reaching 6%. GDP kept growing in the following years. In 2007 the annual GDP growth was 10.4% at constant prices, with the record level of 14.3% reached in the fourth quarter.

The world financial crisis did affect Slovakia, but after a period of consolidation it managed to recover its economy relatively fast. On January 1, 2009, the Slovak Republic adopted the Euro as its national currency, which significantly boosted the export trade with the euro zone countries. In the first quarter of 2009 the fall of GDP was -5.7%, but in the 2010 the GDP growth was a 4.8% for a first quarter. Annual GDP growth rate in 2010 was 4.2 %, which was the highest growth among the new EU member states, and in the following year (2011) the growth rate was 3.3%.

The last year was successful, although the GDP growth is apparently slowing down. Unlike the neighboring Czech Republic which is facing deep recession, Slovakia managed to sustain a positive economic balance, although the GDP grew at only 2% rate. The most vital part of the Slovakian economy is still the car industry. Carmakers in Slovakia manufactured a total of 926,555 cars in 2012, a 44.9-percent increase compared with the previous year. Volkswagen Bratislava (VW BA) manufactured the highest number of cars, 419,000, followed by Kia Motors Slovakia with 292,050 and PSA Peugeot Citroën Slovakia with nearly 215,000 cars. Since last year, Slovakia is the world's largest car producer relative to the size of its population, manufacturing 171 cars per 1,000 inhabitants (up from 118 in 2011). The trend of growth in the car industry is estimated to proceed in 2013, but at a slower pace compared to the previous year.

In the first quarter of 2013 GDP expanded 0.90 percent over the same quarter of the previous year. According to the spring prognosis of the European Commission, Slovakia's economy could rise by 1 percent this year. The main reason for slower growth is expected to come from low domestic demand reflecting the situation on the labor market, as well as the drop in external demand from the country's traditional business partners, and economic crisis in the euro zone countries. Robert Fico, Prime Minister of Slovakia, announcing the government's fiscal consolidation program aimed at sustaining the further growth of the Slovakian economy, recently said to the Financial

Times: “Slovakia is a very small country and it is a really open economy. We very much follow the situation in Germany and France and if something happens in January in Germany, in July it is in Slovakia. That is the reality in my country.” Estimations regarding the Slovakian economy are nevertheless optimistic. According to the European Commission, thanks to the automotive sector and gradually rebounding domestic demand, Slovakian economy is likely to rank among the fastest-growing in the European Union in the next years.

When the presidents of Slovakia and Czech Republic Ivan Gašparovič and Vaclav Klaus jointly marked the two decades from the breakup of Czechoslovakia in December 2012, the Czech president Vaclav Klaus remarked: “The split of Czechoslovakia had more benefits for Slovakia than for the Czech Republic. That's what I mean when I say it – in these 20 years in our country GDP growth per capita was 50 percent, and in Slovakia it was 100 percent.”