SHS Web of Conferences **92**, 01027 (2021) https://doi.org/10.1051/shsconf/20219201027
Globalization and its Socio-Economic Consequences 2020

Influence of COVID-19 Pandemic on The Most Globalized Sectors of Creative Industries in Slovakia

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Abstract.

Research background: The COVID-19 pandemic is far more than a health crisis. The mentioned pandemic is changing communities and economies at their core. While the impact of the pandemic will differ from country to country, it will most likely rise poverty and inequalities at a global scale. Estimating the impacts of the COVID-19 crisis on societies, economies and vulnerable groups is necessary to inform and tailor the responses of governments and partners to recover from the crisis and ensure that no one is left behind in this effort. Without urgent socio-economic responses, global suffering will escalate, jeopardizing lives and livelihoods for years to come.
Purpose of the article: The aim of this contribution is to measure the influence of Coronavirus on the Creative industries entities in Slovakia, which are the most globalized (they have the international partners, cooperation or owners), to provide the various scenarios of the economic development in this field and to propose the recommendations about the development of international cooperation.
Methods: The influence of COVID-19 pandemic on media companies, broadcasting channels, software companies, was determined by filings for bankruptcy or restructuring and on the basis of the number of laid off employees.
Findings & Value added: Based on the reached results, we conclude that the Creative Industries entities such as media companies, broadcasting channels, software companies, which produce the digital content, were not so negatively affected. Many of the changes due to digitization have been positive, however, again in unexpected ways.

Keywords: *Creative industries; COVID – 19; Globalized Economy*

JEL Classification: *L89; O30; Z10*

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1 Introduction

Creative industries signify the intrinsic manifestation of humanity's capacity to think, create, innovate, and design that generates economic value. These industries whose origin lies in talent, skill, and creativity are now enriched by technology. Economically, creative industries are tremendous contributors to the creation of jobs, companies, and quality of life across all markets [1,2,3].

Slovakia, a country of 5.4 million inhabitants, recorded its first COVID-19 case on March 6, 2020, and its first death attributed to the pandemic on April 1, 2020. As of June 25, 2020, Slovakia had recorded 1,630 cases, 28 deaths, and had 150 active cases. In terms of the number of COVID-19 deaths Slovakia occupies the last place among European states. This remarkable performance in terms of containing the pandemic has been due to several key factors:

- Quick response - within less than a week since the first case schools and universities in Bratislava had been closed, border controls and mandatory quarantine for people returning from abroad had been introduced and non-essential shops had been closed; within ten days schools had been closed in the whole country, mandatory face masks had been introduced, and international bus, train, and air passenger services had been banned.
- The high level of compliance of the general public, supported by the example of politicians, news anchors, and media personalities, all wearing facemasks on the screen.
- Even though several mistakes have been made, the overall effectiveness of the measures taken was good.

The overall economic impact of the COVID-19 pandemic in Slovakia has been severe. Primarily due to meager foreign demand, in Q1 2020 Slovak GDP shrank by 3.9% y-o-y, which was one of the largest drops in Europe. Slovakia was still able to borrow record-high 4 billion EUR for 5 and 12 years at very solid rates (reoffer yield 0.35% for 5-yr bonds, 1.056% for 12-yr bonds); Fitch downgraded Slovakia from A+ to A on May 8, 2020, nevertheless. Following a slight increase of the unemployment rate from 6.13% in February to 6.21% in March 2020, April 2020 marked a record-high monthly increase of the unemployment rate by 1.22 pp to 6,57% followed by further increase by 0.63 pp to 7.2% in May as reported by the Central Office of Labor, Social Affairs and Family (COLSAF). The unemployment rate however remains relatively low, compared to Slovakia's historical data, when the unemployment rate reached about 15% just seven years ago. Remarkably and surprisingly, whereas employers announced 2242 mass layoffs in March 2020 and the number increased to 3142 in April, May witnessed just 1116 mass layoff announcements. Another positive signal from the labour market was that in May 9,665 people found jobs, which was by 3,744 (63%) people more than in April. While there were 180,756 unemployed in April and 198,256 in May 2020, COLSAF also registered 67 thousand vacancies in May, 5 thousand less than in April. Workers were sought especially for the positions of machine operators and specialized crafts people, and unqualified workers. Temporary agency workers and workers on fixed term contracts belong to some of the most affected groups in the labour market. Temporary agency workers are covered by the Labour Code provisions similar to regular employees and their employer (the agency) is obliged to offer at least 60% of the wage compensation if the employer cannot provide work to the temporary agency worker. The reference wage is equal to the average wage registered at the agency for the last 12 months. Data about actual layoffs of temporary agency workers is not available, but we expect that they are exposed to lay-offs more often than regular employees. Another vulnerable group, which is poorly protected against job loss are workers working on work agreements outside of the regular employment contract. There are two types of such agreements: (1) work agreements equivalent of part-time employment contracts and (2) work agreements for the maximum of 300 hours per year. Even if in the majority of cases employees with such work agreements are part of the social insurance system, employers are not obliged to compensate for their wages if they do not have the work for them. To compensate these workers, in mid-April the government announced that those who have a valid work agreement but cannot perform their work are entitled to a monthly subsidy of 210 EUR provided by the state as a compensation for the wage loss.

