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Support measures for small and medium-sized enterprises in Slovakia in response to COVID-19

Abstract: The current coronavirus crisis represents a severe external shock that threatens especially small and medium-sized enterprises. In their case, measures related to saving of human lives sometimes have an existential impact. Due to the economic and social importance of small and medium-sized enterprises for the Slovak economy, it is necessary to carefully monitor the impact of the crisis on small and medium-sized enterprises and to develop measures to its mitigation and fast recovery. The aim of the article is to evaluate the measures to help SMEs in the Slovak Republic through a comparison with selected EU countries and to evaluate the financial impact of these measures on the Slovak economy. To evaluate the measures to help small and medium-sized enterprises in the Slovak Republic due to COVID-19 pandemic, it was used a method of comparison, i.e., the measures taken in the SR with selected EU countries compared. The financial impact of these measures on the Slovak economy in a way of adjustment of public revenues and public expenditures was analyzed. The materials of the article are intended for economists who study national and regional economic structures and markets.

Keywords: SMEs, support measures, coronavirus crisis, covid-19.



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Opatrenia na podporu malých a stredných podnikov v SR v reakcii na COVID-19

Abstrakt: Súčasná koronakríza predstavuje závažný externý šok, ktorý ohrozuje predovšetkým malé a stredné podniky. V ich prípade majú opatrenia vzťahujúce sa na záchranu ľudských životov často až existenčný dopad. Kvôli svojmu ekonomickému a sociálnemu významu, ktoré malé a stredné podniky predstavujú pre ekonomiku SR, je potrebné monitorovať vplyv krízy na malé a stredné podniky a vyvíjať opatrenia pre jej prekonanie a obnovu. Cieľom článku je vyhodnotiť opatrenia na pomoc malým a stredným podnikom v SR prostredníctvom porovnania s vybranými krajinami EÚ a zhodnotiť finančný dopad týchto opatrení na ekonomiku SR. Na vyhodnotenie opatrení na pomoc malým a stredným podnikom v SR kvôli pandémie COVID-19, bola využitá metóda komparácie, t.j. opatrenia prijaté v SR boli porovnané s vybranými krajinami EÚ. Finančný dopad týchto opatrení na slovenskú ekonomiku bol zhodnotený prostredníctvom analýzy úprav verejných príjmov a verejných výdavkov. Článok je určený pre ekonómov zaoberajúcich sa národnými a regionálnymi ekonomickými štruktúrami a trhmi.



Introduction

Small and medium-sized enterprises (SMEs) play an important and irreplaceable role in the Slovak economy, which is reflected in particular in their share in total employment and value added. Despite their high flexibility and ability to fill market gaps, they have more difficult access to sources of finance and they are very vulnerable to environmental fluctuations and unexpected changes. The current economic recession caused by the COVID-19 pandemic has a more significant impact on the business sector than the crisis of 2008. As a result of various measures taken to prevent the spread of the disease, many companies have had to reduce or even to close their business, which has caused considerable problems for the economies of the affected countries. Insufficient demand, low liquidity and significant fixed costs represent a serious deterioration of the financial situation for many companies. According to the Slovak Business Agency's analysis (SBA. Analýza malých, 2020), a total of 53,243 SMEs operate in the sectors most affected by quarantine measures. The share of these most affected entities in the total number of active SMEs is up to 8.9%. Within this group, the most affected are micro-enterprises employing less than 10 employees, which account for up to 96.2%. In terms of legal form, the most vulnerable group is sole proprietors, who make up almost two thirds (59.7%) of the total number of vulnerable SMEs. The Government of the Slovak Republic, like the governments of other countries, has taken several measures for entrepreneurs to mitigate the negative effects of the crisis caused by the COVID-19 pandemic. However, it also faces the challenge of finding the optimal balance between measures to save lives and ensuring the basic functionality of the economic system.

Although strong economies and large enterprises have also been adversely affected by the COVID-19 pandemic, the most vulnerable small and medium-sized enterprises have been affected the most. In their case, measures taken have sometimes a life-saving impact. They are also characterized by much lower capital strength than large multinational companies.

The size categorization of enterprises used in this article is in accordance with the recommendation of the European Commission no. 2003/361/EC valid from 1.1.2005. The SME category consists of enterprises with less than 250 employees and the large enterprise category includes enterprises with 250 or more employees. Within the SME category, a distinction between micro-enterprises (0-9 employees), small enterprises (10-49 employees) and medium-sized enterprises (50-249 employees) is made. In cases where the category of micro-enterprises is not distinguished separately, all enterprises with the number of employees 0-49 are included among small enterprises. The criterion of the number of employees is not the only one that characterizes SMEs. The criteria of turnover, asset value and ownership structure are also taken into account. However, due to the unavailability of current data in the classification according to all SME criteria, we take the number of employees as a relevant criterion.

