country essentials

Spring 2014

Slovakia

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Country Risk Assessment

The Country Risk Assessment for Slovakia is A3, while the Business Climate is rated A2.

Strengths and weaknesses of Slovakia

A main strength of Slovakia is the attractive business environment. Furhermore it is a production platform for the European automotive industry.

On the other hand, Slovakia is vulnerable to external shocks and suffers under the long-term youth unemployment. Furthermore the country has difficulties in absorbing European structural funds and shows a high disparity of development between regions. Judicial procedures are rather lengthy and electricity prices remain high compared with the EU average, which could prove detrimental to investment.

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GENERAL INFORMATION

The peaceful and amicable separation of Czechoslovakia on 1 January 1993 led to the creation of two independent successor states: the Slovak Republic and the Czech Republic. Slovakia borders Austria, the Czech Republic, Poland, Ukraine and Hungary. The country has been a member of NATO since 29 March 2004 and joined the European Union on 1 May 2004. On 1 January 2009, Slovakia introduced the euro as its official currency.

Form of government:	Democratic Republic		
Administrative organisation:	8 regions and 79 districts		
Area:	49,035 km^2		
Population:	5,404,000; density: 110 inhabitants / km^2		
Official language:	Slovak, Hungarian (regionally)		
Local currency:	1 euro (EUR) = 100 cent		
Capital:	Bratislava	413,192	inhabitants
Major cities and population:	Košice Prešov Žilina Nitra Trnava Trenčín	240,688 91,638 81,515 78,875 66,219 55,832	inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants
Ethnic groups:	80,7% Slovak, 8,5% Hungarian, 2% Romani, 1% Czech		
Religion:	62% Roman-Catholic, 5,9% Protestans, 3,8% Greek-Chatolic		
Natural resources:	Brown coal, dolomite, iron, salt, calcite, mica, stone, wood, mineral water		
Most important sectors:	Agriculture, automotive, machinery construction, steel		
Membership in international organisations:	Member of 60 organizations: EU, V4, CEFTA, OECD, OBSE, OSN, RE, NATO, WTO, Schengen, a.o.		

RISK ASSESSMENT

Coface Country Risk Assessment

A3

The gradual recovery in the eurozone is breathing new life into economy

The Slovak economy slowed sharply in 2013 due to weaker eurozone demand and difficulties in the European automotive sector caused by slower demand from the major emerging countries (China,India,Brazil). Indeed, the three main carmakers that share the Slovak market (Volkswagen, PSA, Peugeot, Citroen and Kia motors) produce for foreign markets. Meanwhile, growth has been hit by sluggish consumption due to high unemployment and fiscal adjustment efforts. 2014 is likely to be marked by a loosening of these adjustments, which will boost consumption and stimulate growth. Investment and exports should benefit from the slight recovery of activity in the eurozone, which will impact positively on industry, whose production was already up by 7.5% in Q4 2013. Manufacturing grew 9.9% and metal by 23.5% following the decision of US Steel Kosiceto keep its production site in exchange for environmental and energy concessions. This should, moreover, enable the automotive industry, whose main steel provider it is, to boost its production and continue as one of the engines of growth in 2014. Electronic consumer goods grew by a massive 58% in Q4 2013.

The activity downturn brought inflation below the 3% threshold in 2013. The new energy law provides for price regulation from 2014, which will help stabilise energy prices and maintain moderate inflation.

Fiscal deficit adjustment will remain a priority

The fiscal deficit reached the 3% threshold in2013 inline with the government's commitment. The introduction of progressive taxation and higher taxes explain this result. The tax rate on monthly incomes above €3,246 rose from 19% to 25%; and for companies with profits in excess of €30 million, the tax rate went up from 19% to 23%. There is a risk that the 3% target will not be reached in 2014 because measures still need to be taken to enhance VAT collection and reduce tax evasion. Moreover, tax levels in Slovakia are below the regional average, and tax relief continues to be granted to the steel industry. Although public debt is increasing, Slovakia has no difficulty in funding its needs: financing conditions remain favourable, with government 10-year bond yields at 2.6% in late 2013.

The current account surplus is growing due to automotive sector exports and weak domestic demand. However, in 2013, the sharp decline in foreign direct investments in a context of overproduction in the automotive sector, created a need for finance that the reserves were unable to cover. With the expected recovery in 2014, brought about a resumption of investments and increased exports, the accumulation of reserves should enable any shocks to be resisted. The banking sector, dominated by western European players (mainly Austrian and Italian), has high capitalisation and liquidity ratios. Private sector credit could take off again in 2014, reflecting the boom in activity.

Stable political environment; difficulties in absorbing European structural funds

Prime Minister Robert Fico and Social Democrats (Smer-SD), who returned to power in 2012, hold the majority in Parliament (83 out of 150 seats) and have a pro-European programme. They won the regional elections in November 2013. Robert Fico emerged stronger from a vote of confidence in Parliament in September 2013, and despite the Economy Minister's resignation in November 2013 over accusations of involvement in conflicts of interest, the government is expected to remain in power until the next parliamentary elections in June 2016. The fiscal adjustment reforms are likely, therefore, to be conducted without major risk of political stalemate, especially as the opinion polls continue to show huge popular support the Smer-SD. Slovakia benefits from the EU's structural and cohesion funds (European Social Fund and Regional Development Fund) and from the European Agricultural Fund for Rural Development (EAFRD). But the low absorption rate of the funds allocated, due to non-transparent tender procedures, weak administration and weak project management skills, could slow the reduction of regional disparities and the dynamism of the economy (jobs, infrastructure and business environment). Meanwhile, judicial procedures are rather lengthy and electricity prices remain high compared with the EU average, which could prove detrimental to investment.

