

# Slovak Economy





# Objectives

To provide an overview of the Slovak Economy, its development, current state and comparison with other countries.



# Slovak Republic

Area: 49 036 km<sup>2</sup>

Population: 5.4 million

Pop. density: 109 per km<sup>2</sup>

Pol. system: parl.  
democracy

Population ethnicity :  
Slovak (86%)  
Hungarian (10%),  
Romany (2%), Czech (1%),  
Rusyn, Ukrainian, Russian,  
German, Polish and others (1%)

GNI per capita (2005):  
US\$ 7,600

GDP growth (2006): 8.2%

## Europe





- ROADS
- SELECTED TOWNS AND CITIES
- ★ NATIONAL CAPITAL
- - - INTERNATIONAL BOUNDARIES
- RIVERS

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# Short history

- Between 1918 and 1992 Slovakia was a part of former **Czechoslovakia**.
- Between 1948 and 1989 Czechoslovakia was a **communist** country.
- **Slovakia** achieved its independence following the breakup of Czechoslovakia in 1993.
- On May 1, 2004, Slovak Republic, along with the other nine accession countries, became a member of the **European Union**.



# Short history

- In November 2006 Slovakia entered the ERM2 system with the strategy to join the **EMU** since January 2009.

# Short economic history

- Initial decline of output caused by destruction of old socialist institutional structure which was being slowly replaced by new market oriented formal and informal institutions. (years 1990 – 1992)
- Liberalization of the economy and transformation into market system resulted in economic growth. (93 – 97)
- Lack of further reforms and built up of inefficiencies in private and public sectors slowed down economic growth and brought about fiscal tightening (99 – 01)
- After 1998 new government came with significant economic reforms (pension, tax, labor, ...).
- Reforms and EU accession stimulated economic growth (02 – current time).

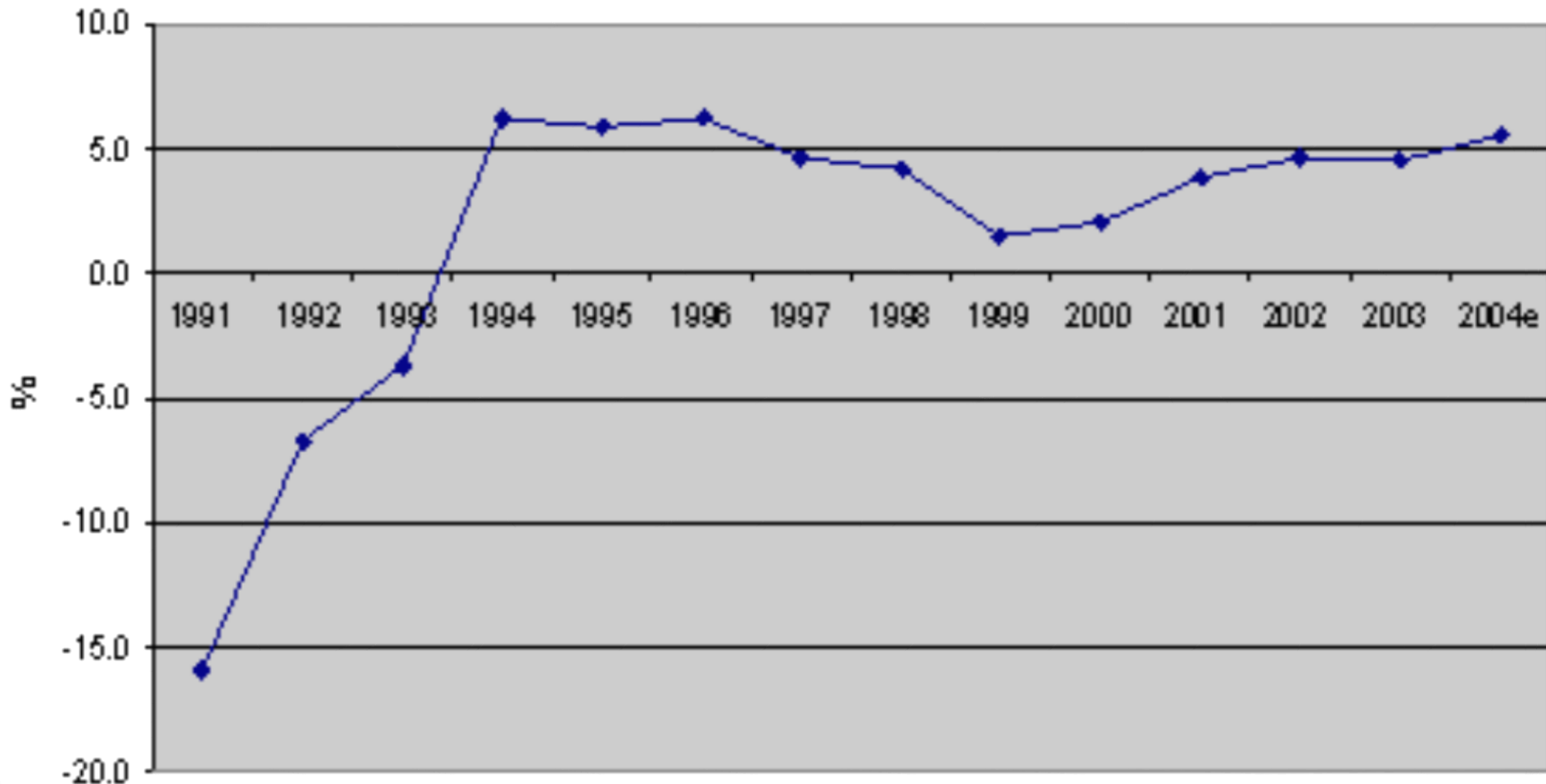
# Economic performance

- Currently, Slovakia is a fast growing economy with GDP growth of 8.2% in 2006
- Unemployment rate remains high but declining (9.4 percent end of 2006).
- There are regional differences in unemployment. Highest rates in the East, lowest in the West around capital of Bratislava

