

## Impact case study (REF3)

<b>Institution:</b> Brunel University London		
<b>Unit of Assessment:</b> 16 Economics and Econometrics		
<b>Title of case study:</b> Changing policy on economic growth and aid schemes in Slovakia to lower unemployment and reinvigorate the economy		
<b>Period when the underpinning research was undertaken:</b> 2015 - 2020		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>	<b>Role(s) (e.g. job title):</b>	<b>Period(s) employed by submitting HEI:</b>
Dr Jan Fidrmuc	Senior Lecturer	10/2004 – present
<b>Period when the claimed impact occurred:</b> 2015 to 2020		
<b>Is this case study continued from a case study submitted in 2014?</b> N		

**1. Summary of the impact** (indicative maximum 100 words)

Dr Jan Fidrmuc has had significant impact on Slovakian national policy on the delivery of economic and social policies by the Institute for Strategy and Analysis (ISA). Dr Fidrmuc was directly involved in the formation of the ISA and the NPB (National Productivity Board) and, as a result of his research, the 2 new offices upscaled the analytical and strategic support provided to the Government. The ISA used Dr Fidrmuc's research to devise new measures for regional economic growth and regional aid schemes. These measures directly reinvigorated the Slovakian economy and put unemployment below the European average of 6.3% for the first time since 1993.

**2. Underpinning research** (indicative maximum 500 words)

The underlying research which Dr Fidrmuc has been leading and overseeing at ISA has focused on the following broad areas:

(1) **Economic and social impact of the EU Cohesion Policy spending.** The Cohesion Policy is the second largest category in the EU budget, accounting for around for one third of its spending. The Cohesion Policy funds are directed primarily to less developed regions, that is, those with low levels of economic development or plagued by structural issues such as high and persistent unemployment. Slovakia, as most of the new member states, benefits a great deal from this redistribution within the EU. It is therefore seen as a matter of considerable importance that the impact of Cohesion Policy is well understood; this issue is pertinent for the recipient countries such as Slovakia and for the net contributor countries alike.

In Dr Fidrmuc's work at the ISA, he and his colleagues at the Institute have analyzed the economic, social and political effects of Cohesion Policy. In "The elusive quest for the holy grail of an impact of EU funds on regional growth" (Ref. 2), they look at the impact of EU regional aid on regional economic development, while taking account of the likely endogeneity of regional aid (for example, due to reverse causality whereby economic development determines the regional aid allocation, or because of omitted variables that drive both regional aid and regional economic development). Their findings show that the economic effect of Cohesion Policy spending is clearly positive. However, the analysis also reveals considerable differences across countries,

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with higher impact observed in the new member states and lower impact in Southern European countries.

In “Can Money Buy EU Love?” (Ref. 1), Dr Fidrmuc and the ISA turn to political impact of Cohesion Policy, specifically its impact on voting behavior. Given the vast amounts that the EU spends on regional aid, it is pertinent to ask whether this makes European integration more popular in those regions that benefit from such spending. For this, Dr Fidrmuc and his colleagues at the ISA, look at 2 votes that were entirely or largely about European integration: the 2016 Brexit referendum in the UK and the 2017 General Election. While this analysis does not concern Slovakia directly, inasmuch as voting behavior is determined by economic factors similarly in various countries, it can help us understand how EU transfers shape political preferences in general. Their findings suggest that the EU does not sell the benefits of its regional aid spending in the recipient regions well: the amount of regional-aid funds correlates only weakly with the patterns of voting, and EU funds are overshadowed by economic factors.

Finally, in “EU funds as a catalyst of change for the Slovak healthcare system?” (Ref. 7), Dr Fidrmuc and the ISA look at the impact of Cohesion spending on the quality of healthcare in Slovak hospitals. Using data on all health-care establishments in Slovakia, they find that receipts of grants from the EU budget are have favorable but generally small effects on the patient readmission and mortality rates.

(2) **Regional economic development.** Slovakia is one of the EU member states with most pronounced inter-regional disparities in economic development: Western Slovakia is growing dynamically and well-off (with the capital Bratislava attaining a level of GDP per capita well above the EU average) while parts of Eastern and Southern Slovakia are marked by low income levels and high unemployment. In an effort to combat these disparities, the Government has adopted a *Law on support for least developed districts* in 2015. This regulation mandates that districts with sufficiently high and persistent unemployment are to benefit from targeted technical assistance, dedicated regional aid and prioritized access to transfers from the EU regional aid. Since then, 20 Slovak districts (out of a total of 79) were given the *least developed* status, entitling them for this assistance. In “Tackling unemployment in underdeveloped regions: Early results from a policy intervention in Slovakia” (Ref. 6), Dr Fidrmuc and the ISA present an early evaluation of this policy initiative. In a difference-in-difference analysis at the level of municipalities (while omitting large cities and smallest villages), they compare the evolution of unemployment in municipalities located in *least developed districts* with municipalities in neighboring districts. Since all *least developed districts* are in Eastern and South-Eastern Slovakia, looking at neighboring districts ensures that Dr Fidrmuc and the ISA do not compare outcomes in poor districts with those in Western Slovakia. Their analysis shows that unemployment fell in all municipalities in 2016 and again in 2017, and that the pace at which it declined was significantly faster in municipalities that are located in *least developed districts*. It appears therefore that the effort to support high unemployment districts, in which ISA was also involved in the stage of preparing district-specific action plans, was indeed successful.