For a more detailed specification of SMEs, we also use the division of companies according to the legal form. In this respect, unless otherwise stated, we understand SMEs as the sum of legal and natural persons meeting the above criteria.

The negative consequences of the pandemic for entrepreneurs are reflected on the supply as well as on the demand side.

Many small and medium-sized enterprises are currently struggling with a lack of liquidity, which results in subsequent insolvency.

As the impact of the prevailing pandemic is also felt in the financial sector, many commercial banks are now much more cautious in lending – some of them have responded by tightening of credit standards, making it much more difficult for businesses to access credit financing.

The aim of the article is to evaluate the measures to help SMEs in the Slovak Republic through a comparison with selected EU countries, as well as to evaluate the financial impact of these measures on the Slovak economy.

Our most important research tasks are:

1. Specify mitigation measures for COVID-19.
2. Compare the measures taken in the Slovak Republic with selected EU countries.
3. Evaluate the impact of the measures on the state budget.

To evaluate the measures to help small and medium-sized enterprises in the Slovak Republic due to COVID-19 pandemic, we used a method of comparison. We compared the measures taken in the SR with selected EU countries. We analyzed the financial impact of these measures on the Slovak economy in a way of adjustment of public revenues and public expenditures.

For the reaching of the aim of the article we used the statistical data from the Statistical Office of the Slovak Republic, Ministry of Economy of the Slovak Republic, Ministry of Finance of the Slovak Republic, Slovak Business Agency.

We used the results from The Slovak Craft Industry Federation (2020) to present how SMEs themselves perceive the measures accepted by the Slovak government for the mitigation of the negative effects of COVID-19 pandemic.

Because it is a whole world problem, there are also international materials dealing with this issue, e.g., World Bank (2020), resp. OECD (2020).

COVID-19 mitigation measures

Due to coronavirus crisis, most countries have introduced measures to support SMEs – both legal persons and the self-employed persons, mainly concentrated on maintaining short - term liquidity and employment. These measures take various forms in the following areas:

- Employment
- Deferment of payments
- Financial instruments
- Structural policies

Deferred income taxes, loan guarantees, direct loans and wage subsidies were the most widely used measures by individual governments to support SMEs in times of pandemic. The use of grants, debt moratoriums or special measures for the self-employed persons varies considerably across OECD countries.

According to the World Bank's findings from April 2020 (*World bank, 2020*), a total of 1,071 measures have been taken to support SMEs in more than 120 countries around the world.

It should be emphasized that state aid in connection with the corona crisis is constantly evolving. The conditions for individual state contributions are being updated, and new laws regulating (not only) the financial area are being approved.

Measures taken to support SMEs in Slovakia are focused on three of the four defined areas:

- employment;
- deferral of payments;
- financial instruments.

Compared to the data from the OECD study (OECD. Coronavirus, 2020), which analyzed the type of support as of March 2020, in Slovakia, as in other countries, there was another expansion in the scope of support for entrepreneurs in order to mitigate the effects of the pandemic in April 2020. Further measures to support employment, increase in liquidity through deferral of payments and increase in the availability of financing through financial instruments have been accepted.

Some countries have introduced specific structural policy measures aimed at accelerating digitization, adapting to new work processes or to finding of new markets. The aim of these policies is to adapt to urgent short-term challenges and thus contribute to strengthening the resilience of SMEs in a more structured way. Structural policy measures are of particular importance to SMEs, as they enable them to adopt new technologies and practices that will increase their competitiveness even in times after the crisis.

Measures in the area of structural policies have not been taken in Slovakia. Next, we will take a closer look at measures in the area of financial instruments, which are of particular importance for stabilizing the financial situation of SMEs.

Thus, most countries have introduced measures to support SMEs – LPs and the self-employed persons, mainly concentrated on maintaining short-term liquidity and employment. These measures take various forms. Deferred income taxes, loan guarantees, direct loans and wage subsidies were the most widely used measures by individual governments to support SMEs in times of pandemic. The use of grants, debt moratoriums or special measures for the self-employed persons varies considerably across OECD countries.

Measures in the area of financial tools

The Government of the Slovak Republic has taken several measures aimed at SMEs supporting through various financial instruments.

It provides guarantees for loans provided by the bank and/or interest payments of the loan provided by the bank. The provider of financial assistance is the Ministry of Finance of the Slovak Republic and the intermediaries are EXIMBANKA and SZRB. Since April 2020, SZRB has been providing an operating loan “Entrepreneur2020”, which is designed to mitigate the negative effects of a pandemic and to support sustainability of operations of SMEs in the form of a loan guarantee for the bank loan and the payment of interest of a loan provided by the bank (interest bonus).

