



SLOVAKIA

A CAPITAL DESTINATION

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OUTLINE

- Macroeconomy
- Structural Reforms
- Business environment



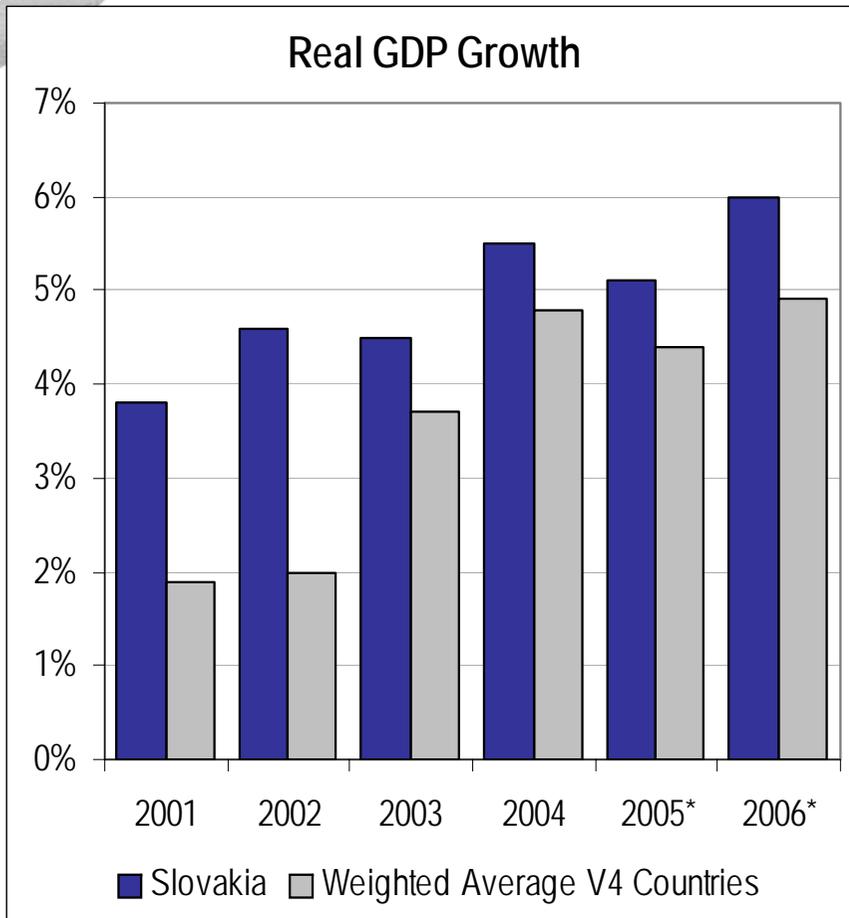
SLOVAKIA: BASIC INFORMATION



- Area: 49,035 km²
- Population: 5.4 million
- Capital: Bratislava
(430 thousand)
- Rating: Moody's: A2
S&P: A-
(positive outlook)
- GDP per capita:
in PPP 52% of the EU
average in 2004
- % of GDP created by
private sector 90,1%



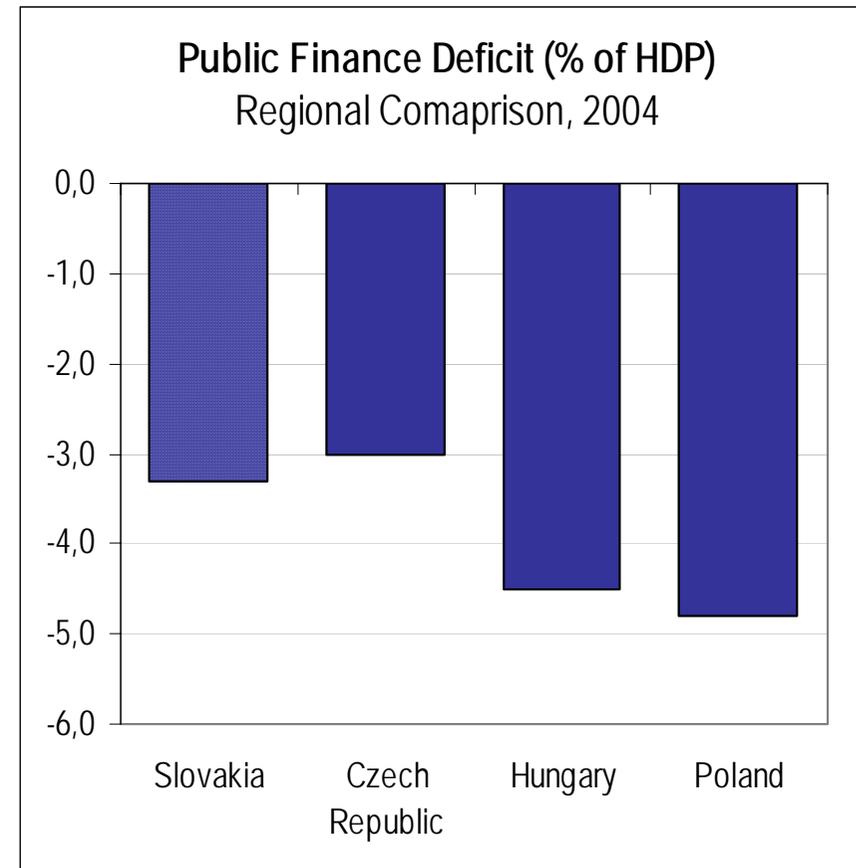
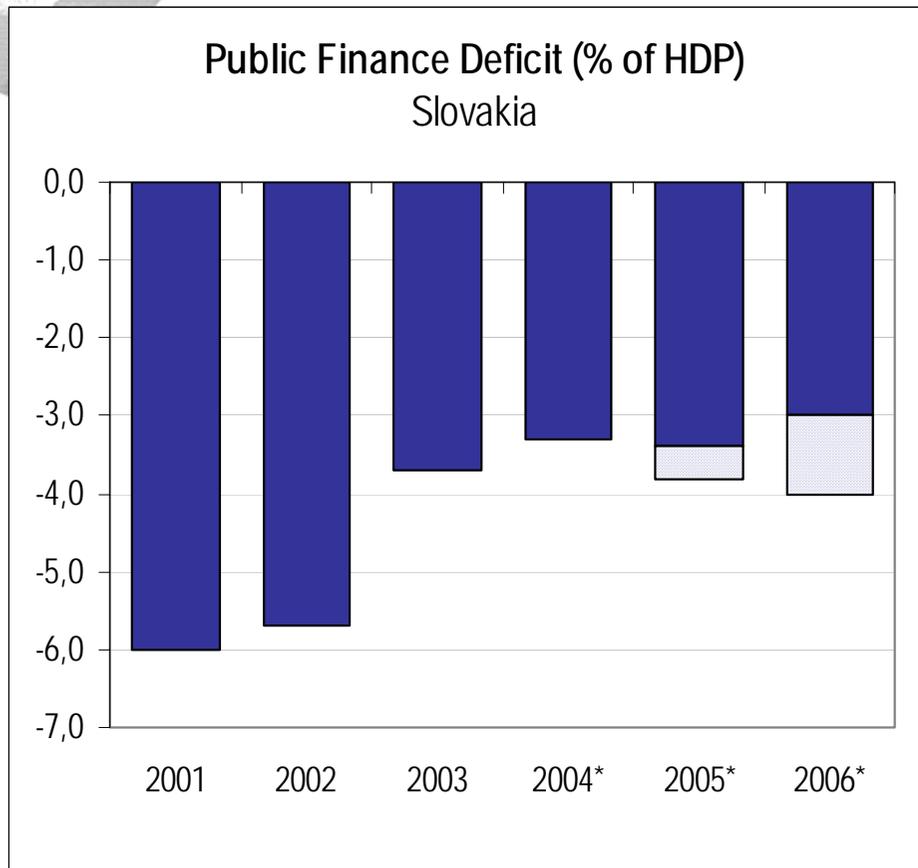
GDP GROWTH EXPECTED TO REMAIN ROBUST