When assessing regional economic development and quality of life, output- based statistics such as GDP per capita can be sometimes misleading: producing more output does not always translate into higher well-being. In “Measuring Well-being: Individual Based Approach” (Ref. 4), Dr Fidrmuc and colleagues at the Institute therefore propose a measure of regional well-being based on using happiness surveys to impute regional well-being. This exercise shows that

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differences in regional well-being tend to be much smaller than disparities suggested by output-based statistics. This measure could also be used as a criterion for policy making: inasmuch as the objective is to raise welfare, well-being based measures should be more informative than output-based ones.

Finally, in “Mind the Gap: Macroeconomic Analysis of the Investment gap in Slovak regions” (Ref. 3), Dr Fidrmuc and colleagues at the Institute use the synthetic counterfactual method to compare the quality of infrastructure and other relevant outcomes in Slovak regions with the level that would be expected in regions at similar level of economic development. This analysis allows them to identify where the Slovak regions tend to lag the most, and where they are doing relatively well.

### 3. References to the research (indicative maximum of six references)

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Ref 1. **Fidrmuc, J.**, Hulényi, M., Tunali, C.B. 2019. ‘Can money buy EU love?’ *European Journal of Political Economy*, 1-13. <https://doi.org/10.1016/j.ejpoleco.2019.07.002>

Ref 2. **Fidrmuc, J.**, Hulényi, M., Zajkowska, O. 2019. ‘The elusive quest for the holy grail of an impact of EU funds on regional growth.’ *CESifo Working Paper Series 7989*. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3507260](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3507260)

Ref 3. **Fidrmuc, J.**, Gardoňová, K., Hulényi, M., Lešková, A., Zlaczka, V. 2018. ‘Mind the Gap: Macroeconomic Analysis of the Investment gap in Slovak regions,’ *Institute for Strategy and Analysis (ISA) Discussion Paper*. Funded by the European Regional Development Fund. <https://www.vlada.gov.sk/data/files/7382.pdf>

Ref 4. **Fidrmuc, J.**, Pastor, D. and Rimegová, K. 2018. ‘Measuring Well-being: Individual Based Approach,’ *Institute for Strategy and Analysis (ISA) Discussion Paper*. Funded by the European Social Fund and the European Regional Development Fund. <https://www.vlada.gov.sk/data/files/7381.pdf>

Ref 5. **Fidrmuc, J.** and Hulényi, M. 2017. ‘Economic Consequences of TTIP: A Survey of Literature and Implications for Slovakia’, *Institute for Strategy and Analysis (ISA) Discussion Paper*. Funded by the European Regional Development Fund. <https://www.vlada.gov.sk/data/files/6839.pdf>

Ref 6. **Fidrmuc, J.**, Gardoňová, K., Hulényi, M., Zlaczka, V. 2018. ‘Tackling unemployment in underdeveloped regions: Early results from a policy intervention in Slovakia.’ Conference Paper, Regional Policy Analysis and Planning: Evaluation Theory and Practice, 1-8 July 2018, Bratislava, Slovakia

Ref 7. **Fidrmuc, J.**, Gardoňová, K., Hulényi, M., Zlaczka, V. ‘EU funds as a catalyst of change for the Slovak healthcare system?’ (unpublished Discussion Paper).

### 4. Details of the impact (indicative maximum 750 words)

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During the early 2010s, the Slovak government was repeatedly criticized for insufficient use of evidence in policy making (see, for example, “Slovak Republic: Developing a Sustainable Strategic Framework for Public Administration Reform”, OECD, June 2014 and “COUNCIL RECOMMENDATION of 8 July 2014 on Slovakia’s 2014 national reform programme and delivering a Council opinion on the Stability Programme of Slovakia, 2014”, EUR-Lex 2014/C

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247/23). These analyses identified weak analytical capacity as a key factor behind this shortcoming. In order to remedy this, the Government Office undertook to create an analytical unit to provide analytical support for the Government and the Prime Minister.

On this backdrop, the Government Office created an Analytical Unit in the first half of 2015 and set out to recruit a senior economist to lead it. Dr Fidrmuc was asked to become the Head of the Unit from October 2015. His assignment was to lead and mentor a team of analysts (4 at the time) in their analytical work, and to help transform the Unit into a larger Institute which would have the status of a separate section of the Government Office. The Institute for Strategy and Analysis (Inštitút pre stratégie a analýzy, ISA) was formally constituted in May 2016. The stated mission of ISA is to provide analytical support for the economic and social policies of the Government. Since its inception, the ISA has grown from initially 5 (4 analysts and Dr Fidrmuc himself as its external Head) to 12 staff members (9 analysts, 1 administrative staff, Institute Director, and Dr Fidrmuc as External Advisor).