In addition to what was stated above, the Ministry of Finance of the Slovak Republic and Slovak Investment Holding have launched a scheme of bank guarantees and interest subsidies under the name ‘anti-corona guarantee’. The program consists of guarantees for financial institutions, which will then provide preferential bridging loans for SMEs and sole proprietors.

They can also be combined with an interest rate subsidy to reduce interest rates. Another form of indirect financial assistance is the bridging 'COVID loan'.

As of 31 July, 2020, loans of EUR 136 mil. with a state guarantee for 1,437 companies were provided. In the first phase, only 3 de minimis guarantee schemes were available to companies, under which large companies were excluded from the beneficiaries. As a result, the main beneficiaries were mainly micro and small enterprises (cumulative 74% of the volume, but up to 93% of the number of enterprises). Of the total volume of newly granted loans for the period from May 2020 to July 2020 (micro-enterprises, small and medium-sized enterprises), loans with a state guarantee accounted for 14%. In July 2020, banks began to provide loans from the so-called large guarantee scheme.

From the point of view of international comparison, Slovakia does not belong to the active countries in the overall allocation nor in the drawing of this form of aid to GDP. However, it should be mentioned that the use of this instrument is relatively modest among EU countries. Italy, Poland and Spain are among the most active countries in the use of this instrument.

The possibility of deferring loan repayments is undoubtedly an important measure in the area of financial instruments.

To the end of July, 2020, the deferral of repayments was approved for 12% of corporate loans. The deferral of repayments was used to the greatest extent by companies from the most affected economic sectors.

In an international comparison of EEA countries, Slovakia, with the volume of deferred loans to the total loan portfolio at the level of approximately 7.5% to the end of the first quarter of 2020, ranked slightly above the EU average. Countries that make much greater use of this instrument include Cyprus, Hungary, Portugal, Malta, Italy, Croatia and Greece.

The nature of the setting and use of the deferral instrument varies across EU countries. Among the countries that have published the parameters of this instrument, the deferral lasting from 3 to 6 months is the most widespread, while in Slovakia almost half of deferred loans had an approved deferral of 6 to 9 months (MH SR. Prehľad a porovnanie, 2020).

However, more than half (56.1%) of small and medium-sized entrepreneurs consider the package of economic measures of the state to mitigate the economic effects of the corona crisis to be insufficient. This resulted from the results of a survey on state aid, where 1,043 respondents from the environment of small and medium-sized enterprises and sole proprietors took part (SBA. Výsledky prieskumu, 2020).

Measures taken are the most critically perceived by entrepreneurs from the catering sector (76.1%), accommodation (69.2%) and arts, entertainment and recreation (63.9%), which include, e.g., sports activities or realization of events. On the contrary, they are the least critically perceived by entrepreneurs in the construction industry.

Addressed entrepreneurs, who applied for state aid criticize in particular the complexity of support measures and the problematic orientation in them (22.9%). Another problem is the ambiguity of the information provided on the possibilities of using the support (16.9%).

Representatives of SMEs call for the need to adopt several changes to the current support system. Entrepreneurs would especially welcome the simplification of the conditions for obtaining support (23.5%), the simplification of applications for support (18.1%) and the improvement of awareness of the possibilities and ways of support drawing (15.2%).

Thus, The Government of the Slovak Republic has taken several measures aimed at SMEs supporting through various financial instruments. Measures taken to support SMEs in Slovakia are focused on three of the four defined areas. Measures in the area of structural policies have not been taken in Slovakia. Regarding the measures in the financial area, which are of special importance to SMEs, it provides guarantees for loans provided by the bank and/or interest payments of the loan provided by the bank. The possibility of deferring loan repayments is undoubtedly an important measure in the area of financial instruments. However, more than half (56.1%) of small and medium-sized entrepreneurs considers the package of economic measures of the state to mitigate the economic effects of the corona crisis to be insufficient.

Financial impacts of adapted measures on the Slovak economy

The COVID-19 pandemic has significant financial implications for economies of all affected countries. In order to preserve jobs as well as to promote entrepreneurship sector, the Slovak government has also taken a number of measures to mitigate the adverse effects of the pandemic.

The adopted measures were reflected in the budget of the public administration of the Slovak Republic in expenditure, as well as in the revenue side. The negative economic impact and the reduction in economic activity thus caused the need to reassess the already compiled state budget for 2020. This was amended in July 2020.

The basic change introduced by the amendment to the State Budget Act is a change in the amounts of: (1) total state budget revenues for 2020, (2) total state budget expenditures for 2020, and (3) state budget deficit for 2020.