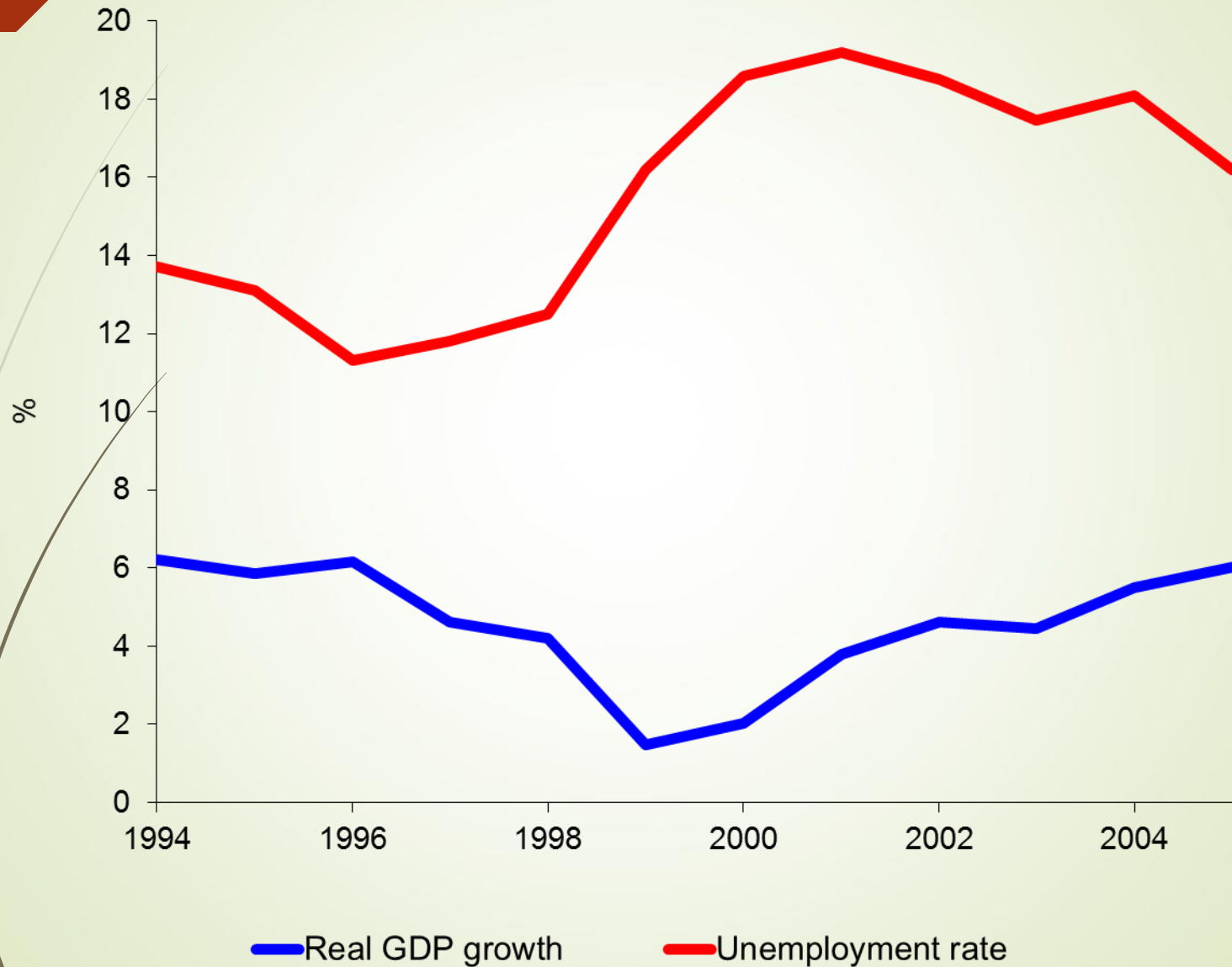


# GDP Growth in Slovakia

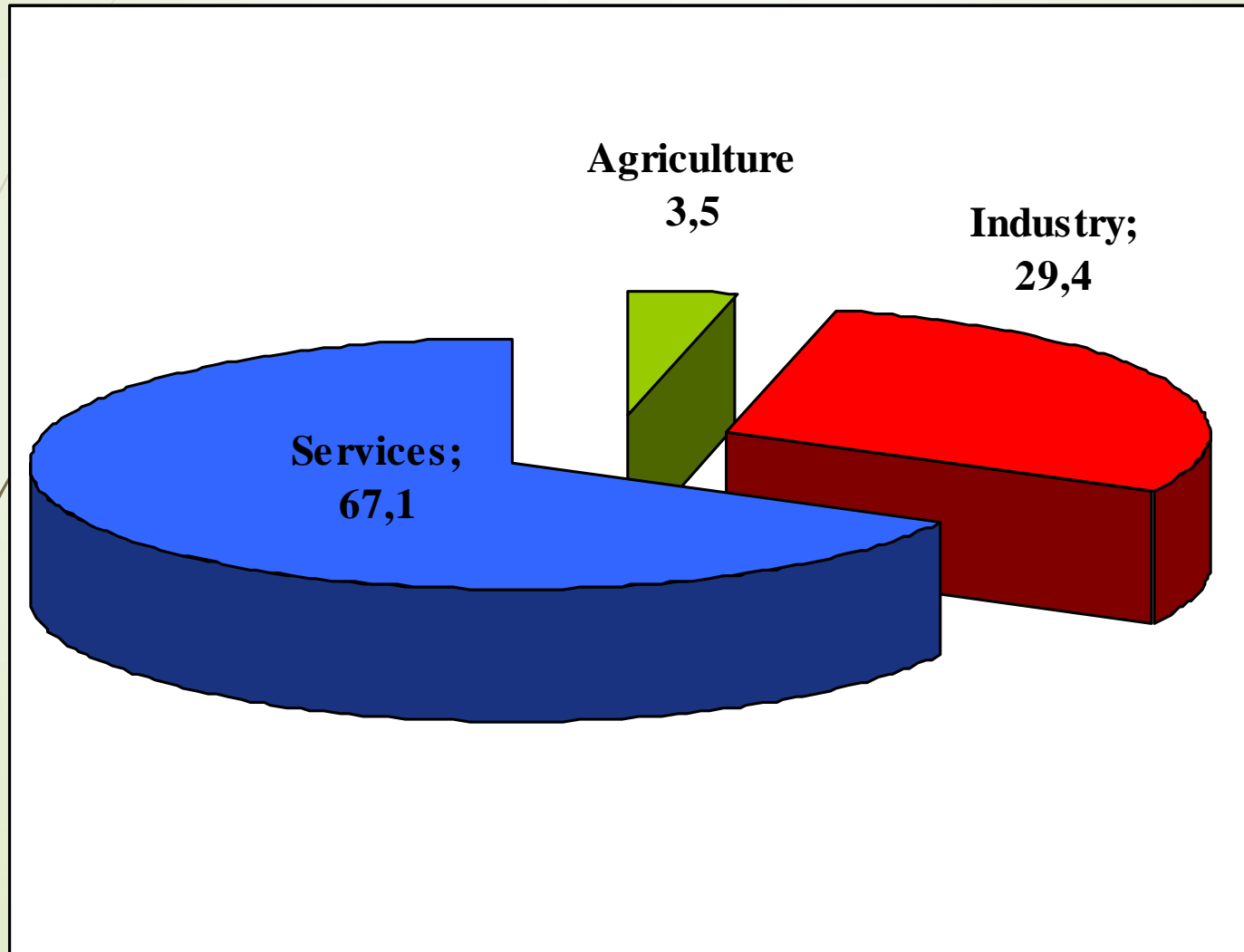
GDP Growth




# GDP growth and unemployment rate



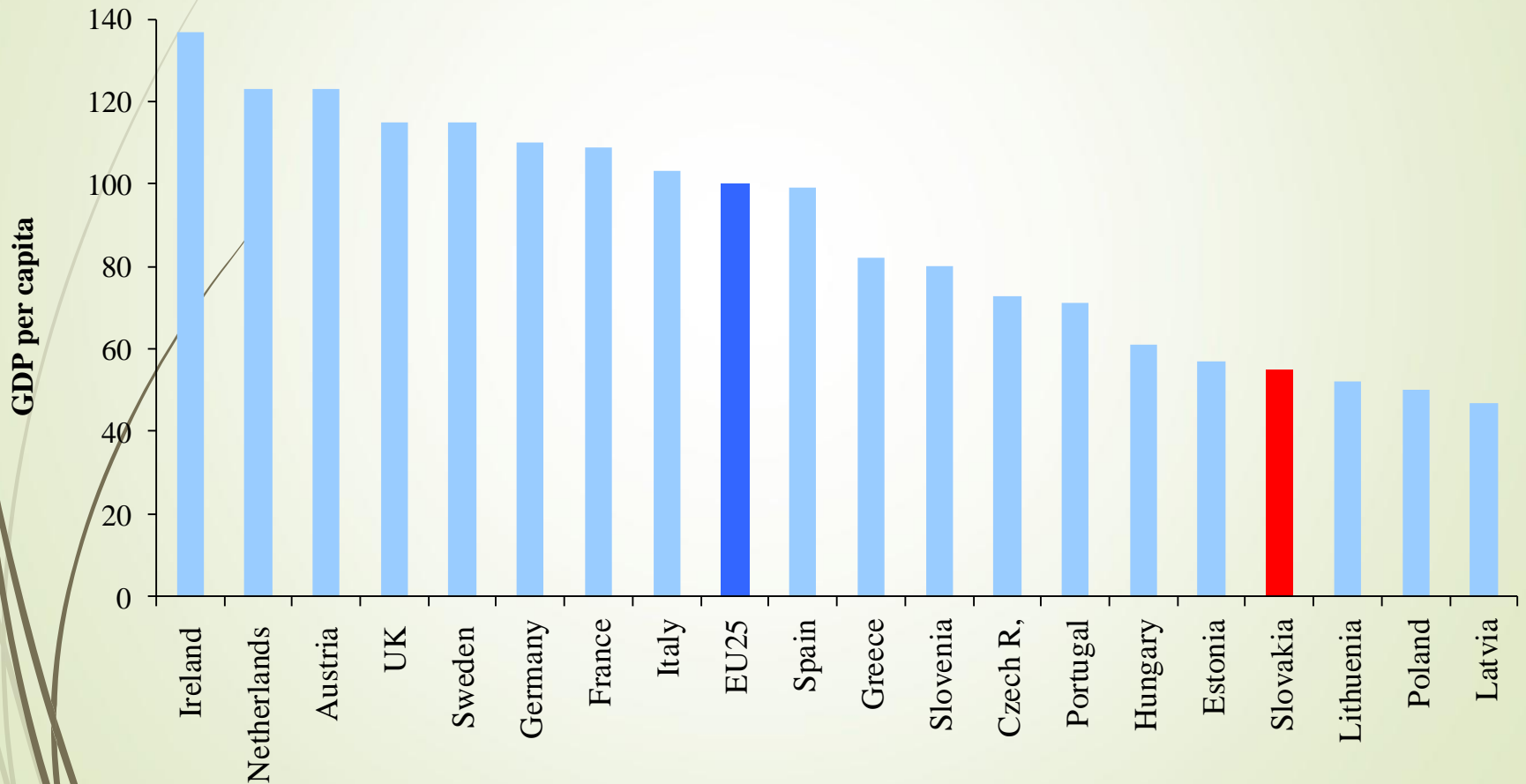
# Structure of Economy



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- In the world perspective, The Slovak Republic is an upper middle income country with a Gross National Income per capita of US\$ 7,600 in 2005.
  - In European perspective, Slovakia achieves about 55% of average income of 25 countries of the EU

# GDP per capita in 2005 in PPS

EU25=100%



# Size of the market

	<b>GDP (EURbn)</b>	<b>% of German market</b>	<b>Populat.(m)</b>	<b>% of German population</b>
US (1)	10,119	513	265.6	324
Germany (4)	1,973	100	81.9	100
Poland (22)	403	20.4	38.7	47
Czech Republic (40)	170	8.6	10.3	13
Hungary (44)	139	7.0	10.1	12
Slovak Republic (50)	62	3.1	5.4	7

Note: GDP adjusted by Purchasing Power Parity, 2004 data. Source: EUROSTAT