The impact of Dr Fidrmuc's (on-going) engagement with ISA takes several forms.

(1) **Institution building: ISA.** Before 2015, Slovak government institutions had limited analytical capacities, and those that existed pre-2015 were mainly concentrated in the Institute for Financial Policy at the Ministry of Finance. This created a rather unbalanced situation, with most analysts within the civil service being concerned with work related to budgetary issues and macroeconomic forecasting. From 2015 onwards, the Government Office, the Deputy Prime Minister's Office and most Ministries have created their own analytical units. Among these, ISA is one of the large ones, with at present 12 staff members. As part of the Government Office (a civil-service body that supports the work of the Prime Minister and provides support for the regular activities and meetings of the Government), its mission is to provide analytical and strategic support to the Prime Minister and the Government. Dr Fidrmuc helped prepare the concept document based on which ISA was constituted (the same document recommended the establishment of our sister institution, the Implementation Unit, established at the Government Office in 2017). Since its inception, Dr Fidrmuc has participated in recruiting and training new staff, advised and mentored them in their work, and participated in key managerial decisions (especially during the first 3 years, 2015 to 2018).

(2) **Institution building: NPB.** Slovakia, being a member of the Eurozone, is required to create a National Productivity Board (as mandated by the COUNCIL RECOMMENDATION of 20 September 2016 on the establishment of National Productivity Boards, 2016/C 349/01). The purpose of the Board is to monitor the economic performance of the country's economy, identify areas where improvements in productivity and/or competitiveness are possible, and publish an annual *Report on Productivity and Competitiveness*. The Board was officially constituted in September 2019 and includes nominated representatives of key institutions representing the government and the private sector. ISA has been charged with serving as its Secretariat, responsible for organizing its meetings and for preparing the draft of the Report which is then submitted to the Board for its approval. The first Report has been completed in March 2020 and was released in June 2020 (Source 2).

(3) **Policy Analysis.** ISA has undertaken a number of research projects designed to assess the economic effects of national or European policies and/or to provide the basis for formulation of economic and social policies. Specifically, Dr Fidrmuc and the ISA investigated the effects of

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financial transfers under the EU Cohesion Policy on regional economic growth; they devised a happiness-based measure of wellbeing as an alternative to output based measures such as GDP per capita; assessed the early outcomes of a regional aid scheme for less-developed districts in Slovakia; proposed a methodological framework for measuring the relative performance of Slovakia, and its individual regions, on a number of criteria using the synthetic counterfactual method; and evaluated the budgetary impact of new wage rates for employees in public administration.

(4) **Policy Advice.** ISA has advised various sections of the government. In 2015, the Slovak Government has adopted a *Law on support for least developed districts*. This established a policy framework for supporting regions with persistently high unemployment. Dr Fidrmuc and the ISA collaborated with the Section on Regional Development and with the Office of the Government Plenipotentiary for Least Developed Regions on preparing background reports on the districts subject to this law. These reports provided basic information on economic and social background of these districts. That information was then used to identify areas for policy intervention and to prepare tailored action plans for each district. The action plans proposed measures and policies to help the individual districts reinvigorate their economies and lower unemployment. In a subsequent analysis, Dr Fidrmuc and the ISA found that municipalities in the districts awarded extra support (i.e. those for which we helped identify areas where policy intervention could bear fruit) indeed saw their unemployment rates fall faster than in similar municipalities located in districts without policy intervention.

The Director of the ISA confirms that this analytical work has had a direct impact on the people in some of the poorest region in the country. He writes, “while in 2016, Slovakia still saw an unemployment rate of 9.6%, we can now report a significantly decreased rate of 4.92%. This puts the country even below the European average of 6.3% for the first time since it became independent in 1993” (Source 1). Likewise, he says, “Rimavská Sobota, one of the least developed regions in the country which had a long-term problem with unemployment reaching well over 20%, reported an unemployment rate of 16.10% in 2019” (Source 1).

The work of the ISA and the NPB has also been used to prepare Slovakia for the economic recovery period following COVID-19. As a result of the pandemic, Slovakia is facing a great health, social, and economic crisis and the long-term sustainability of public finances will need to be restored in order to keep the consequences of COVID-19 moderate and prevent a long-term recession. The first Report produced by the ISA and the NPB on the performance of the country’s economy (see above, (2) Institution building: NPB) makes clear that, “the National Productivity Board supports the broad application of evidence-based economic and social policy making rather than adoption of policies motivated by ideological preferences or political objectives” in order to restore the sustainability of public finances following the pandemic (Source 2). “The choice of specific measures”, the report states, “will require detailed analysis of the benefits and impacts of alternative measures” (Source 2). Benefiting from Dr Fidrmuc’s research, the ISA and NPB are prepared to participate in such analyses and keep the consequences of COVID-19 at bay and protect people’s livelihoods.

### **5. Sources to corroborate the impact** (indicative maximum of 10 references)

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Source 1: Letter from the ISA, 11 March 2020

Source 2: Report on productivity and competitiveness of the Slovak Republic 2019, released in June 2020