The COVID-19 pandemic has a major impact on the ability of Slovak companies to repay their liabilities. As part of measures to help entrepreneurs, small and medium-sized enterprises can request a deferral of loan repayments for up to nine months. However, the ability to repay other liabilities may be impaired [4,5].

In general, the largest share of companies with a positive result of the Liabilities / EBITDA indicator is in the Healthcare sector, up to 87% of companies. The remaining 13% of companies achieve a negative result of this indicator and would not be able to repay their EBITDA liabilities; The most burdened sector by liabilities is the Real Estate sector, where 68% of companies would repay their liabilities for more than 12 years; One of the sectors most affected by the COVID-19 virus crisis is the Tourism and Gastronomy sector. As many as 44% of companies in this sector achieve a negative result of the monitored indicator, which is the most of all sectors, and would not be able to repay their EBITDA liabilities. The overall Liabilities/EBITDA ratio shows us that the most burdened sector by liabilities is the sector of services. The industry would need more than 49 years to repay its total EBITDA liabilities. The negative EBITDA of the company, Debitum, a.s., in the amount of -149 million euros, has a large share in this result. The sector of Services achieves a much more favourable result and 68% of companies in this sector would repay their liabilities in more than 5 years. The remaining 32% of companies achieve a negative result and would not be able to repay their liabilities with EBITDA.

Innovation and creativity have become broadly used terms in many national development strategies. The Creative Economy concept has been derived from the innovation concept, combined with creativity from Creative Industries. The Creative Industries concept in policy documents suggests added value, exports, and new jobs, implying a foundation of competitiveness. Innovation and creativity terms are used in development strategies worldwide and are included in policy documents of the UNDP, OECD, WTO, World Bank and other large international organizations. Policy makers are stressing that innovation, creativity and independent thinking are increasingly crucial to the global economy [6-9].

Given current challenges the global economy in the broader sense requires a different approach to achieve the needed growth within requirements of sustainable development – new approaches of inclusive growth, not based on financial speculation; adapting to climate change; adjustments to account for limited natural resources; protection of bio diversity requires new patterns of production and consumption based on the smart use of IT, biotech and nanotechnologies; and organizational and institutional changes at the micro and macro levels. (The New Economics Foundation) [10,11,12].

2 Methodology and Methods

In this chapter, we mentioned the main research aim and methodology used to fulfil the set aim.

2.1 Research aim

The aim of this paper is to measure the influence of Coronavirus on the Creative industries entities in Slovakia, which are the most globalized (they have the international partners, cooperation or owners), to provide the various scenarios of the economic development in this field and to propose the recommendations about the development of international cooperation. We will analyse the current economic situation of the most globalized sectors of the creative industries in Slovakia. In the paper, we articulated the following research questions:

- Research question no. 1: Which indicator is relevant for measuring the financial solvency of the companies in the most globalized sectors of the creative industries?
- Research question no. 2: Should the companies in the selected sectors of the creative industries be able to pay their liabilities as the result of the COVID-19 pandemic?

2.2 Methodology of the research

We therefore looked at the ratio of the Commitments/EBITDA indicator of the Slovak industries for 2018, which will show us the ability of individual companies to repay their EBITDA liabilities before the COVID-19 crisis. For this analysis of the Liabilities/EBITDA ratio, we take into account the financial statements for 2018, as the financial statements of Slovak companies for 2019 have not yet been published for all companies. For our analysis, we mostly obtained the financial data about the companies in the most globalized sectors of the creative industries from the Finstat Database.

The Liabilities/EBITDA ratio is an indicator that expresses how long in years the company would need to repay liabilities from its profit before interest, tax, depreciation and amortization. This indicator, also called flow debt indicator, measures a company's ability to repay its long-term and short-term liabilities, including trade and debt liabilities. A high result of this indicator may indicate a high burden of liabilities and a longer ability to repay. If the company achieves a negative result of this indicator, its EBITDA is negative and it is unable to repay its liabilities. In a few rare cases, the result is negative also due to negative liabilities. The result between 0 and 1 represents higher EBITDA than the Liabilities and the ability to repay the company's liabilities from its profit for interest, tax, depreciation and amortization immediately. Unlike the Debt/EBITDA or Net Debt/EBITDA ratios, this indicator also takes into account the above-mentioned trade payables.