# Productivity comparison

GDP per hour worked Germany = 100

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US	108
Germany	100
Austria	99
UK	94
Hungary	52
Slovakia	49
Czech Republic	45
Poland	41
Mexico	32

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Source: OECD

# Working habits

Hours worked per year

	<b># of hours</b>	<b>OECD Rank</b>	<b>Germany=100%</b>
Czech Republic	1 972	2	136%
Poland	1 956	3	135%
Slovakia	1 814	7	125%
USA	1 792	12	124%
UK	1 673	16	116%
Italy	1 591	18	110%
Austria	1 550	21	107%
Germany	1 446	24	100%
France	1 431	25	99%
Netherlands	1 354	26	94%

Source: OECD



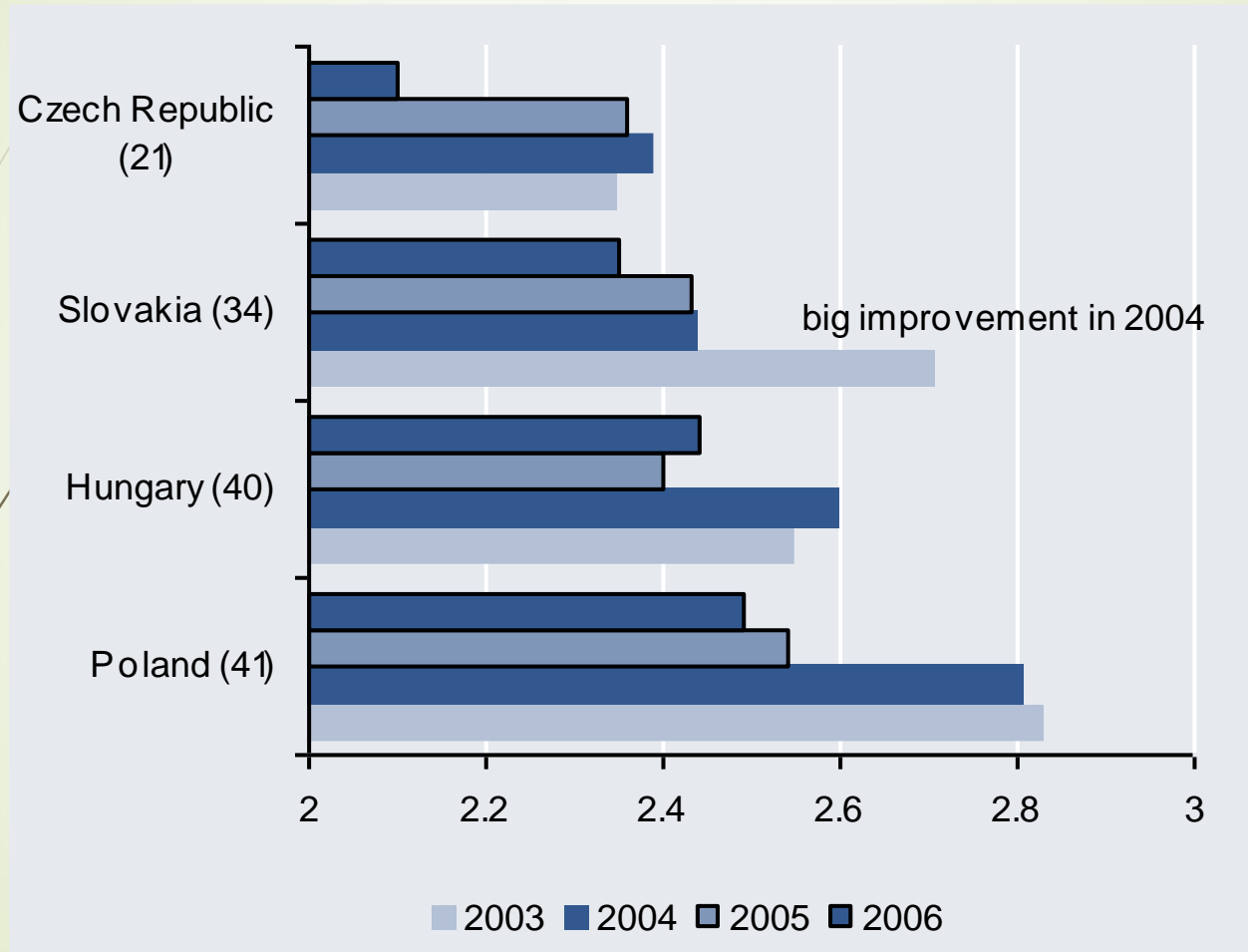
# Education

% of population 25-64 having completed at least upper secondary education

	<b>Percentage</b>	<b>Rank</b>
Czech Republic	87.8	1
Slovakia	85.8	3
Germany	83.0	5
UK	81.7	7
Poland	80.8	9
Austria	78.2	11
Hungary	71.4	14
Netherlands	67.6	15
France	64.1	17

