INTERNATIONAL INVESTMENT BANK

Slovak Republic |

Investment climate

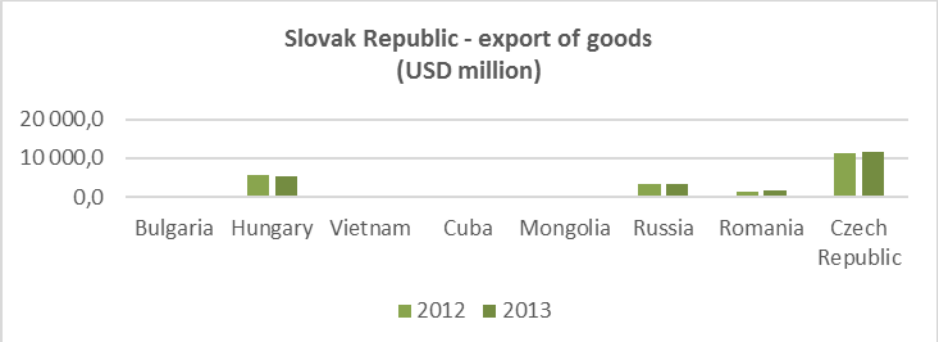
The World Bank Doing business report 2015[1] ranks the Slovak Republic 37th among the world's most attractive countries for doing business; the country receded from its 35th position held in 2014. Economist Intelligence Unit rates Slovakia 4th in a regional rating of business attractiveness among other eastern European countries, moving it down by two positions compared to the previous year[2]. However, Slovakia remains a regional leader in key macroeconomic indicators and political stability, although losing to its neighbours in attractiveness for doing business by such positions as fiscal system and labour market[3].

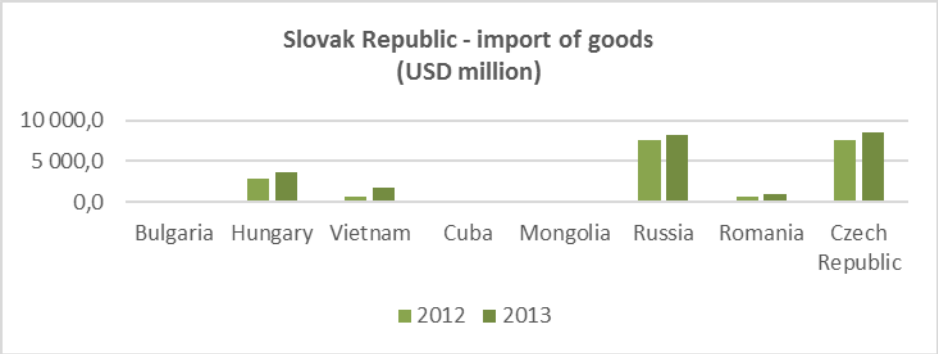
Cost of business in Slovakia continued to grow in 2014. New laws on taxation, increase in minimum wage as well as changes in the country's labour law made business activities more costly.

Recurred changes to legislation became an additional obstacle for business development. During 2014, ten statutory laws that were of paramount importance for conducting business activities in Slovakia were amended on more than 25 occasions. High energy prices and insufficient transparency of pricing mechanisms also pose a serious problem for Slovakia's businesses.

Despite the above factors, 2015 will see Slovakia retaining its high position among eastern European countries in terms of attractiveness for businesses, mainly owing to high credit ratings assigned to the country by international rating agencies (S&P – A, Moody's – A2, Fitch – A+).

Trade and economic cooperation with other member states of the Bank[4]





Area 49 034 sq. km
Population (2014) ■ 5.5 million
Unemployment rate (2014) ▼ 13.2%
GDP (2014) ▲ $100 billion
GDP growth rate (2014) ▲ 2.4%
Inflation (2014) ▲ -0.1%
Average annual exchange rate (2014) ▼ 0.75 EUR/USD
Sovereign debt (2014) ▼ 53.6% GDP
FDI inflow (2014) ▼ $ 0.8 billion
FDI outflow (2014) ▼ $0.2 billion

Main industries
- engineering and car manufacturing
- energy, steel production, transport
- electrical engineering, chemicals and wood processing, petrochemicals

National Development Bank
- Slovak Guarantee and Development Bank (SZRB)

Participation in IDBs (share in authorized capital):
- World Bank Group - IBRD (0.17%), IFC (0.20%), IDA (0.33%)
- IMF (0.20%), EIB (0.26%), EBRD (0.44%)
- CEB (0.35%), IBEC (6.67%)