* Forecasts
Source: ING

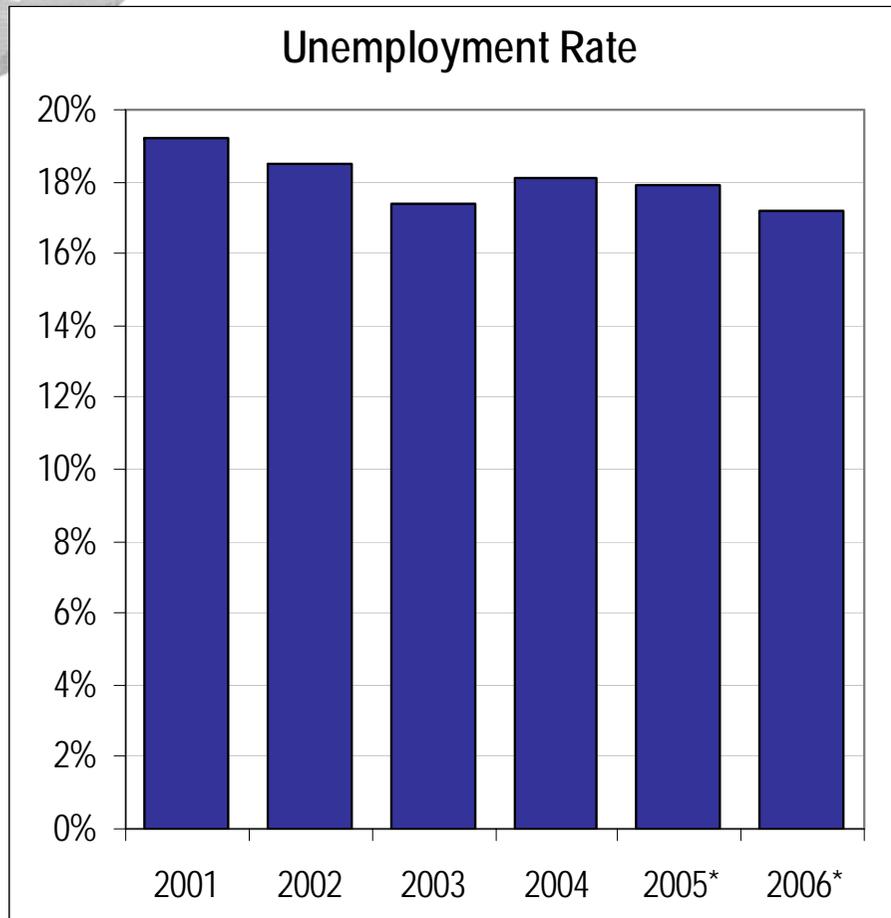
- sustained robust growth in spite of the weak external environment
- highest growth in Central Europe
- top 3 performer in the OECD

FISCAL DEFICIT IS A MUCH SMALLER PROBLEM THAN IN MOST NEIGHBORING COUNTRIES



* Forecasts, including pension reform costs (dotted)
Source: European Commission, spring 2005