Source: Eurostat, 2002 data

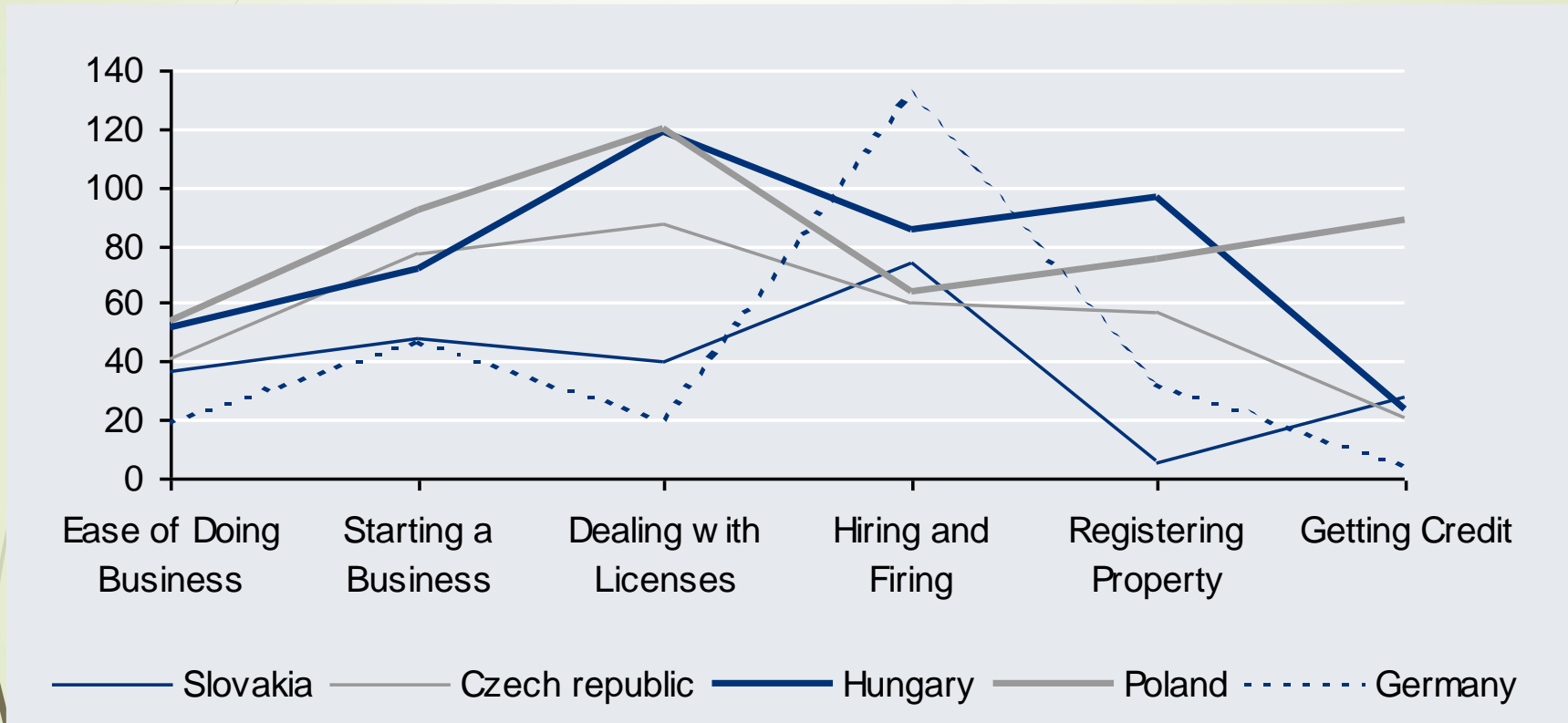
# Economic freedom



Source: The Heritage Foundation and Wall Street Journal, Index of Economic Freedom.

*The lower the value, the greater the economic freedom.*

# Doing business



Source: World Bank, Doing Business 2006

**The smaller the number, the better**

# Labor market

	Difficulty of hiring index	Rigidity of hours index	Difficulty of firing index	Rigidity of employment index	Firing costs (weeks)
CE average	18	55	28	34	24
Czech Republic	33	20	20	24	22
Hungary	11	80	20	37	34
Poland	11	60	30	34	25
Slovakia	17	60	40	39	13
Germany	44	80	40	55	67