3 Results and Discussion

The film industry, video publishing, software publishing, broadcasting and other professional and scientific activities belonging to the group of the most globalized sectors in the creative industries according to the value added and the turnover reached by export [13]. The government of the Slovak Republic approved the measure valid for companies in all sectors of economy. Temporary protection of entrepreneurs creates a legal framework for providing protection to entrepreneurs operating a business who have their registered office or place of business in the Slovak Republic and are affected by the negative economic effects of the spread of contagious disease COVID-19. Temporary protection is regulated in Act no. 92/2020 Coll., amending and supplementing Act no. 62/2020 Coll. on certain emergency measures in connection with the spread of the dangerous contagious human disease COVID-19 and in the judiciary and amending certain laws. Number of entities of the selected sectors of the creative industries are shown in the table 1.

Tab. 1. Number of Entities in the Temporary Protection

SK NACE	Number of Entities
58	2
60	0
62	5
74	1
Total	8

The purpose of temporary protection is to create a time-limited framework with tools to support the effective management of negative impacts of the COVID-19 pandemic on entrepreneurs. Temporary protection is applicable for entrepreneurs (natural and legal persons) with a seat/place of business in the territory of the Slovak Republic and which have not been classified as an entity/undertaking in difficulties prior to 12 March 2020. Entrepreneurs must have had a valid business license prior to 12 March 2020. Certain financial institutions (banks, insurance companies) are not eligible. Bankruptcy proceedings initiated by the creditor after 12 March 2020 on the entrepreneur‘s property under the temporary protection shall be suspended. The entrepreneur under the temporary protection is itself not obliged to file for bankruptcy of its property during the period of temporary protection. Any execution proceedings against an entrepreneur under the temporary protection initiated after 12 March 2020 shall be suspended. The enforcement of lien applicable to the undertaking or assets of an entrepreneur under temporary protection cannot be commenced. It is not possible to set off a previously existing claim of a related person against a claim of the entrepreneur under the temporary protection. The other contracting party may not terminate or withdraw from the contract concluded with an entrepreneur under the temporary protection due to a delay in fulfillment to which the other party was entitled before the temporary protection.

Time limits to exercise the right towards an entrepreneur under the temporary protection shall be suspended for the duration of the protection. Obligations directly related to the continuation of business operations shall be paid by the company under protection as a matter of priority over previously payable liabilities. Cashless bank loans granted during the temporary protection and directly related to the continuation of business operations shall not be assessed under the provisions of the Commercial Code on crisis and the provisions related to the bankruptcy regulation do not apply to them as well. The temporary protection terminates: a) on October 1st, 2020; b) upon request of the entrepreneur, c) upon court decision. The duration of temporary protection may be extended by the Slovak Government latest until December 31st, 2020.

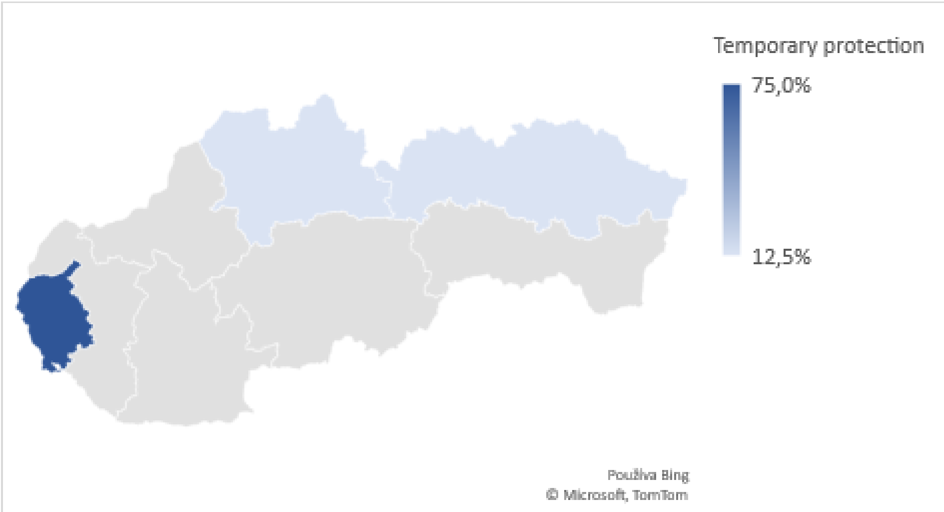

Fig. 1. Spatial distribution of the entities under the temporary protection (2020)

One can see that the highest interest for the temporary protection was in the Bratislava region (Fig. 1). It may be caused by the highest concentration of the companies in the Slovak Republic.