UNEMPLOYMENT SHOULD CONTINUE TO DECLINE

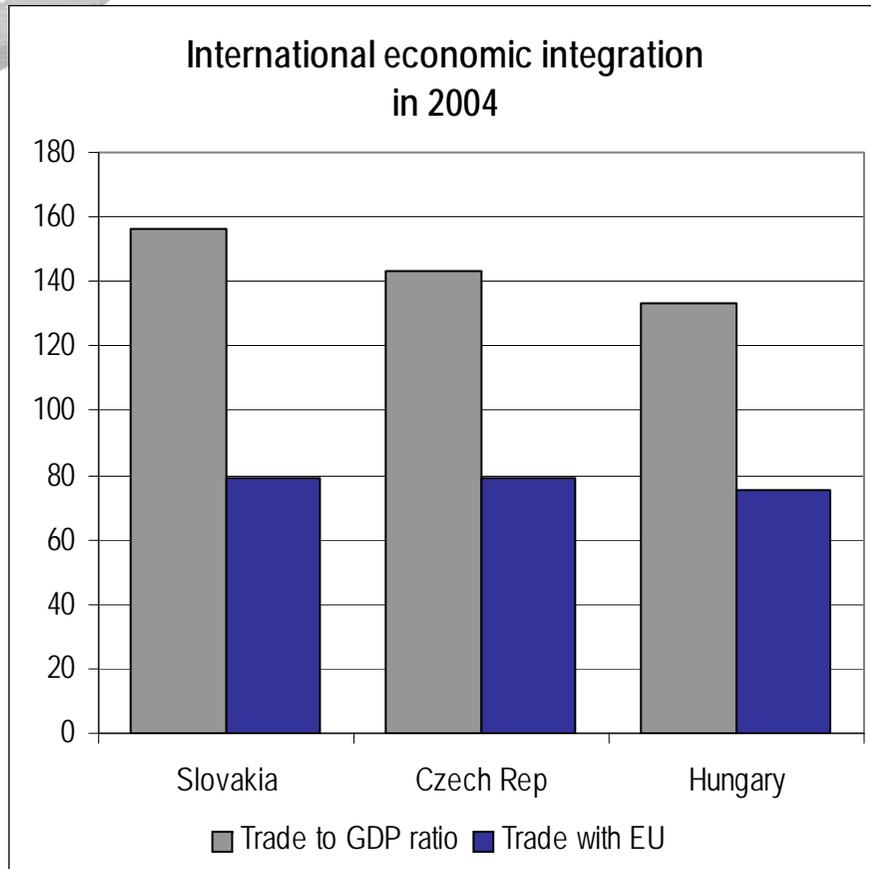


* Forecast

Source: European Commission, spring 2005

- main reasons of declining unemployment include:
 - structural reforms leading to sustained economic growth
 - major labor market reform
 - more favorable demographic trends

ECONOMY IS HIGHLY OPEN AND FULLY INTEGRATED INTO EU'S COMMON MARKET

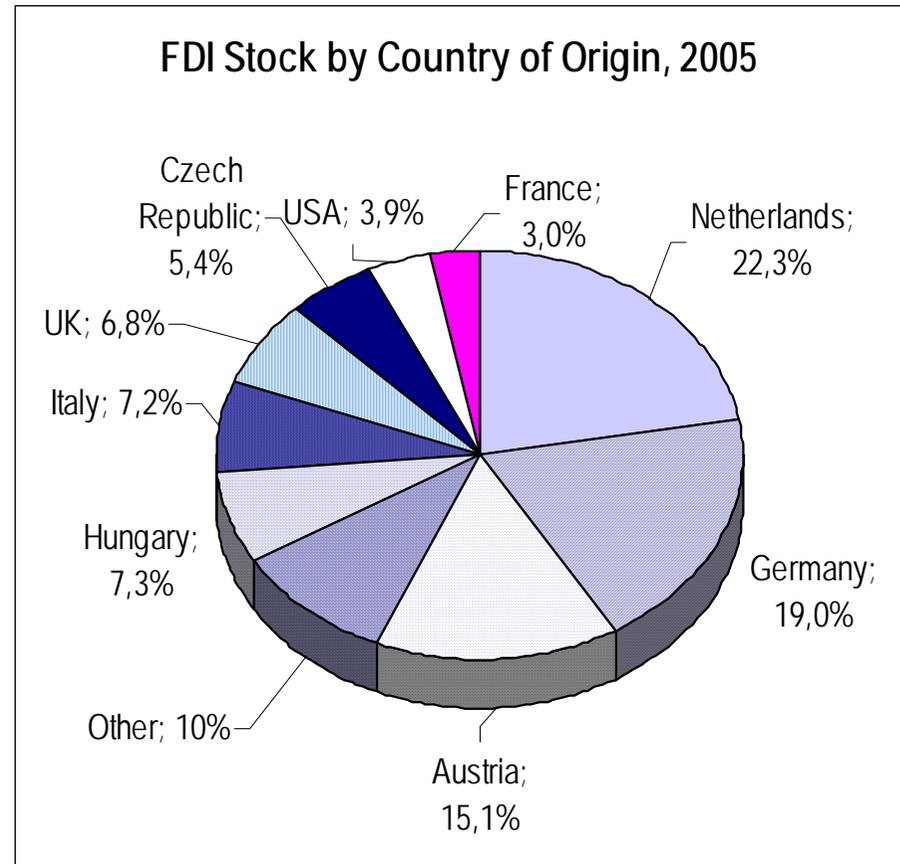
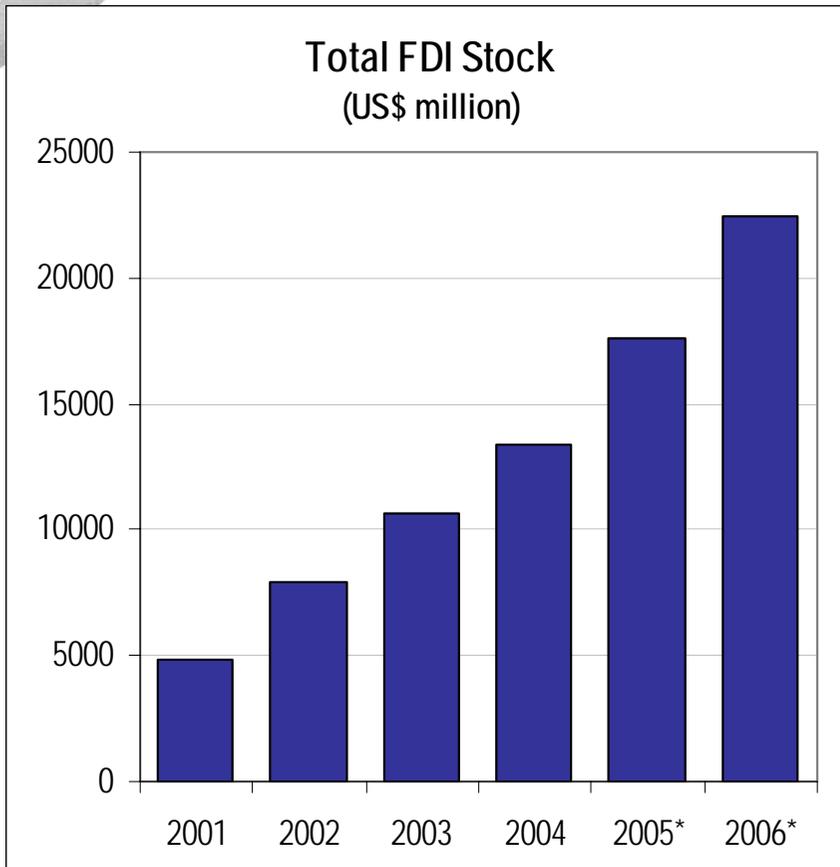


Source: national statistical offices

- full benefits resulting from the free movement of goods, services, capital, and labor in the EU
 - Open and easy access to sophisticated suppliers and customers in EU's single market
- legislative and regulatory framework fully compatible with the rest of the EU
- euro adoption in 2009