The smaller the number, the better

# Informal economy

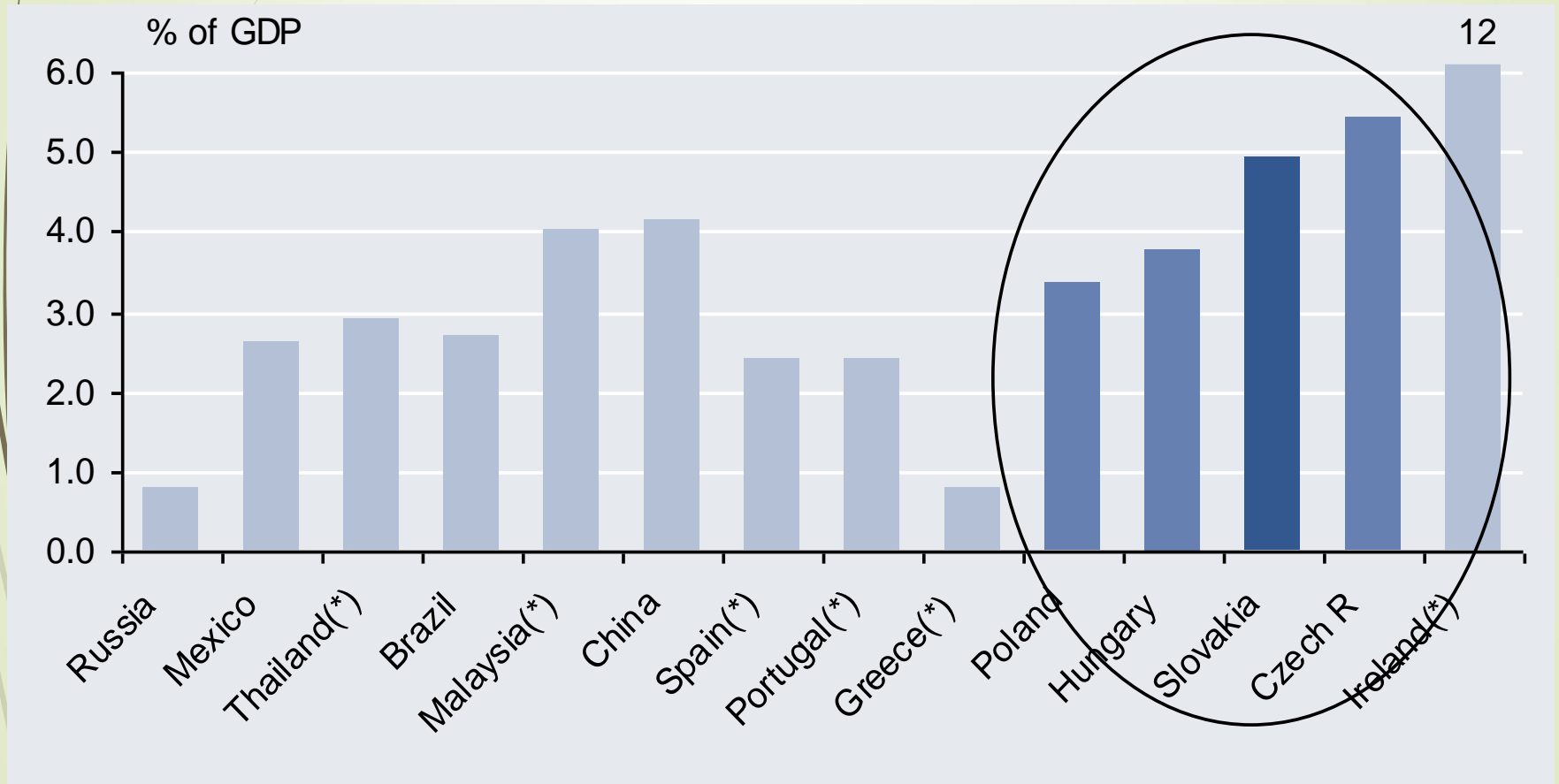
% of GNI

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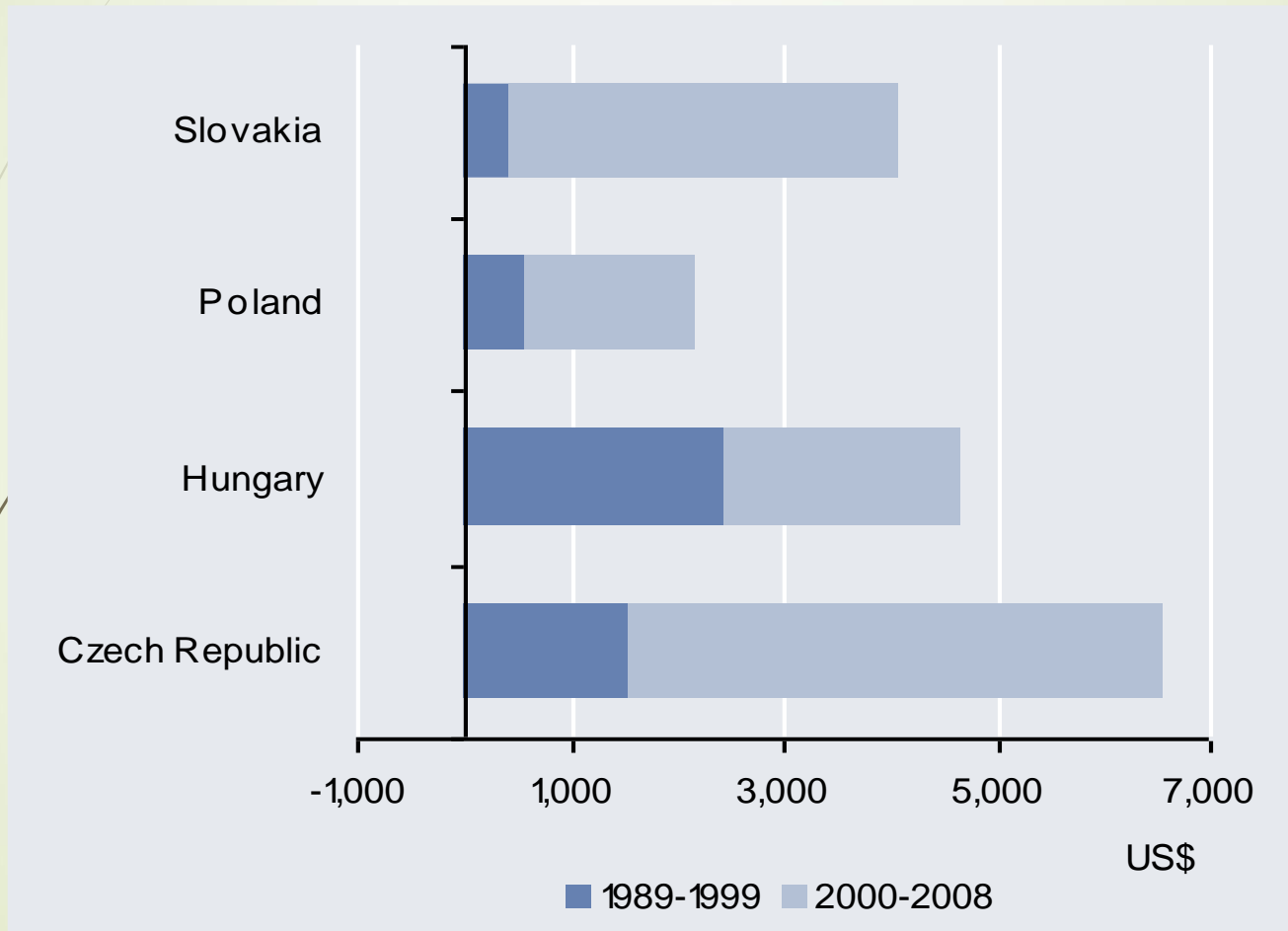
	<b>Informal economy (% GNI, 2003)</b>
Slovakia	18.9
Czech Republic	19.1
Hungary	25.1
Poland	27.6
CE average	23
Germany	16.3

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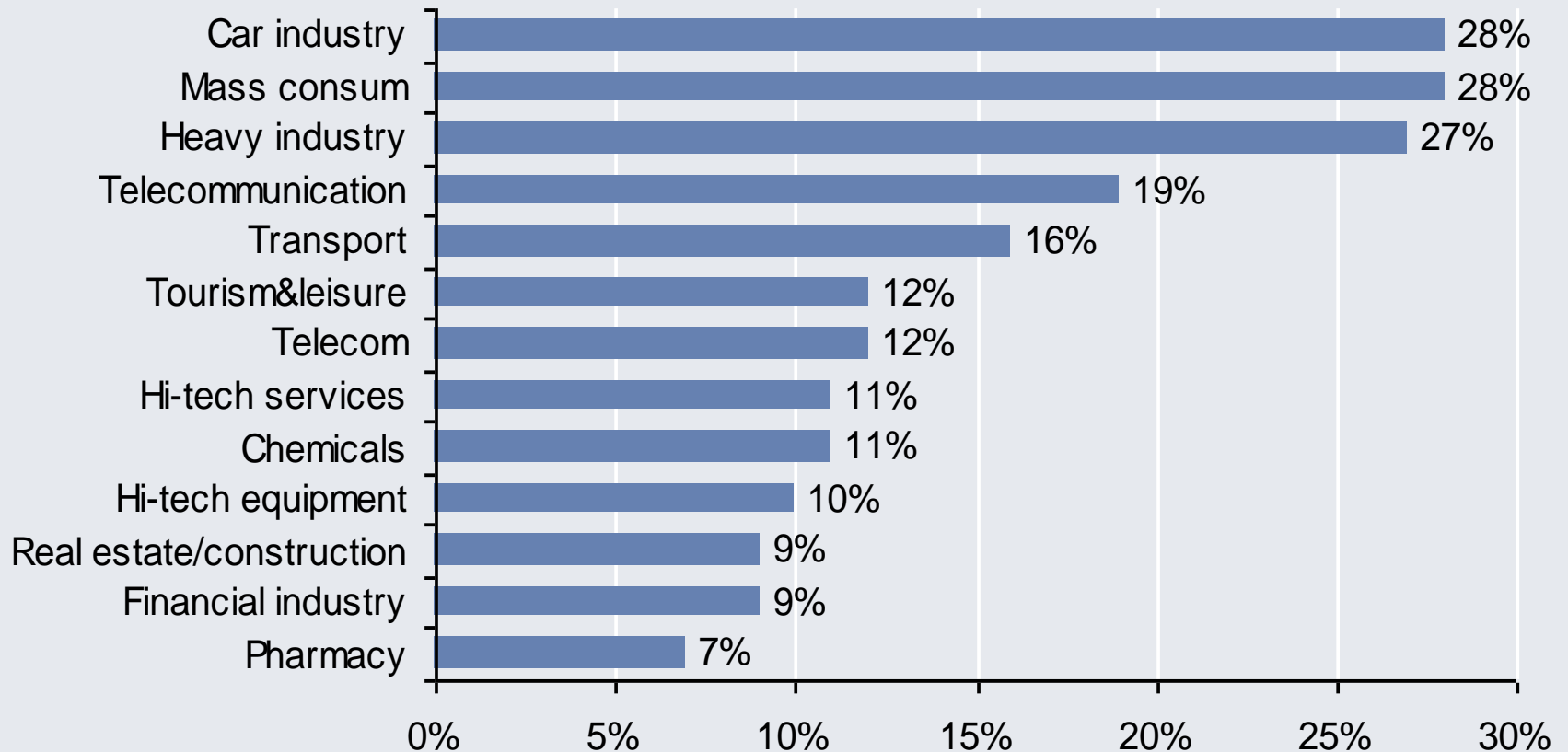
# FDI inflow



