



ADDED VALUE IN THE BUSINESS SECTOR: PROJECTIONS FOR 2003

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This work is based on a selected set of accounting statements of legal entities, which includes data from joint-stock companies, state enterprises, limited liability companies and cooperatives over the years 1996 to 2001. This data set did not contain data for subjects in liquidation or bankruptcy, data from natural persons having double entry book-keeping, data from accounting statements for public trading companies, limited partnerships, financial and insurance organisations, nor subjects conducting a business not included in the Business Classification of Economic Activity code list (BCEA). The share of this data set in the total number of statements deposited in the DataCenter database was around 85% over the individual years monitored.

The added value of an enterprise is the value of its production after deducting consumed purchases. In accounting terms this is represented by the difference between the total of the items "production" and "margin", and the item "production consumption". The growth in added value in the business sector is the main determinant for growth in operating profit.

After a slowdown in added value growth of non-financial organisations from 11.7% in 1997 to 3.7% in 1998, its growth gradually recovered to 13.9% in 2001 (table 1). With the exception of 2001, this trend was more or less copied also by the individual accounting items of which added value is composed. In comparison with the year 2000, the year 2001 saw faster growth in added value due to the items "margin" and "production consumption". In the structure of production consumption this trend was affected greatly a slowdown in the growth of the item "Material and energy costs" from 21.7% (by SKK 111.2 bn) in the year 2000 to 8.1% (by SKK 50.5 bn) in 2001 (table 2) From the sectoral aspect the faster growth was supported primarily by "Agriculture", "Trade" and "Other services, research".

Formation of the economic environment after 2001

Attention has been directed at the development of those factors of the economic environment that will influence the expected development of added value in the business sector in the years 2002 and 2003.

In the case of export-oriented business subjects important changes after 2001 can be said to include slower growth of foreign demand against original forecasts. The problem lies in particular in the subdued growth of the American economy with an adverse impact via the weaker dollar against the euro on the strongest economy in the euro zone, Germany.

International economic institutions have gradually responded to this situation, revising their forecasts downwards.

For example, according to the OECD the US economy should begin to grow more significantly (by 3.6) only in 2004. The rate of GDP growth in the USA should rise from the forecast 2.3% in 2002 to 2.6% in 2003. The euro zone economy will grow in 2002 by 0.8%, in 2003 by 1.8%. Also in April 2002 the OECD forecast growth in the euro zone of 1.3% and in 2003 growth of 2.9%. In 2004 economic growth in the euro zone is expected to be 2.7%. In the case of Germany the OECD lowered its forecast for economic growth in 2003 to 1.5% and in 2002 to 0.4%. In 2004 growth should pick up markedly to 2.5%.

Enterprises focusing on the domestic market enjoyed increased demand in 2002 as a result of growth in real wages connected with a temporary fall in the rate of inflation, and income tax reduction, as well as a broadening range of banking products on offer. In 2003 lower domestic demand can be expected as a result of tightening fiscal policy and a renewed progress in price deregulation. This forecast may be partly counterbalanced by a reduction of base rates by the NBS of 1.5 per cent, subsequently filtering through to a fall in interest rates on loans as well as deposits in commercial banks. The NBS has thus in essence reacted to the disequilibrium between the strengthening Slovak koruna vis-à-vis the euro and the persistent risks in particular in the field of the current account deficit in the balance of payments. The appreciation of the Slovak koruna was more or less connected with the post-electoral continuity of fulfilling Slovakia's integration ambitions and, by way of interconnection was connected with a significant improvement in the country's rating. The Slovak koruna exchange rate through the NBS measures, as well as a deepening in the balance of trade had by the end of 2002 approached a more realistic level.

In consequence of positive integration expectations and the reduction of base rates by the ECB there may in 2003 be expected pressure for an appreciation of the Slovak koruna. With regard to increased inflationary expectations the NBS will have less room for resolving the forecast situation. In a way the bank will be helped in resolving this situation by possible increased domestic demand, in particular from the business sector due to the fall in base rates.

