



# ANALYSIS OF THE ECONOMIC PERFORMANCE OF NON-FINANCIAL ORGANISATIONS

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An analysis was prepared from a selected set of accounting statements of legal entities, including data for joint stock companies, state-owned companies, limited liability companies and cooperatives. The set does not contain data for subjects in liquidation or in bankruptcy, data from the statements of natural persons accounting on a double-entry basis, data from statements for publicly owned corporations, limited partnerships, financial and insurance organisations and subjects with undefined codes for their branch of economic activity. In the years 1996 – 2000 the share of this set in the total number of statements stored in the DataCentrum database fluctuated around 85% (table 1).

In the year 2000 the set comprised 43 484 business subjects, of which 20 967 were in profit and 22 517 in loss. Whereas until 1998 the share of profitable businesses exceeded the share of loss-making businesses, from 1998 loss-making businesses gained predominance. This trend of a rising share of loss-making businesses was in 2000 replaced by a year-on-year growth in the share of profitable businesses.

In financial terms this trend was reflected on an aggregate basis in the development of the economic result (before tax), which in the year 2000 moved away from a declining trend. From the aspect of differentiating profit and loss this was expressed in a year-on-year increase in profit and a fall in losses. It is necessary to mention that from the years monitored year-on-year loss declined for the first time in the year 2000 (table 2).

In the structure of the formation of the economic result with regard to the development dynamic in the period monitored, the determining factor was primarily the economic result from financial operations, which participated in the negative development up to the year 2000 and through its positive change in the year 2000 influenced also the overall improvement in the development of the economic result of non-financial organisations.

The very first year-on-year decrease in the total loss from financial operations in 2000 (in the years monitored) caused the growth in revenues to significantly exceed expenses from financial operations. The growth of revenues

**Table 1. Development of the number of business subjects in the Slovak Republic**

Indicator	Unit of measure	1996	1997	1998	1999	2000
Business subjects	number	31 370	37 909	36 240	40 751	43 484
of which: profitable		16 022	19 538	17 516	19 150	20 967
loss-making		15 348	18 371	18 724	21 601	22 517
share of profitable	%	51.07	51.54	48.33	46.99	48.22
share of loss-making		48.93	48.46	51.67	53.01	51.78

Source: DataCentrum

**Table 2. Development of economic result**

Indicator	Unit of measure	1996	1997	1998	1999	2000
Economic result before tax	SKK million	23 990	2 182	-29 747	-35 474	-1 017
	Index*		9.10		119.25	2.87
of which: profit		64 955	61 086	46 248	53 292	66 600
			94.04	75.71	115.23	124.97
loss		-40 965	-58 904	-75 995	-88 766	-67 617
			143.79	129.02	116.81	76.17
operating result		50 301	42 524	40 741	49 903	60 467
			84.54	95.81	122.49	121.17
economic result of financial operations		-27 650	-41 089	-69 585	-79 977	-60 150
			148.60	169.35	114.93	75.21

Source: DataCentrum

\* same period of the preceding year = 100

**Table 3. Development of selected factors in formation of the economic result**

Indicator	Unit of measure	1996	1997	1998	1999	2000
Revenues from operations	SKK million	1 427 408	1 667 206	1 604 028	1 780 934	1 980 590
	Index*		116.80	96.21	111.03	111.21
of which:						
Production		820 827	958 149	968 472	1 061 830	1 208 929
			116.73	101.08	109.64	113.85
Revenues from financial operations		57 458	80 779	85 823	99 644	127 501
of which: Earnings from the sale of securities and deposits		33 113	44 878	43 121	29 470	54 429
			135.53	96.08	68.34	184.69
Expenses from operations		1 377 107	1 624 682	1 563 288	1 731 030	1 920 123
of which:			117.98	96.22	110.73	110.92
Consumption of material and energy		429 266	473 941	475 875	512 042	623 264
			110.41	100.41	107.60	121.72
Expenses from financial operations		85 108	121 868	155 408	179 622	187 651
of which:			143.19	127.52	115.58	104.47
Interest expenses		27 821	37 230	38 292	43 287	39 644
			133.82	102.85	113.04	91.58
Other financial expenses		12 752	21 991	27 744	45 129	43 617
			172.45	126.16	162.66	96.65
Creation of reserves for financial expenses		4 603	8 351	24 979	30 175	32 205
			181.43	299.11	120.80	106.73

Source: DataCentrum

\* same period of the preceding year = 100

from financial operations was influenced to a decisive extent by growth in the revenue item “Earnings from the sale of securities and deposits”. A year-on-year reduction in the growth of expenses from financial operations was caused in particular by a decrease in the items “Interest expenses”, “Other financial expenses”, “Creation of provision items to financial expenses” and in comparison with preceding years also by a relatively lower increase in the item “Creation of reserves for financial expenses” (table 3).