# FDI inflow: CE comparison



# Most attractive sectors in CE in the future according an Ernst&Young Survey





# Hourly labor costs in EUR

	1996	2004E	Feb-06	% of CE avg	% of EU15
Czech Republic	2.6	5.5	6.5	116.3	24.6
Hungary	2.7	5.2	5.7	101.0	21.3
Poland	2.7	4.2	5.1	91.4	19.3
Slovakia	<b>2.3</b>	<b>4.4</b>	<b>5.1</b>	<b>91.3</b>	<b>19.3</b>
CE Average	2.6	4.8	5.6	100.0	21.1
EU Average	20	25.9	26.6		100.0
Germany	25.3	30.4	31.0		116.4

# Corporate profit taxation

	<b>2004 Corp tax rate(%)</b>	<b>2006 effective tax rate(%)</b>	<b>Tax on dividends(%)</b>
Hungary(*)	17.6	18.1	20.0
Slovakia	19	16.7	0.0
Poland	19	18.0	20.0
Czech Republic	28	21.1	15.0
Germany(**)	39.35	36.0	23.5
Netherlands	34.5		
France	34.3		
Austria	34		
EU15 average	31.3		

# Personal tax rate

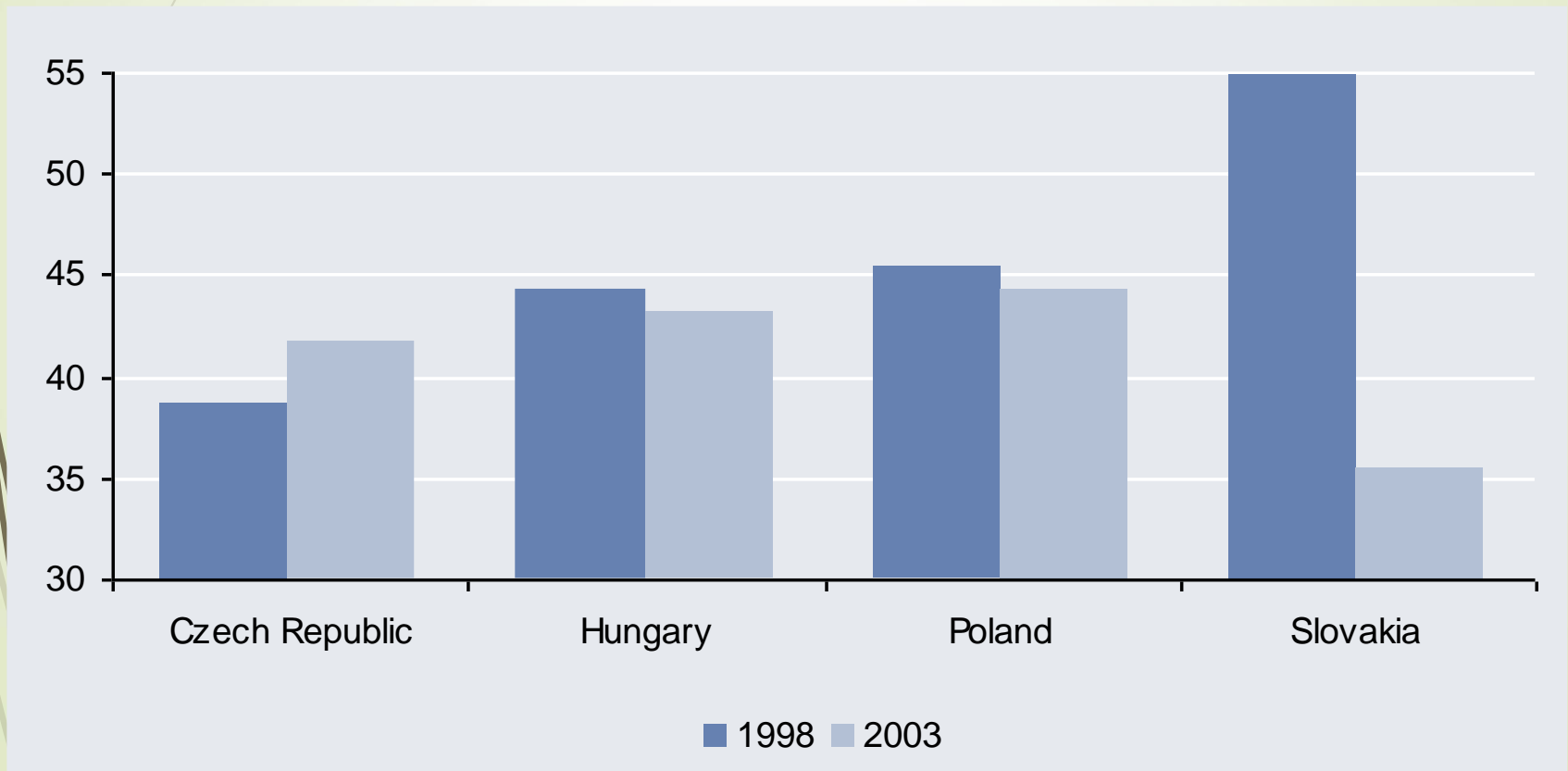
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	<b>2004 marginal tax rate</b>
Slovakia	19
Czech Republic	32(*)
Hungary	38(**)
Poland	40

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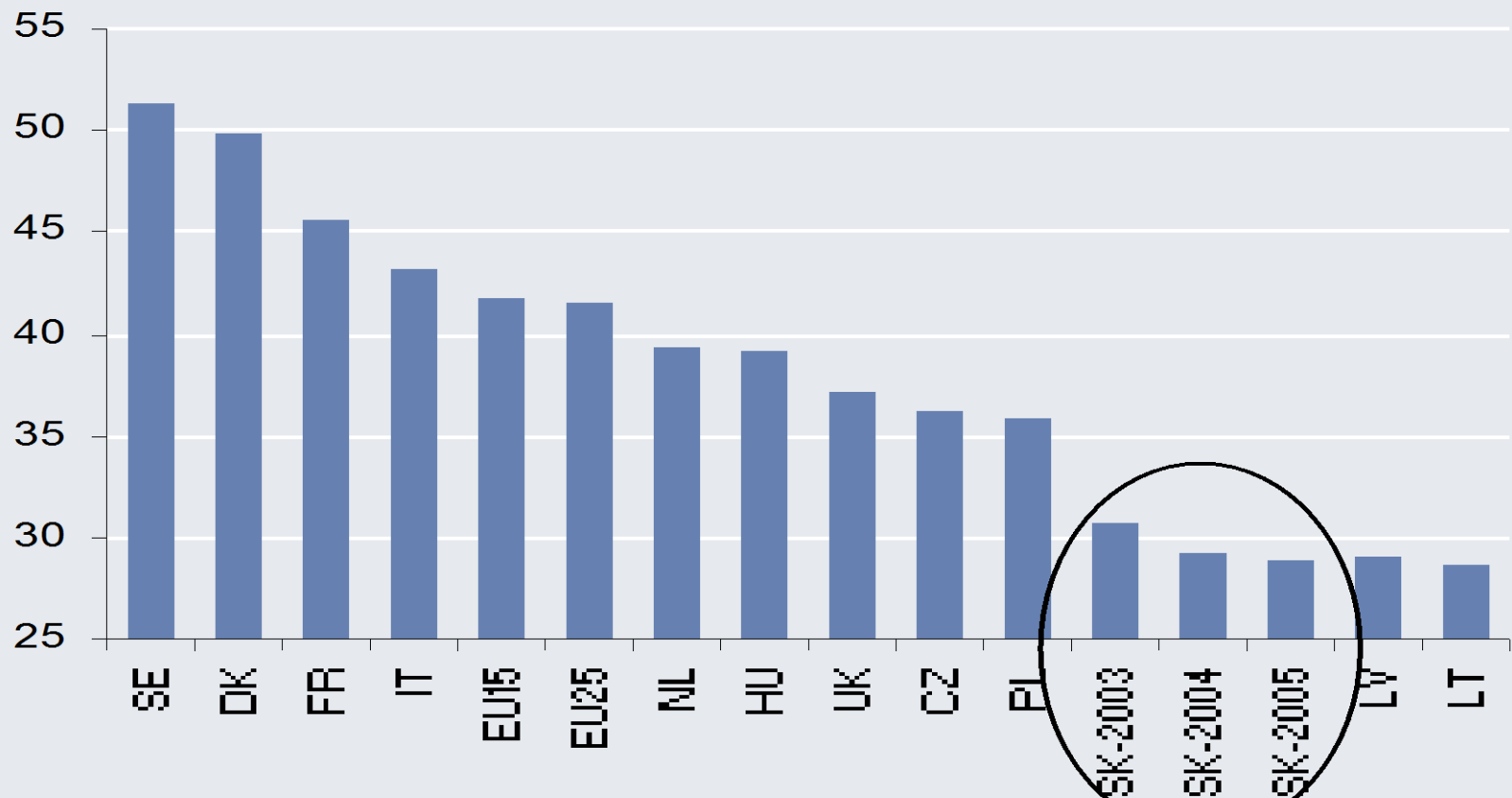
# Government's role in the economy