Another important factor affecting the business sector's costs are the prices of oil products. In 2002 their level was determined primarily by the development of the Brent crude price and the Slovak koruna exchange rate against the American dollar. The average Brent crude price for the period from January to November fell from 24.99 USD/b in



2001 to 24.64 USD/b in 2002. With regard to the appreciation of the Slovak koruna the resulting oil product prices in 2002 have been more favourable in terms of business costs in comparison with those of 2001.

Under the influence of a delayed upturn in the American economy and the persistently high current account deficit of the balance of payments, in connection to the reduced coverage of the deficit, due to a slowdown in foreign direct investment, there may in 2003 be expected pressure for a further depreciation of the American dollar.

In 2003 OPEC member states can be expected to continue efforts to maintain the oil price in the price range 22 to 28 USD/b.

Probable development and risks

On the basis of the outlined formation of the economic

environment the signs point to substantially lower value-added growth in the business sector in 2002 than in 2001. In 2003 expected growth in foreign demand in particular should slightly improve growth. Any more significant improvement will be prevented on the revenues side by primarily weak domestic demand and on the costs side by a renewed price deregulation process.

The main risk for the world economy, as well as with consequences for individual factors influencing the value-added development of the business sector, is the possible inflammation of tensions in the Middle East, which already in 2002 caused an increase in oil prices on world markets.

A persisting risk for the overall economic development of the business sector is its significant dependence on the influence of several large enterprises with foreign ownership participation.

Table 1: Development of added value of non-financial organisations in the SR by selected sectors

Sector:	m. unit	1996	1997	1998	1999	2000	2001
SR total	mill. SKK	268 709	300 227	311 223	333 549	364 658	415 246
of which:	Ind.*		111.73	103.66	107.17	109.33	113.87
Agriculture		16 344	16 696	13 685	13 010	11 326	16 403
			102.15	81.97	95.07	87.06	144.83
Industrial production		101 420	112 558	112 751	125 406	147 737	171 922
			110.98	100.17	111.22	117.81	116.37
Electricity, gas water production		37 709	35 083	42 635	53 454	50 536	45 868
			93.04	121.53	125.38	94.54	90.76
Construction		17 676	22 596	19 721	17 090	16 901	18 002
			127.83	87.28	86.66	98.89	106.51
Trade		35 832	47 332	43 327	49 334	48 641	54 437
			132.09	91.54	113.86	98.60	111.92
Transport, posts and telecommunications		28 190	29 401	30 501	32 825	40 248	49 788
			104.30	103.74	107.62	122.61	123.70
Other commercial services, research		18 788	20 134	29 606	24 949	27 695	33 937
			107.16	147.04	84.27	111.01	122.54

Table 2: Development of selected factors in the creation of added value

Indicator:	m. unit	1996	1997	1998	1999	2000	2001
Revenues for sale of goods	mill. SKK	530 860	612 788	536 163	596 215	630 359	690 833
	Ind.*		115.43	87.50	111.20	105.73	109.59
Costs incurred for the goods sold		467 265	536 729	466 074	520 909	545 579	591 889
			114.87	86.84	111.77	104.74	108.49
MARGIN		63 595	76 059	70 089	75 306	84 780	98 945
			119.60	92.15	107.44	112.58	116.71
PRODUCTION		820 827	958 149	968 472	1 061 830	1 208 929	1 353 465
			116.73	101.08	109.64	113.85	111.96
of which:							
Revenues for the sale of own products and services		785 717	926 710	949 946	1 038 247	1 175 516	1 321 101
			117.94	102.51	109.30	113.22	112.38
PRODUCTION CONSUMPTION		615 713	733 981	727 338	803 587	929 051	1 037 163
			119.21	99.09	110.48	115.61	111.64
of which: Material and Energy costs		429 266	473 941	475 875	512 042	623 264	673 736
			110.41	100.41	107.60	121.72	108.10
Services		186 447	260 040	251 463	291 545	305 787	363 428
			139.47	96.70	115.94	104.89	118.85