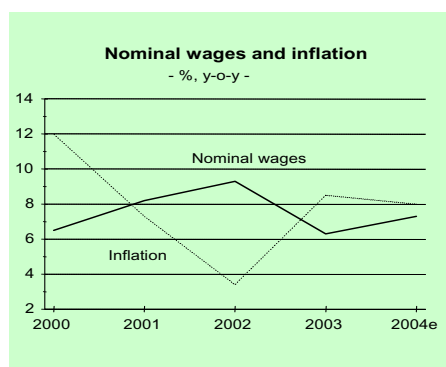
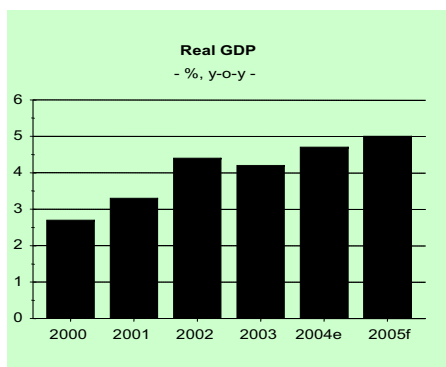


Slovak Republic



Political situation

- ▶ Minority government under Dzuringa under domestic pressure due to divergent interests regarding pace of reform.
- ▶ Member of EU since May 2004.

Domestic economy

- ▶ Robust economic growth, mainly driven by buoyant exports. In the coming years we see real GDP growth of 4 %.
- ▶ Consolidation of public finances making headway thanks to progress on reforms and a favorable economic development. In 2005 modest increase in budget deficit owing to health and pension reforms. Target is to trim the budget deficit to less than 3 % by 2007 in order to join the euro area two years later.
- ▶ The release of administered prices, the hike in indirect taxes and soaring energy costs mean that inflation is easing only gradually.
- ▶ Restructuring in the banking and corporate sector is well advanced. Stable banking sector, dominated by foreign banks.

External sector

- ▶ The EU is the main market for Slovak products; Germany is the most important merchandise trade partner.
- ▶ Exports increasingly benefiting from the economic rebound in the EU as well as the establishment of large export-oriented enterprises in the automobile industry. Imports are growing sharply on the back of increased demand for capital goods; we therefore expect the current account deficit to widen in 2004. Nevertheless, the shortfall of 2.2 % of GDP will be relatively low. Foreign direct investment will more than offset the shortfall.
- ▶ Exchange rate: Controlled floating.
- ▶ Foreign exchange liquidity situation is good thanks to a comfortable level of foreign reserves and moderate foreign debt in relation to exports.

SLOVAK REPUBLIC	2001	2002	2003	2004e	2005f
Population (m)	5.4	5.4	5.4	5.4	5.4
GDP (US\$ bn)	20.9	24.2	32.5	41.3	47.2
GDP per capita (US\$)	3,867	4,482	6,021	7,641	8,736
GDP change in % (real)	3.3	4.4	4.2	4.7	5.0
Inflation in % (annual average)	7.3	3.4	8.5	8.0	5.0
Budget balance in % of GDP	-6.0	-5.7	-3.6	-3.5	-4.0
Merchandise exports (US\$ bn)	12.6	14.5	21.9	28.5	37.6
Merchandise imports (US\$ bn)	14.8	16.6	22.6	29.8	39.3
Current account balance (US\$ bn)	-1.8	-2.0	-0.2	-0.9	-1.4
Current account balance in % of GDP	-8.6	-8.3	-0.6	-2.2	-3.0
Foreign direct investment (US\$ bn)	2.3	3.8	0.7	1.4	2.0
Foreign direct investment in % of GDP	11.0	15.7	2.2	3.4	4.2
Gross foreign debt (US\$ bn)	11.3	13.2	17.6	18.0	17.7
Foreign debt in % of exports *	73	76	101	55	42
Foreign exchange reserves (US\$ bn)	4.1	8.8	11.7	13.3	15.3
Import cover (months) *	2.8	5.4	5.4	4.7	4.2
Exchange rate year-end (Slovak koruna per EUR)	43.10	43.30	42.70	40.31	39.50
Exchange rate annual average (Slovak koruna per EUR)	48.47	40.00	32.98	31.60	30.88
* goods, services and income	e = estimate; f = forecast				

Slovak Republic

Basic conditions for foreign investors

General legal system:

Fulfillment of standardized EU legislation since May 1, 2004. Some transition periods are still applicable, e.g. in the free movement of labor, in the law on real estate and in environmental protection.