FDI IS GROWING STEADILY



* Forecasts

Source: National Bank of Slovakia



LONG-TERM FISCAL SUSTAINABILITY IS BEING SUPPORTED BY OTHER MAJOR STRUCTURAL REFORMS

1989

2005

CENTRALLY
PLANNED ECONOMY

*GOALS OF
REFORMS*

- functioning market economy

*TYPE OF
REFORMS*

- privatizations
- price deregulations
- market institutions

FUNCTIONING
MARKET ECONOMY

- high and sustainable growth
- long-term competitiveness
- Lisabon strategy goals
- structural reforms



THE SLOVAK TAX REFORM: GOALS

BASIC PHILOSOPHY: LIGHT, NONDISTORTIVE, SIMPLE AND TRANSPARENT TAX SYSTEM

- create business and investment friendly environment for both individuals and companies
- eliminate existing weaknesses and inefficiencies in the tax law
- eliminate distortive roles of tax policy as instruments for achieving non-fiscal goals
- improve tax fairness by taxing all types and all amounts of income equally

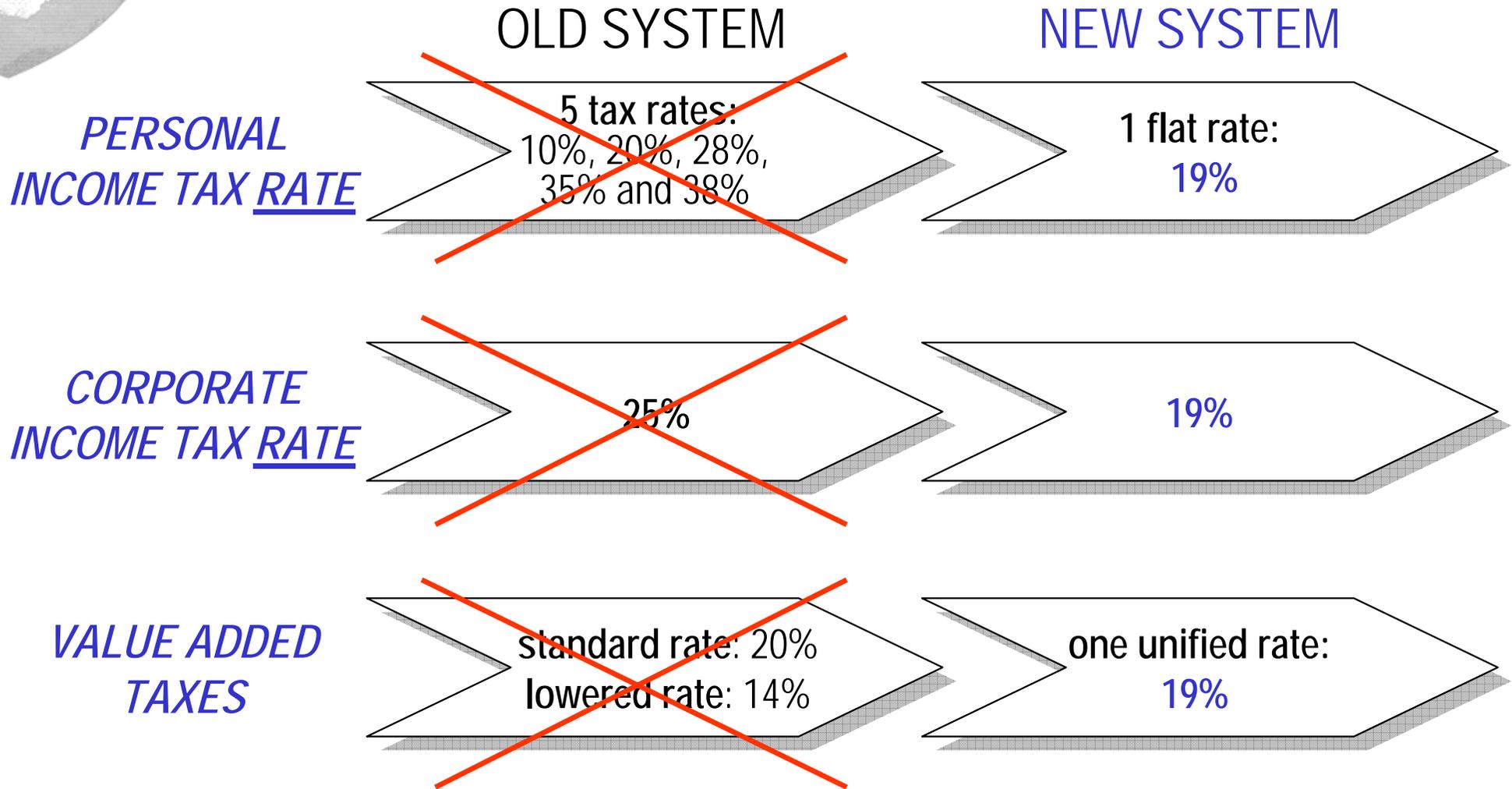


THE SLOVAK TAX REFORM: SPECIFIC CHANGES

- radical simplification of the tax system
 - elimination of virtually all exceptions, exemptions, deductions, special rates, and special regimes
 - elimination of dividend, inheritance, gift taxes, and real estate transfer tax
- introduction of low nominal rates
 - 19% flat individual income tax
 - 19% corporate tax
 - 19% unified VAT on all goods and services - without any exceptions
- shift from direct to indirect taxes