EXIMBANKA SR signed cooperation agreements with the following institutions:
- Eximbank Romania, Eximbank Hungary, EGAP Czech Republic
- BAEZ Bulgaria, EXIAR Russia
- Roseximbank, BIDV Vietnam
- Czech Export Bank
- VTB Group, Vnesheconombank
- First Czech-Russian Bank
- Gazprombank, Sberbank

Exports / imports (2014): ▲ $92.0 billion / ▲ $87.8 billion

Exports/imports, Slovak share (2013):
- Bulgaria 0.5% / 0.2%
- Hungary 6.3% / 4.4%
- Vietnam 0.0% / 2.1%
- Cuba 0.0% / 0.0%
- Mongolia 0.0% / 0.0%
- Russia 4.0% / 10.0%
- Romania 2.0% / 1.1%
- Czech Republic 13.6% / 10.5%

[1] Source: World Bank Group - Doing Business 2015.
[2] Source: Economist Intelligence Unit, Slovakia: Business environment ranking summary, April 2015.
[3] Source: European Commission, Business Environment in Slovakia, January 2015.
[4] Source: UNCTAD.

Economic development forecast

Real GDP growth increased to 2.4% in 2014 (compared to 1.4% in 2013). GDP is forecasted to grow by 2.9% in 2015[5]. Key factors behind the country's economic growth are its dependence upon Eurozone growth and the aftermath of Ukrainian crisis. In the medium-term, real GDP is expected to grow by 2.5% in 2015-2019.

Following the Eurozone's general deflation trend, deflation in Slovakia reached 0.1% by the end of 2014. Increased consumer confidence and a weak euro will apply a certain pressure on prices in 2015. However, given that in 2015 global oil prices will continue dwelling significantly below the levels of 2014, and energy prices will be controllably reduced further in the wake of parliamentary elections, which are scheduled for March 2015, a significant inflationary pressure is unlikely. Average annual inflation will reach 0.3%, while mid-year inflation will be at 1.6% in 2015-2019.

Reducing budget deficit will remain a key priority for Slovakia's government. The deficit in 2015 is expected to remain below the limits set by the EU at 3% GDP. In 2014, this indicator reached 2.9% GDP.

In May 2014, euro started sinking in value against the US dollar due to broader discrepancies between economic activities and vectors of US and Eurozone monetary policies. In May 2014, the exchange rate was at 1.40 USD/1 EUR, while in April 2015 euro depreciated to 1.06 USD/1 EUR. Euro's depreciation speeded up against the background of the decision adopted by the Swiss National Bank to dismantle the exchange rate ceiling for Swiss franc to euro. A programme introduced by the European Central Bank aimed at acquiring sovereign bonds also contributed to this process. European loose monetary policy combined with its tight version implemented in the US will push the US dollar upwards and apply downward pressure on euro. Average exchange rate for 2015 is forecasted at 1.08 USD/1 EUR.

Slovakia's trade surplus reached EUR 3.5 billion (4.7% GDP) at the end of 2014, while current account surplus amounted to EUR 0.1 billion (0.2% GDP). The year of 2015 will see cheaper imports, while weak euro will trigger exports growth against the background of low oil prices. However, recovering consumer confidence will reduce trade surplus. In 2015-2019, current account deficit will on average reach 1.9% per annum.

Banking sector

Slovakia's National Bank reported banks' profits increased by 0.7% and reached EUR 560 million. Given that, risks remain low, while liquidity ratio was slightly impaired. Slovakia's banking sector still features a high level of loyalty to its chosen clients or their own groups. Risks might arise from having a great number of counterparties belonging to countries with high risk factors, such as Russia and Cyprus.

Interest costs growth outstrips interest income growth resulting in a gradual increase of interest rates, which poses a main threat to the stability of the banking sector. Banking sector liquidity deteriorated in 2014 due to increased consumer lending and declining investments in sovereign bonds. Retail portfolio growth reached 12.2% in 2014 – a maximum since the beginning of 2008's credit crunch. However, the trend of deposits growth slow-down that has been prevailing for two years changed to growth, which reached EUR 1.3 billion.

Banks had to face increased operating costs and taxes against the background of growing profits. Such a trend will remain unchanged, especially, given growing expenses on contributions to the EU's anti-crisis fund.

Nevertheless, Slovak banking sector remains stable. Capital liquidity ratio is at its high – 17.3%

[5] Source hereinafter if not stated otherwise - Economist Intelligence Unit, Views Wire, April 2015; Business Monitor International, Slovakia - Country Risk Report, Q2 2015.