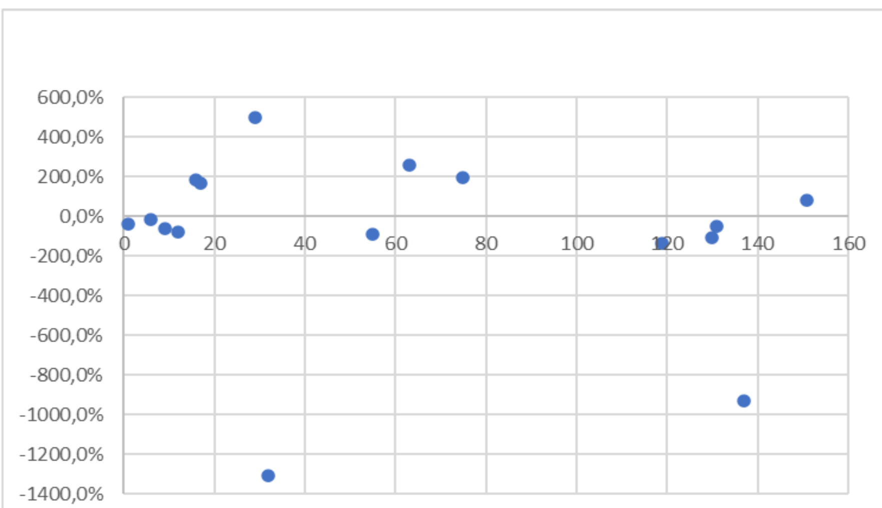

Fig. 2. Change of the Debt/EBITDA indicator - (2019)

The annual change of the Debt/EBITDA indicator reached 1.22 (Fig. 2). The capital structure of the entities in the selected sectors of the creative industries have not been appropriate [14]. Besides the traditional arts sectors (performing arts, visual arts, cultural heritage – including the public sector),the creative industries include film, DVD and video, television and radio, video games, new media, music, books and press [15]. Figure 3 illustrates the annual change of the ROE indicator, which is showing the return on equity created by owners. The average annual change of ROE was -57.2 %.

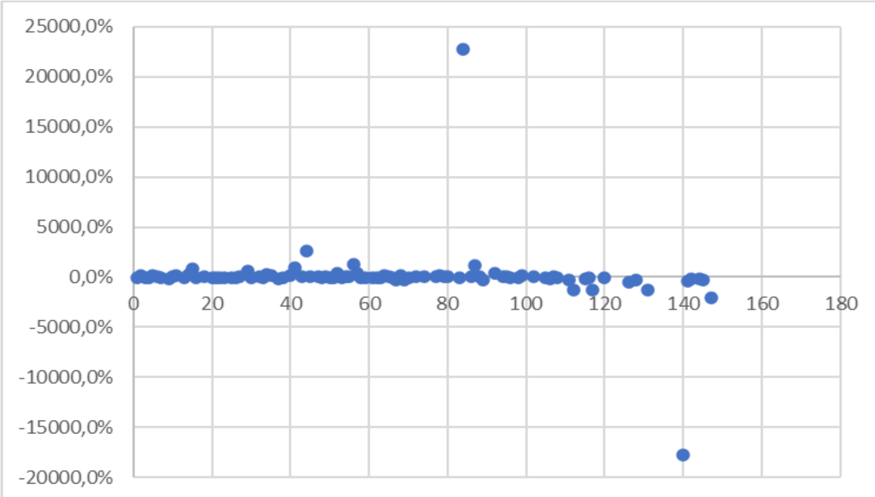

Fig. 3. Change of the ROE indicator – the most globalized sectors of the creative industries (2019)

4 Conclusion

The coronavirus pandemic is leading to large-scale loss of life and severe human suffering. It is a public health crisis without precedent in living memory, which is testing our collective capacity to behave. The pandemic carries with it the third and greatest economic, financial and social shock of the 21st Century, after 9/11 and the Global Financial Crisis of 2008. This shock brings a double whammy: a halt in production in affected countries, hitting supply chains across the world, and a steep drop in consumption together with a collapse in confidence. Stringent measures being applied, albeit essential to contain the virus, are thrusting our economies into an unprecedented "deep freeze" state, from which emergence will not be straightforward or automatic.

In comparison, the sector of Services achieves a much more favourable result and 68% of companies in this sector would repay their liabilities in more than 5 years. The remaining 32% of companies achieve a negative result and would not be able to repay their liabilities with EBITDA. The most globalized sectors of creative industries reached indicator Debt/EBITDA on the level 1.22 in average, which means that the debt is 1.2 times higher than EBITDA. Total number of entities in the most globalized sectors of the creative industries applying for the temporary protection in the Slovak Republic was very low (only 8 companies till the end of august 2020). The future government resolutions may change the final impact of the COVID -19 pandemic on the selected sectors of the creative industries.

This paper is the output of the scientific grant VEGA n. 1/0340/19 "The Entrepreneurial Dimension of Creative industries in the Context of Innovation and Smart Growth (100 %).

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