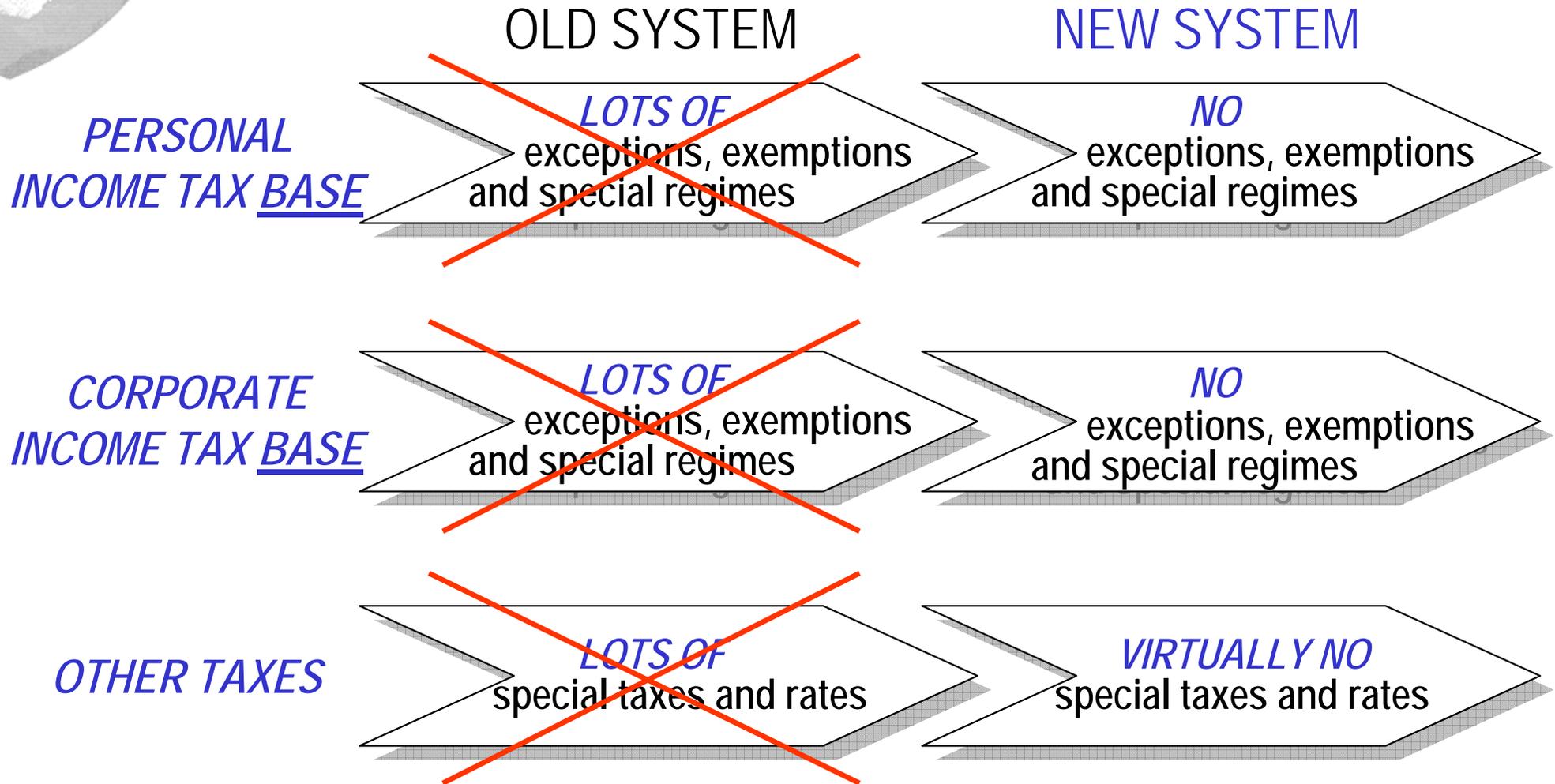


THE REFORM RADICALLY DECREASES ECONOMIC DISTORTIONS CREATED BY THE TAX SYSTEM





THE REFORM RADICALLY SIMPLIFIES THE TAX SYTEM AND INCREASES ITS TRANSPARENCY





THE REFORM ELIMINATES MOST FORMS OF DOUBLE TAXATION OF INCOME

~~INHERITANCE
TAX~~

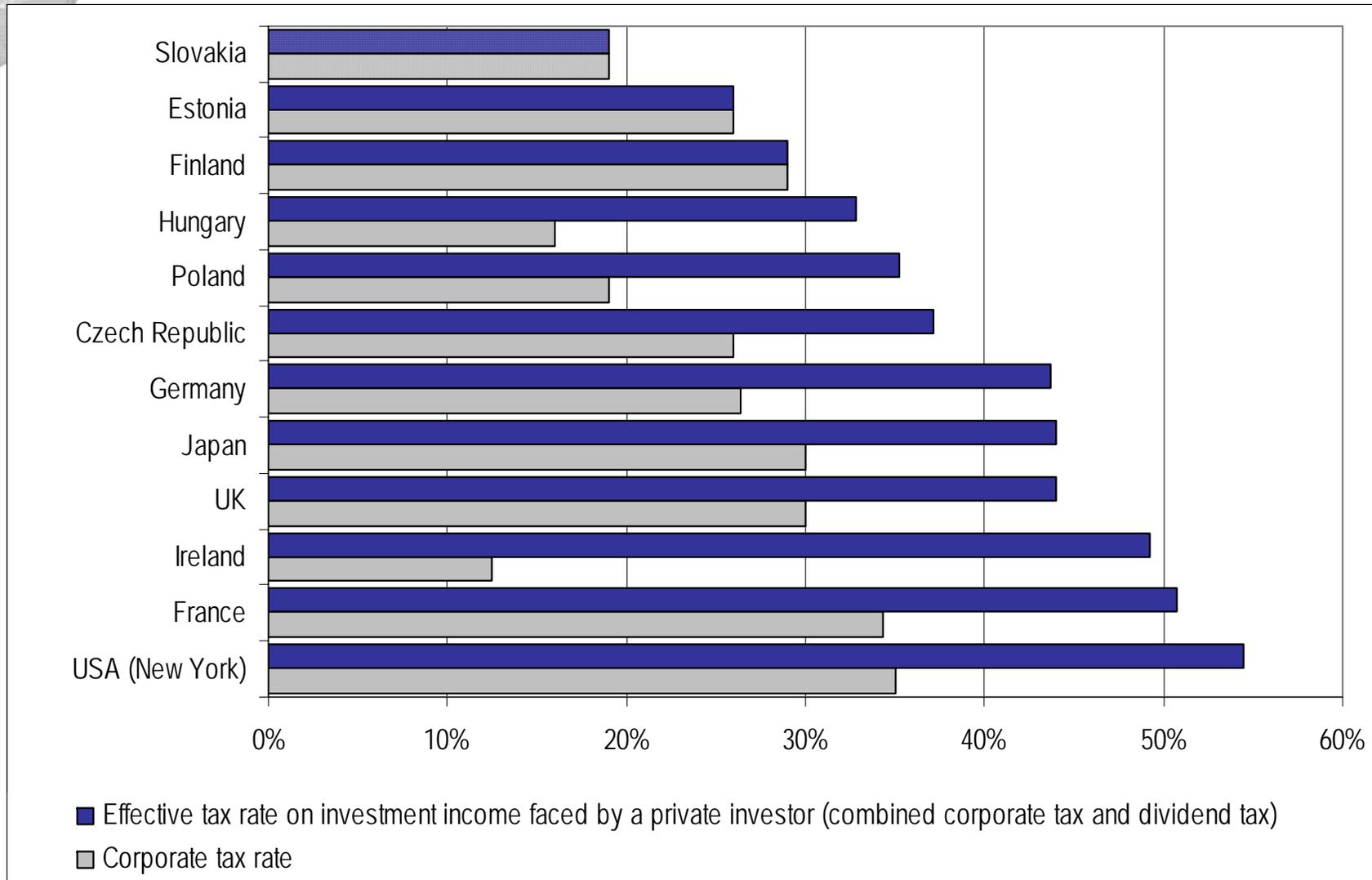
~~DIVIDEND
TAX~~

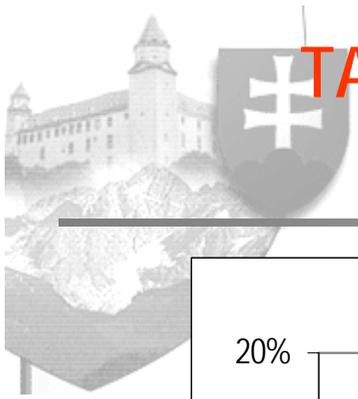
~~GIFT
TAX~~

~~REAL ESTATE
TRANSFER TAX~~

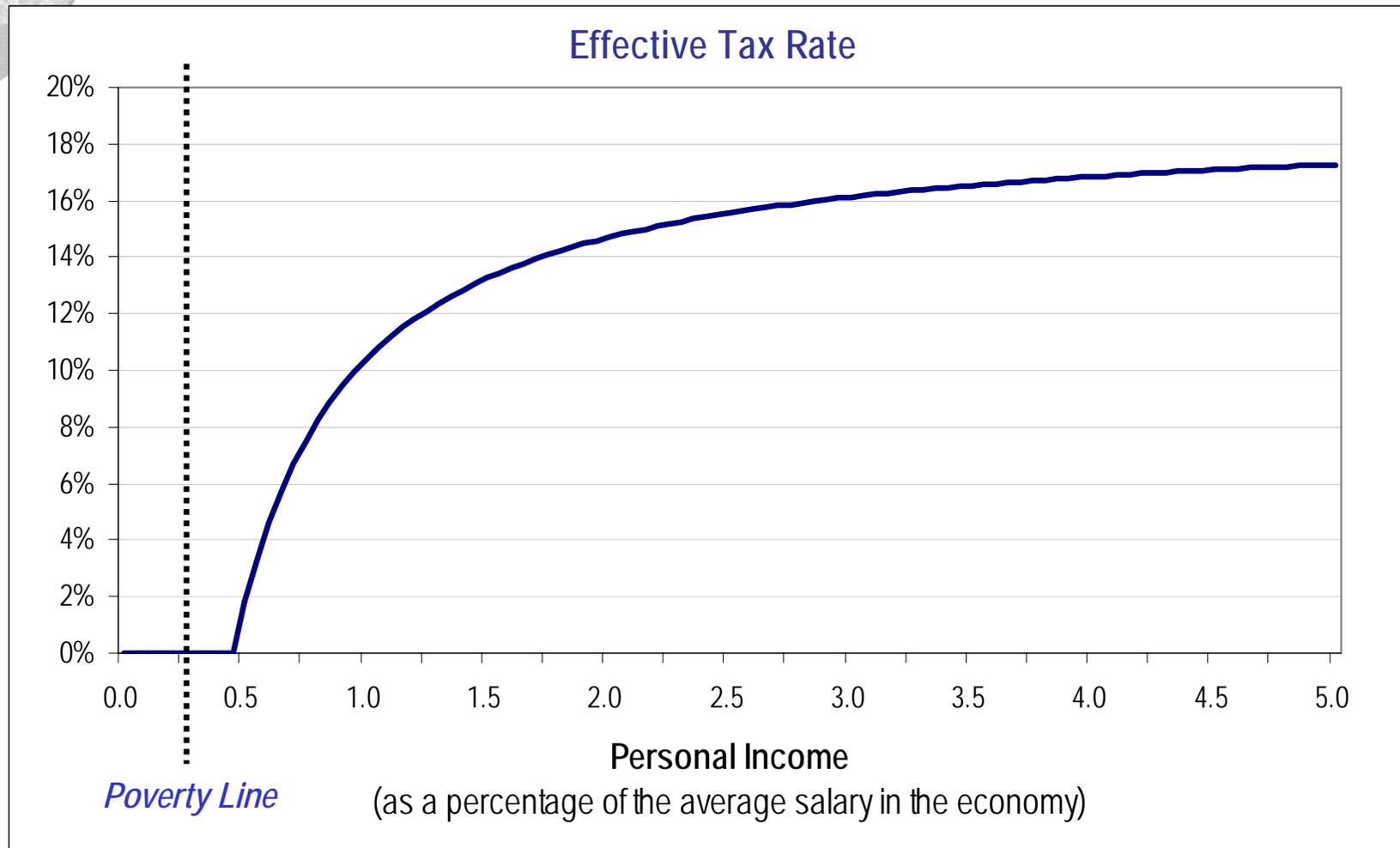


TAX RATES FACED BY INVESTORS





TAXATION IS STILL PROGRESSIVE AND LOW-INCOME PEOPLE PAY LESS TAXES THAN BEFORE

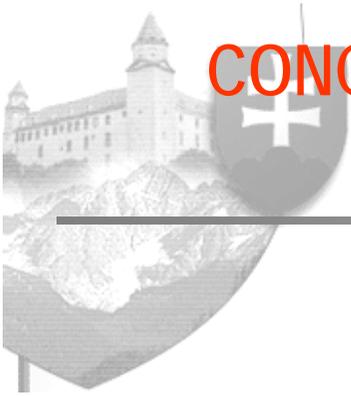


Source: Ministry of Finance of the Slovak Republic



THE SLOVAK TAX REFORM: RESULTS

- no decrease in tax revenues
 - increased revenues from indirect taxes
 - less scope for tax evasion and tax avoidance
 - more motivation to pay taxes
- better incentives for investment and work
 - thanks to lower marginal rates
 - thanks to more transparent and equitable taxation