1. The original amount of total state budget revenues for 2020 is reduced from the original EUR 15,792,695,566 to EUR 14,366,446,802.
2. On the other hand, the amount of total state budget expenditures for 2020 increases from the original EUR 18,560,877,994 to EUR 26,319,080,528, while expenditures directly related to the new coronavirus pandemic amount to EUR 4.9 billion.
3. As results from the above mentioned, the amendment increased the state budget deficit from the original EUR 2,768,182,428 to EUR 11,952,633,726. The reason for the reduction of total state budget revenues is the negative consequences of the COVID-19 pandemic, and the reason for the increase in total state budget expenditures is, in turn, is the provision of coverage of necessary expenditures.

According to the data of the Ministry of Finance of the Slovak Republic (MF SR. Bilancia štátneho rozpočtu SR, 2021), the state budget for 2020 reached a deficit of EUR 7,758 billion. Compared to the planned deficit from the adjusted budget of EUR 11.953 billion, the deficit was lower by more than EUR 4 billion.

At the end of December 2020, the budget reached revenues totaling almost EUR 15.75 billion. Expenditures amounted to EUR 23.5 billion.

The state's total tax revenues reached EUR 11.872 billion last year. Most of it was value added tax - EUR 6.8 billion. Legal entities paid income tax of EUR 2.355 billion.

Excise taxes totaled EUR 2.265 billion.

Thus, the adopted measures were reflected in the budget of the public administration of the Slovak Republic in expenditure, as well as in the revenue side. Concerning the economic impact of the measures taken, the pandemic has led to a reduction in total state budget revenues and an

increase in total state budget expenditures. We evaluate positively the fact that the actual state budget deficit was lower than the expected deficit from the adjusted budget.

Conclusion

Thus, the COVID-19 pandemic has affected the health and economy of countries around the world. Many countries as well as businesses were not prepared for a pandemic. The adverse impact has fully exposed the fragile economies of the countries and of the companies. Governments around the world have been forced to intervene to protect the health of their citizens. The result was a number of measures that have been taken to prevent the spread of the disease and to mitigate the adverse effects of the pandemic on the economy. The scope and form of the measures taken vary from country to country. Some countries focus mainly on employment promotion, others on deferral of payments or financial instruments. However, most countries (as well as Slovakia) use a combination of support measures focused on different areas. The amount of aid as well as the extent of the measures taken depend to a large extent on the current state of the country's economy.

The most widespread measures in connection with the pandemic taken by the governments include measures relating to income tax, direct loans and wage contributions. Measures in the area of structural policies have been implemented only to a limited extent. According to the World Bank, which examined measures in 121 countries, 1,071 measures were taken to support SMEs. More than 80% of them were focused on debt financing, employment support and taxes. During the months of March-May 2020, Slovakia took several measures to support SMEs in the field of employment, deferral of payments as well as financial instruments. Measures in the field of structural policies have not been taken in Slovakia. Concerning the economic impact of the measures taken, the pandemic has led to a reduction in total state budget revenues and an increase in total state budget expenditures. We evaluate positively the fact that the actual state budget deficit was lower than the expected deficit from the adjusted budget.



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Appendix

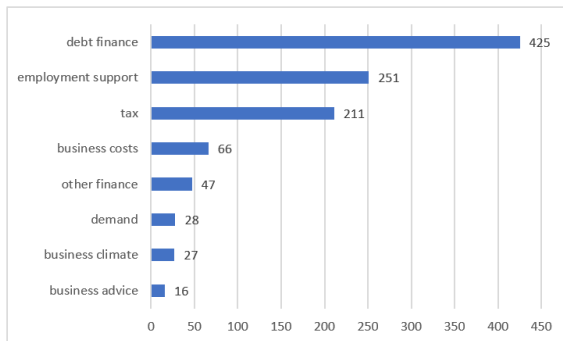


Figure 1. Number of SME support measures according to support type

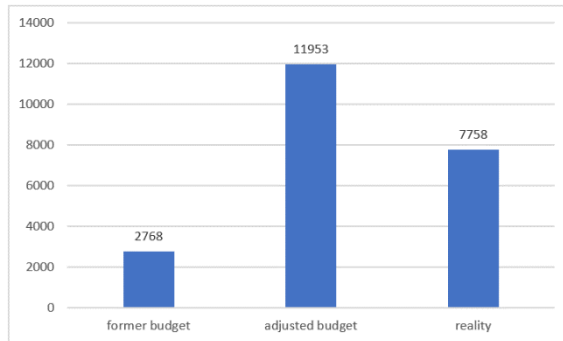


Figure 2. Overview of expected and real deficit of state budget for 2020 (in billion EUR)