Possible company structures/minimum capital requirement:

Joint stock company (Slovakian: a.s.)/1m Slovak koruna, private limited company (Slovakian: s.r.o.)/200,000 Slovak koruna, one-man private limited company possible, general commercial partnership (Slovakian: v.o.s.), limited commercial partnership (Slovakian: k.s.). For foreign investors also branch and representative office.

Permissible holding:

Up to 100 %, except strategic sectors. Foreign investors may participate in privatization by direct purchase or public tender.

Approval/establishment procedures:

Prior to commercial register entry the necessary trading licenses and concession documents have to be on hand.

Capital contribution:

Payment of the share capital in Slovak koruna or in other convertible currency. Imported real capital is duty-free.

Land/real estate acquisition:

Foreign individuals and legal persons may acquire real estate except rural areas and forest land as well as government properties. Since May 1, 2004 EU citizens are allowed to acquire agricultural real estate, if the same has been under own management for a period of at least three years. Improved tax framework for real estate leasing since January 1, 2003.

Qualification of labor force:

Well-trained and committed workforce, especially in the IT sector. Bratislava offers above-average skilled workforce. Official languages: Slovak, German, English.

Labor costs (per hour worked, national average):

3.36 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage:	6,080 Slovak koruna.
Average monthly gross wage:	15,801 Slovak koruna.
Average monthly net wage:	11,140 Slovak koruna.

Considerable differences between big cities and rural areas. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

381 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 35.2 % of gross wages

(1.4 % health insurance, 16 % pension scheme, 3 % disability insurance, 1 % unemployment fund, 10 % general health insurance, 0.25 % guarantee fund, 0.8 % accident insurance, 2.75 % reserve fund).

Employee's contribution: 13.4 % of gross wages

(1.4 % health insurance, 4 % pension scheme, 3 % disability insurance, 1 % unemployment fund, 4 % general health insurance).

Legal forms to protect foreign investments:

No difference between foreign and domestic investors.

Agreement with European Union:

Association Agreement since February 1, 1995. EU member since May 1, 2004.

Profit and capital repatriation:

Free for foreign investors after taxes.

Taxation (without application of bilateral agreements):

Income tax: 19 % (flat rate).
Corporate/profit tax: 19 % (flat rate).
VAT: 19 % (flat rate).

Taxes on inheritance, gifts, dividends and other profits have been abolished.

Customs tariff:

Accession to customs tariffs of the European Union as of May 1, 2004, i.e. free traffic of goods between the old and new European Union member states; customs declarations are not required. For supplies from third countries uniform customs tariffs of the European Union are applicable. Customs union with Czech Republic. WTO member since January 1995.

Special economic zones:

Numerous industrial parks under construction, e.g. in Kosice, Levice, Malacky, Martin, Nitra, Peznik, Presov, Senica, Zahone, Zilina-Teplicka and Zlate Moravce.

Tax concessions for foreign investors/EU grants:

For investments of minimum 200 million Slovak koruna in regions with an unemployment rate of more than 10 %, for investments of minimum 400 million Slovak koruna in regions with an unemployment rate below 10 %. Allowances on investment expenses for a maximum 10 years in regions outside of Bratislava. Additionally the individual regions offer numerous incentives. However, every application for tax concessions requires approval of the EU. For the period 2004-2006 we estimate, after deduction of contribution to the EU budget, 1.5 % per year of GDP is expected from the EU agricultural fund as well as the EU structural and cohesion funds (infrastructure, environment).

Foreign exchange regulations:

Since October 1998 free floating of the Slovak currency. The Slovak koruna is fully convertible. To join the European Exchange Rate Mechanism II (ERM II) 2007 at the earliest. Introduction of the euro 2009 at the earliest.

Inflow of foreign direct investment (gross, 2003): 0.4bn euro

Main countries of origin:

Germany (36.7 %), Hungary (31.7 %), United Kingdom (10.9 %), Netherlands (9.4 %), Italy (4.3 %).

Main sectors:

Energy sector (36.8 %), production industry (35.5 %) and wholesale and retail trade (7.2 %).

Forthcoming privatizations:

In the sectors energy (electricity, gas, water management), telecommunications and transport (state-owned railway). Privatization process largely completed.

Contact address:**SARIO - Slovak Investment and Trade Development Agency**

Martinčekova 17

SK - 82101 Bratislava

Tel.: (0 04 21 2) 58 10 03 10

Fax: (0 04 21 2) 58 10 03 19

E-mail: sario@sario.sk

Internet: www.sario.sk