CONCLUSION: POLITICAL WILL AND MANAGEMENT ARE KEY FOR SUCCESSFUL REFORMS

- must have a clear vision where you want to go
- timing is key in the implementation
 - implement less popular steps first
- resist lobbies and entrenched interests
 - if you give in to one demand, you will be less able to say no to others
- compensate the most vulnerable part of the population



THE SLOVAK SOCIAL SYSTEM REFORM: GOALS

- „*make work pay*“ – activity should pay more than inactivity and employment should pay the most
- improve skills and prospects of disadvantaged individuals
- reduce the scope for abuse of the social system by improved targeting
- make the labor market more flexible to foster long-term employment growth



THE SLOVAK SOCIAL SYSTEM REFORM: SPECIFIC CHANGES AND RESULTS

- labor code reform
 - hiring and firing has been made easier
 - flexible contract arrangements made possible
 - reduction of union powers
- changes in the social assistance (poverty assistance)
 - benefit no longer equals long-term income replacement
 - parts of the benefit conditioned upon activity
 - increased replacement rate when moving into employment
- new system of public employment services
 - shift from heavy subsidies to investment in human capital and more client-based approach towards the unemployed

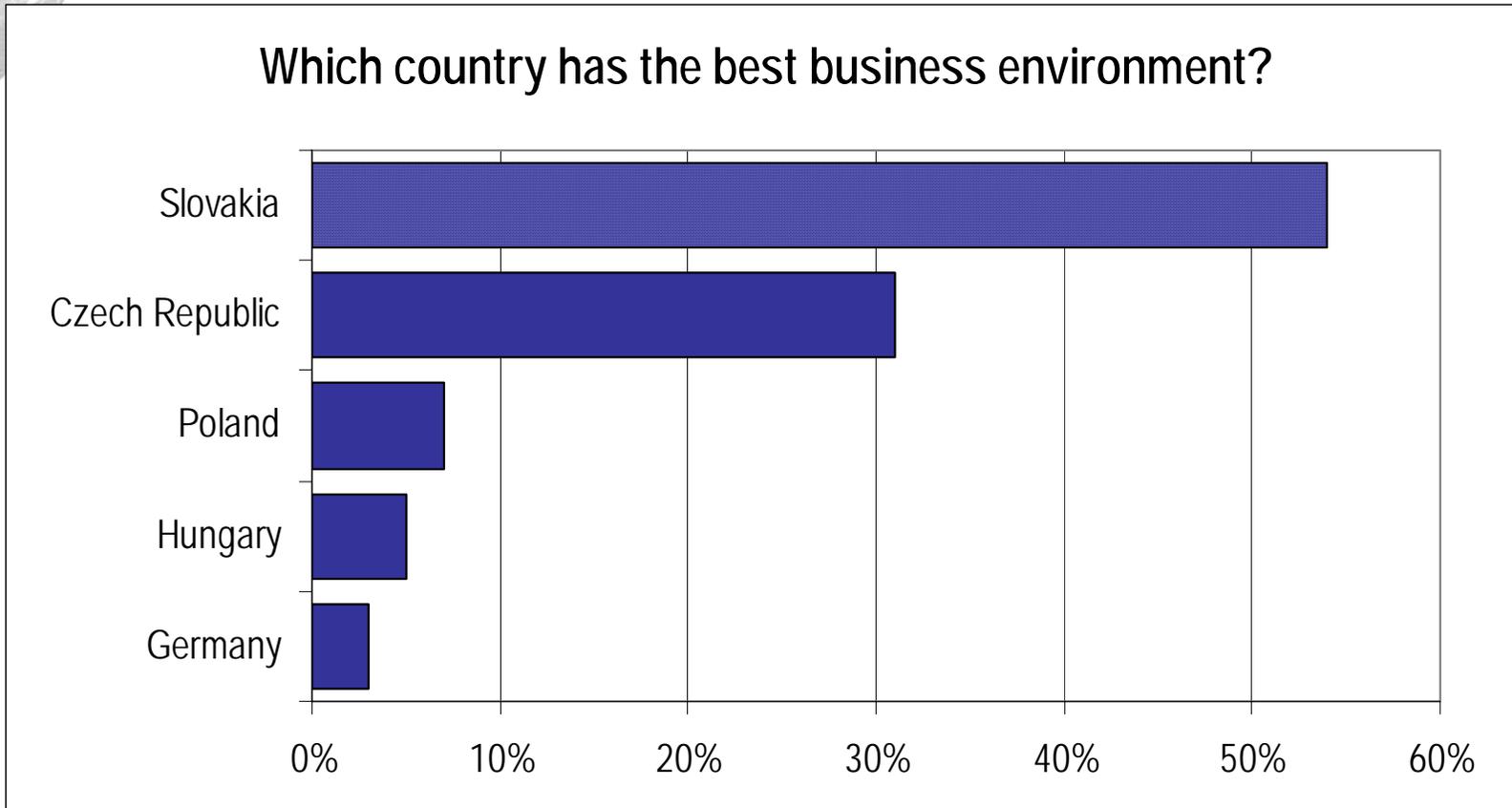


OTHER STRUCTURAL REFORMS

- pension reform
 - radical reform of the pay-as-you-go pillar
 - introduction of a fully-funded pillar (private pension accounts invested in capital markets)
- health-care
 - make the system financially self-sustainable
 - improve the quality of services provided
- education
 - improve efficiency and quality of secondary education system
 - increase capacity and quality of tertiary education
- public administration
 - improve the quality of the public service
 - continue the de-centralization of public administration