FOREIGN TRADE & ECONOMIC KEY DATA

Slovakia’s Top 5 Trading Partners

Imports in TEUR	2010	2011	2012	2013
EU 27	30.887	35.055	37.261	37.604
Germany	7.520	8.869	9.850	9.337
Russia	4.659	6.184	5.933	6.148
Czech Republic	4.863	5.706	5.724	6.225
Republic of Korea	3.780	3.450	5.600	5.157

Exports in TEUR	2010	2011	2012	2013
EU 27	40.652	47.695	51.989	53.295
Germany	9.291	11.494	13.273	13.577.
Czech Republic	6.612	7.996	8.706.	8.752
Poland	3.527	4.104	5.003	5.313
Hungary	3.209	3.992	4.342	4.020

Source: Slovak Statistical Office

Economic Key Data

Key Data	2011	2012	2013	2014 (f)
GDP growth (%)	3.2	2.0	0.9	2.3
Inflation (yearly average) (%)	4.1	3.7	1.7	2.0
Budget balance (% GDP)	-5.1	-4.3	-3.0	-4.0
Current account balance (% GDP)	-2.1	-2.2	3.5	4.2
Public debt (% GDP)	43.3	52.1	55.3	57.5

(f) forecast
Source: Coface

INSOLVENCY

Top 5 sectors 👍	Flop 5 sectors 👎
Mining and quarrying	Wholesale and retail trade; repair of motor vehicles and motorcykles
Electricity, gas, steam and air conditioning supply	Manufacturing
Water supply; sewerage, waste management and remediation activities	Construction
Education	Real estate activities
Arts, Entertainment and Recreation	Professional, scientific and technical activities

Insolvency Law & Insolvency Procedures

According to the Slovak law every company has to file a petition for opening of bankruptcy or restructuring procedure, if it is not able to pay its debts:

- in the terms of more than 30 days after their due dates and when the debtor has at least two creditors (illiquidity state). Monetary obligations, which the debtor doesn't recognize are not counting as overdue obligations,
- in the term of 30 days, when the entrepreneur is aware or ought to have been aware as suffering important financial difficulties (imminent insolvency), he must file a declaration of bankruptcy.
- when the amount of the total debts exceeds the value of the assets, taking into account future economic results achieved in association with continued operation (excessive indebtedness) and when the company has several creditors - at least two.

From 1st January 2013, the value of the assets, and also the value of the liabilities, will be taken not only from the debtor's books, but primarily from an expert opinion.

The number of bankruptcies in 2013 increased by 9% compared to the year 2012 (from 362 to 394). The same trend is repeated in the number of restructurings, which increased significantly by 25% (from 90 to 113). Similarly to the last year the highest number of bankruptcies was declared in these industries: wholesale and retail trade, manufacturing and construction. The highest number of restructurings was registered in manufacturing, wholesale and retail trade and also in construction.
The bankrupted companies had a smaller number of employees than the companies, which started the restructuring process. 20% of bankrupted companies were the sole proprietors.
The main problems are still a worsening payment discipline, which causes the secondary insolvency, the economic slowdown and a higher unemployment together with the low incomes, which contributes to the low purchasing power of the population.

The most risky region is Bratislava with the highest number of bankruptcies and restructurings, but here is also the largest number of active companies.

We can conclude, that our assumption from the year 2012 had been confirmed. The situation was worse and the problems in construction area peaked. Now we expect more positive year with the acceleration of the economic growth.

The lowest risky sectors in bankruptcies are human health and social work activities, education, financial and insurance activities. For restructurings there are Information and communication, mining and quarrying and also accommodation and food services.

CHECK LIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	■ Minimum capital for a stock company: EUR 25 000 ■ Minimum capital for a limited liability company: EUR 5.000
Tax law	■ 22% corporate tax ■ 20% VAT (reduced rate: 10%) ■ 19% income tax from individuals by annual income 34.402 EUR ■ different excise tax ■ Foreign corporations should be registred for VAT purposes
Investments	■ Foreign investors are accorded equal treatment with domestic investors
Foreign exchange	■ EU
Labour law	■ Minimum wage 2014: 352,- EUR per month (1/2014) ■ No permitions for EU citizen
Customs	■ Governments grants for new companies or tax discounts for foreign investors
Travel and residence	■ No permitions for EU citizens

Corruption

Slovakia is ranked 61 in the International Corruption Perceptions Index for 2013. In comparison, Germany is rated 12th and Austria 26th. The corruption index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and is related solely to the public sector.

The Doing Business Index issued by the World Bank expresses the ease of doing business in a particular country. In this ranking Slovakia ranked 49h in 2014, falling 6 ranks compared to 2013 (ranking 43th). In comparision Germany and Austria take positions 21st and 30th respectively. This index consists of ten different sub-indices that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the formation and closure of companies.

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