revenues as % of GDP



# Government's role in the economy, EU comparison

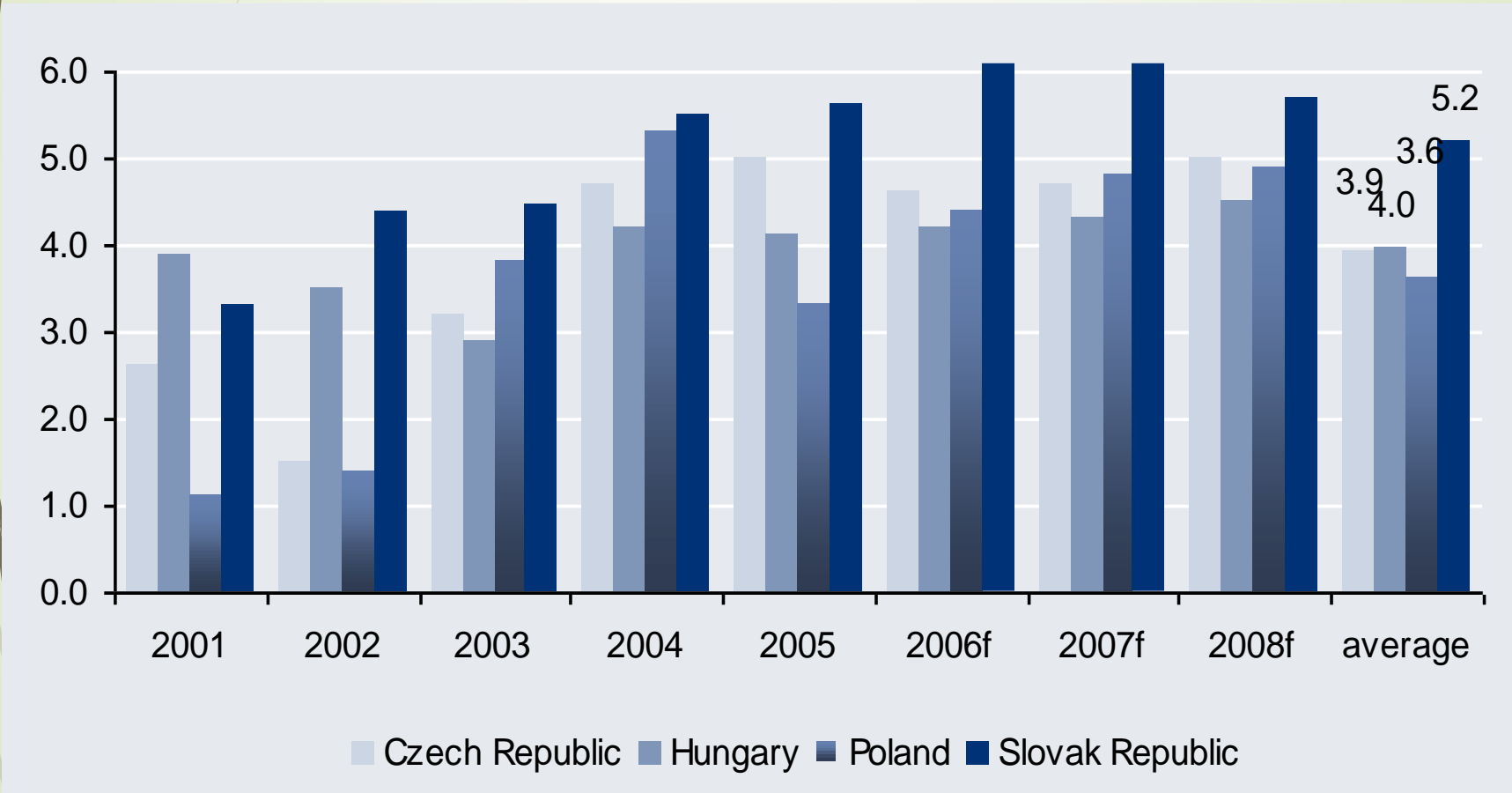
revenues as % of GDP



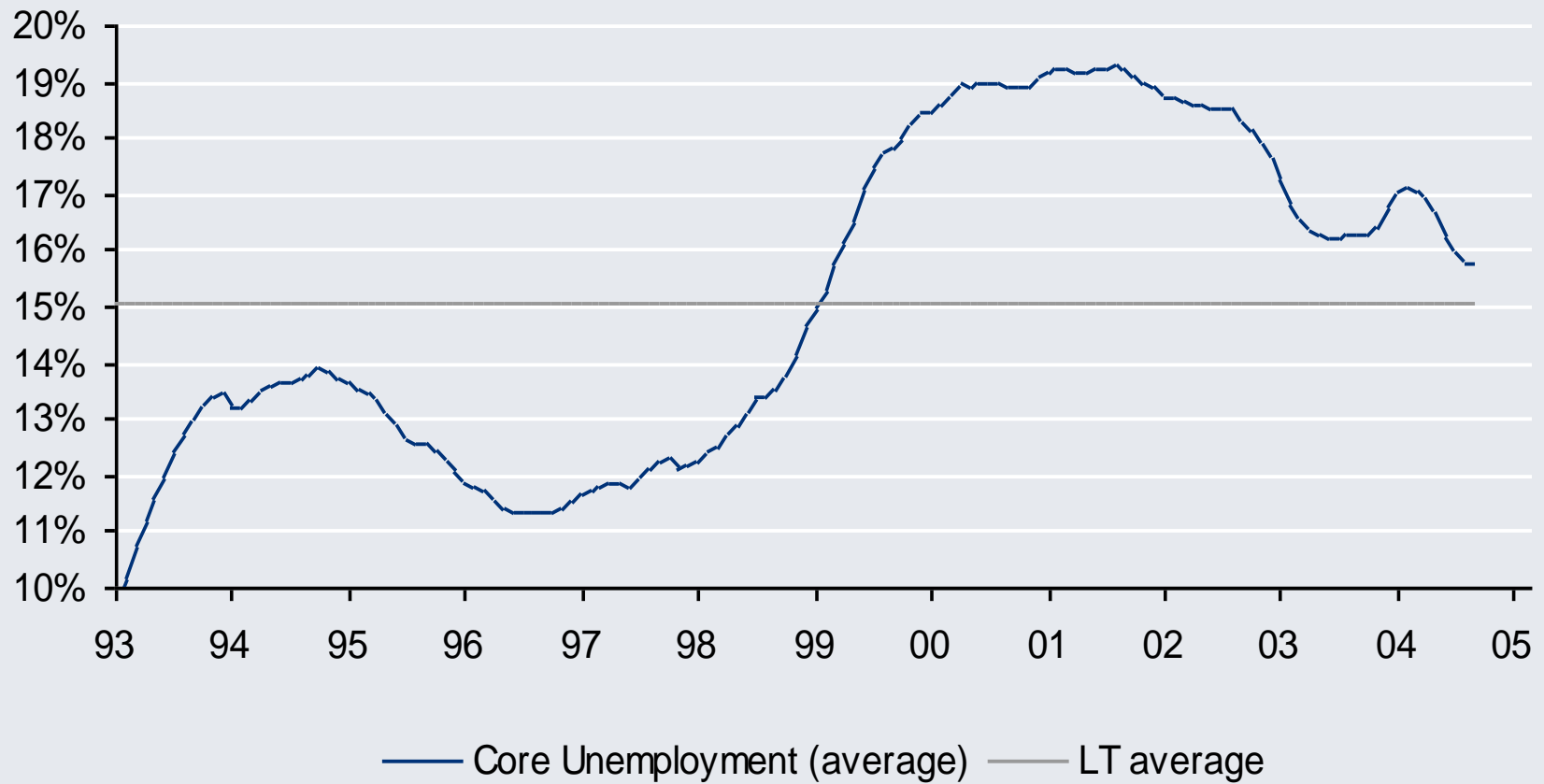
# Adoption of EURO

	<b>ERMII</b>	<b>ERMII parity</b>	<b>Euro adoption date*</b>	<b>Final conv.rate*</b>	<b>SKK rate*</b>
Slovakia – consensus	2006	38	2009	35.0	
Czech Republic – cons.	2008	30.4-31	2010-2014	28.5	1.23
Poland – consensus	2008	3.85*	2009-2012	3.7	9.5
Hungary – consensus	2008	255-260	2012-2014	255	13.7

# Economic growth

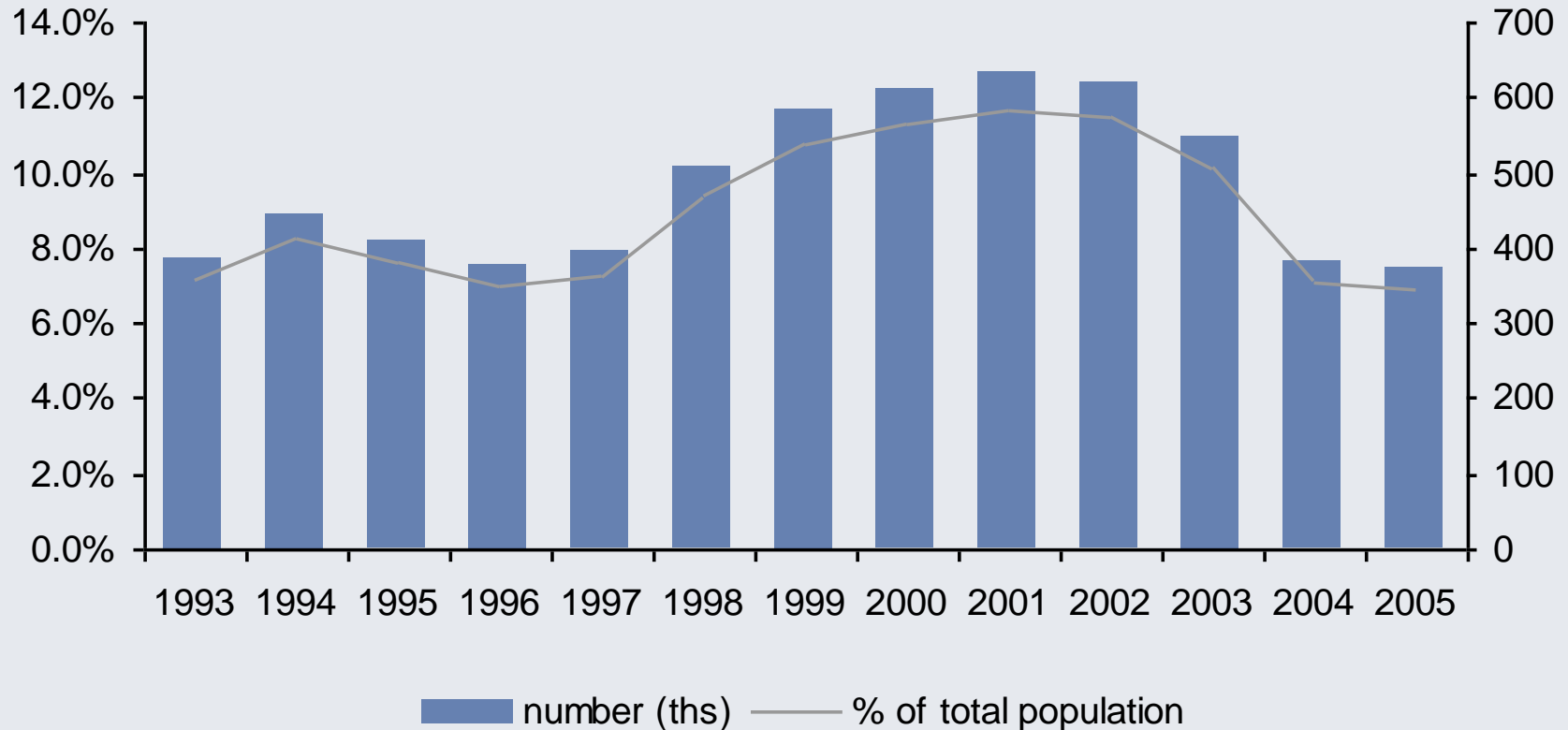


# Unemployment rate





# Material distress



Note: People in material distress include unemployed as well as people on social benefits that qualify. Material distress is defined as income below life minimum. However, the number of the poor is greater as the data does not include low income people (such as pensioners, etc). Some estimates put the poor at 10% instead of 7% in 2005. Source: Ministry of Labour

# Economic performance

- Currently, Slovakia is a fast growing economy with GDP growth of 6.1 in 2005
- Unemployment rate remains high but declining (15.1 percent in June 2006).
- There are regional differences in unemployment. Highest rates in the East, lowest in the West around capital of Bratislava

# Tax reform

**Concept:** Tax everything only once and at the same rate.

**Reasoning:** Taxes bad since they “artificially” change people’s preferences.

To minimise the loss, minimise the tax rate.

To minimise the rate, maximise the tax base.

In Slovakia, income (both personal and corporate, interest, etc) and “normal” consumption is taxed at 19%.

Dividend tax is zero, no real estate transfer or gift tax.

# Tax reform

Flat tax is not necessarily a right-wing idea.  
Separate social policy from tax policy.

## **Examples:**

Lower VAT tax rate for food means that we subsidise “bread for millionaires”.

Lower VAT tax rate for electricity means that we subsidise the “heating of house pools”.

## **Examples of Slovak shortcomings:**

Tax subsidies to 3rd pension pillar/life insurance/savings products.

No taxation of pension contributions or pensions.



**Thank you for your  
attention**