INVESTORS THINK THAT SLOVAKIA HAS THE BEST INVESTMENT CLIMATE IN THE REGION



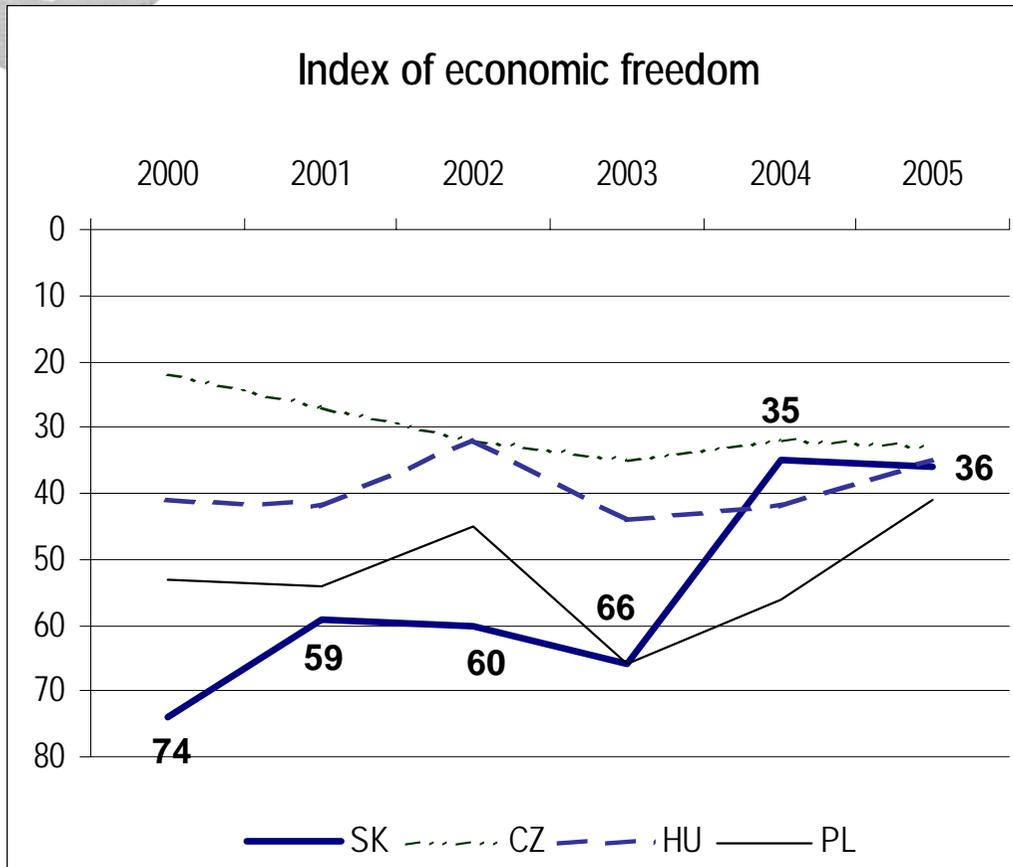
Source: Czech-German Chamber of Commerce and Industry, 2004

91% of current foreign investors in Slovakia intend to expand their local investment!

Source: US Chamber of Commerce in Slovakia, 2003



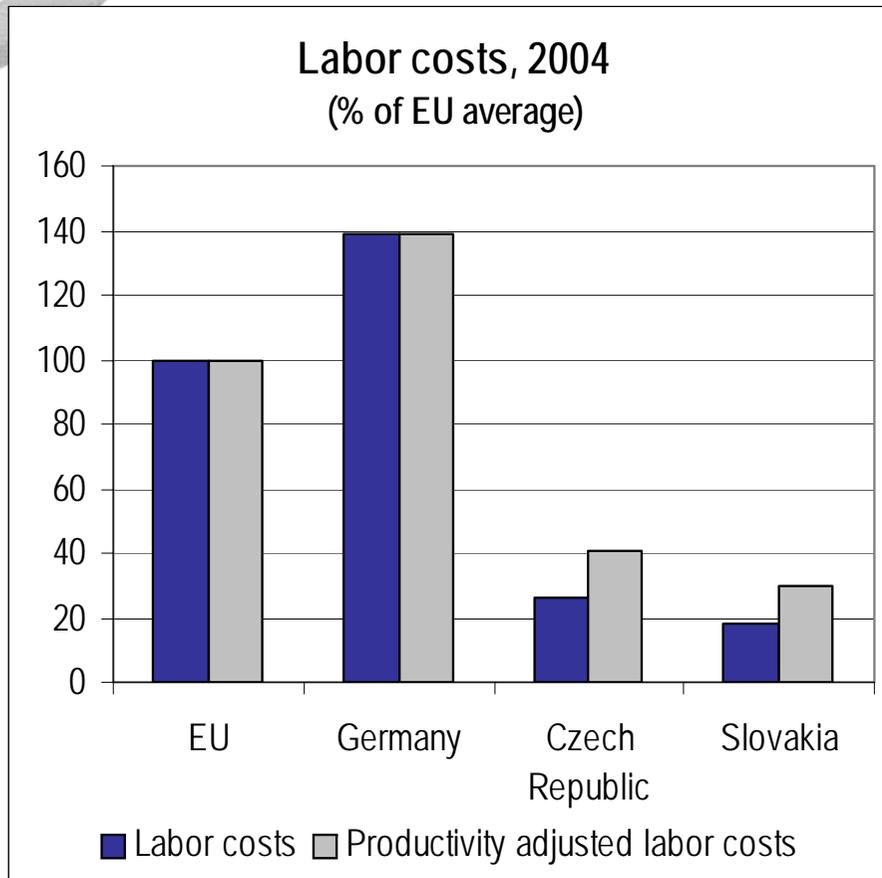
BUSINESS ENVIRONMENT IS RAPIDLY IMPROVING



- World's best reformer according to the World Bank
 - #1 in *Doing Business 2005*
 - currently among top 20 countries in the world regarding the quality of business environment

Source: Heritage Foundation and Wall Street Journal

LABOR FORCE IS HIGHLY SKILLED AND INEXPENSIVE



Source: Mercer, Eurostat

- Highly skilled labor
 - nearly 95% of the population has secondary or university education: 5th highest rate in the world
 - 13% of Slovak population holds a university degree
- Very low degree of labor unrest
 - negligent power of labor unions
 - compares highly favorably with most EU countries



NEXT OBJECTIVE: BUILDING THE KNOWLEDGE ECONOMY

- conditions for very high growth in the next decade are in place
 - Slovakia is currently highly attractive for production aimed at export
- in the horizon of 10-15 years some investors may move further east
 - with growing wages – *which is the main priority of the government* – the attractiveness of the Slovak Republic for the production focused on cheap assembly with low added value will decrease
- focus on the knowledge economy through a national Lisbon strategy
 - highly focused on those priorities that are most relevant for Slovakia



FOUR PRIORITY AREAS FOR THE COMING YEARS

- information society
 - information literacy, e-government, and wide access to the internet
- science, R&D and innovations
 - support of high quality research, R&D and business innovations
- education and employment
 - modern education, training, and other active tools
- business environment
 - better enforcement of laws and contracts and less and better regulation