With regard to the volume as well as the dynamic the year-on-year growth in the revenue item “Earnings from the sale of securities and deposits” was most marked in the sector “Transport, posts and telecommunications”, which was connected with the sale of a majority stake in Slovak Telecom to a German investor. With regard to the fact that the expense item “Securities and deposits sold” correspondingly grew, the resulting effect of this sector on the economic result from financial operations was not significant. A change in the development of these items, which in their final result contributed to a year-on-year decrease in the negative economic result from financial operations in the year 2000, occurred in the sectors “Trade” and “Industrial Production”. On the revenue side primarily in the case of commercial businesses 40.5% this was represented by a year-on-year increase in the item

“Earnings from the sale of securities and deposits” in the year 2000, after its 20.6% fall in 1999. On the expenses side there was the opposite trend, when the item “Securities and deposits sold” fell in 2000 by 29.7%, but in 1999 had grown by 1.4% on the year 1998. An almost similar trend was observable in the case of industrial businesses.

A year-on-year decline in the item “Interest expenses” was connected with a gradual lowering of interest rates, which was a result of fiscal policy and the restructuring of the financial sector.

The year-on-year decline in the item “Other financial expenses” as well as a reduction in the growth of the item “Creation of reserves for financial expenses” in 2000 was influenced primarily by a stabilisation of the koruna exchange rate against the reference euro. A growth impulse was however supported by the US dollar, against which the Slovak koruna recorded in 2000 its historically weakest value at the level of 52.70 SKK/USD.

The operating result following year-on-year falls up until 1999, grew in 2000 for the second time in a row. The dynamic of its year-on-year growth was 1.3 percent points lower than in 1999. On the revenues side this trend was supported primarily by year-on-year growth in the item “Production”, on the expenses side a reduction in the growth dynamic of the operating result was influenced in



particular by a sudden increase in the item "Consumption of material and energy".

Given that the export territory of the business sector is to a significant extent connected with the EU countries, year-on-year growth in the revenue item "Production" was in 2000 influenced primarily by economic growth in these countries. According to the conclusions of the Stockholm summit the European Union as a whole achieved 3.5% GDP growth in 2000.<sup>1</sup>

Growth of the expense item "Consumption of material and energy" was influenced in particular by a gradual deregulation of energy prices and a sharp increase in oil prices. The average price of Brent crude increased from USD 17.87 a barrel in 1999 to USD 28.39 a barrel in 2000.

### **Outline of selected factors influencing the development of the economic result in 2002 – 2003**

Abstracting from various specific factors exerting an influence on individual business subjects (e.g. according to sector), attention focuses on those which directly or indirectly influence the majority of business subjects.

A year-on-year reduction in the growth of revenues will in 2002 be influenced primarily by the slow-down in economic growth in the countries of the significant trading partners of non-financial organisations operating in the SR. An acceleration in economic growth in these countries is expected in the second half of 2002.

Businesses focusing mainly on the domestic market can expect increased demand on the basis of a growth in real wages connected with a temporary fall in inflation in 2002, through a lowering of income tax, as well as by means of an expanding supply of bank products. The growth in domestic demand should be partially compensated for by a falls in sales volumes in abroad.

On the expenses side the effects of the global economic slow-down are observable primarily through a decline in world oil prices. Following a year-on-year decrease in the average price of Brent crude in 2001 to 24.46 USD per barrel its level should further decline in 2002. Development will be influenced in particular by compliance with the agreement between member and non-member countries of OPEC to limit oil supplies and a predicted recovery of the American economy in the second half of 2002.

A temporary slow-down in the deregulatory process will contribute to a decelerating expense effect in 2002. In the following year a more significant scope of adjustments to regulated prices can be expected also due to the predicted accession of the SR into the EU in 2004.

With regard to the deepening of the current account deficit, the NBS in April 2002 increased base rates by half a

percent, which should not greatly influence the financial expenses of the business sector. More significant pressure on the growth of financial expenses could arise through risks in the public sector not being resolved.

According to bankers<sup>2</sup> no fundamental change in the lending policy of the commercial banks is expected. Growth in lending activities will be determined by the quality and pace of restructuring in the business sector and the ability of business subjects to put forward quality projects where the banks will be willing to take on the credit risk.

A growth impulse in the field of expenses has since 2001 been created by more dynamic growth of imports, which in 2003 will be supported by a shortening of the depreciation period for intangible and tangible fixed assets. The high share of goods of an investment nature in overall imports is creating conditions for an improvement in the rate of revenue growth following the predicted global economic recovery.

### **Conclusion**

From the aspect of forecasting the development of the aggregate economic result of the business sector it is necessary at least briefly to draw attention to the following points. The first is the issue of accounting statements and the efforts of business subjects to minimise accounting profit with regard to the fulfilment of tax obligations. A second point is the complexity of quantifying the impact of influences of the economic environment on the development of individual items of revenue and expenditure of non-financial businesses as a whole. Lastly there is the effect of important local factors, which can significantly influence the development of the economic result (e.g. privatisation of the gas concern SPP, the commencement of production of the Colorado automobile at the Volkswagen joint-stock company, etc.).

From the forecast development of the economic environment, the importance of the effect of individual items on the formation of the economic result in the case of abstracting from extraordinary factors and risks the likely trend of development may be envisaged. In 2001 there began to form the bases for a deceleration of the positive trend in the performance of non-financial organisations from 2000, which should be observable in particular in 2002. Concurrently this year there should be created the bases for again linking to the positive trend from 2000.

<sup>1</sup> Trend journal No. 13/2001

<sup>2</sup> Trend journal No. 51/2001.