



WHY INVEST IN SLOVAKIA

S A R I O

Slovak Investment
and Trade Development Agency

Introduction

"Why Invest in Slovakia" is a brochure designed to acquaint the reader with economic facts & figures, information on the business environment, sector strengths, vision & strategy for the economic development and other useful information to illustrate why Slovakia is an ideal location for business.

The Slovak Investment and Trade Development Agency (SARIO) is the governmental investment promotion agency. In Slovakia and around the world, SARIO provides a range of services free of charge to companies, which would like to invest in Slovakia. Our team of experts is ready to help with all aspects of the investment process. We hope that this brochure will encourage you to consider investing in Slovakia.

For additional information and insight please refer to our website www.sario.sk and click on the "Invest in Slovakia" for information on the company registration, taxation & statutory social security contributions, expatriates and labour related legislation and investment incentives of the Slovak Government.

10 Reasons for Investing in Slovakia

1. Central European hub
2. Political & economic stability
3. 19% flat tax rate
4. Availability of highly skilled workforce
5. Low labor costs vs. high labor productivity
6. Liberal Labour Code
7. Large selection of industrial land and offices available for purchase/lease
8. Strong engineering tradition
9. The highest economic growth in the region
10. Infrastructure growing steadily

SARIO, March 2009



Facts & Figures

General information on the Slovak Republic

Population: 5.4 mil.

Time zone: GMT + 1 hour

Currency: EUR (since 1. 1. 2009)

Parliamentary system: Republic

Official language: Slovak

Election system: Proportional representation

Election term: 4 years

Membership of international Organizations: EU, OECD, NATO, WTO, UNO, Schengen Area

The largest cities and towns

City/Town	Population	City/Town	Population
Greater Bratislava Area	601.132	Zilina	85.268
Kosice	235.006	Banska Bystrica	81.704
Presov	91.767	Trnava	69.140
Nitra	85.742	Trencin	56.850

Source: The Statistical office of the Slovak Republic, 2008

Economy

Ten years ago Slovakia embarked on an ambitious plan of deep structural reforms with a vision to become one of the best business locations within the European Union (EU). Today, Slovakia is widely seen as a success model to other EU countries for creating an investment and business-friendly environment. Slovakia is a full member of the **EU, NATO, OECD** and **Schengen Area**. Slovakia has also been described in the international media headlines as:

„Slovakia – a bright spot in the downturn. The Financial Times expect Slovakia to maintain its economic growth even in economic recession, predicted at 2.7% as the highest in the EU. “

Financial Times, 20 January 2009

„Slovakia’s adoption of the euro - a cushion against the turmoil of the global economic crisis.“

Financial Times, 3 January 2009

„Slovakia, the one-time laggard turned reforming star.“

The Economist, 29 March 2008

“Slovakia - Detroit of the East”

The Financial Times, 20 February 2007

"Today, the country of 5.4 million is fast becoming a model for change among the ten countries that joined the European Union in May 2004."

The Wall Street Journal, 12 January 2005

"An economic tiger purrs in once backward East Europe."

The New York Times, 28 December, 2004

"Slovakia is now widely seen as Europe's fastest reformer".

Newsweek, 29 November, 2004

Macroeconomic figures

	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP Growth	4.6%	4.5%	5.5%	6.1%	8.3%	10.4%	6.4%	-
Inflation (CPI)	3.3%	8.5%	7.5%	2.7%	4.5%	2.8%	3.9%	-
Registered level of unemployment	17.8%	15.2%	14.3%	11.6%	10.4%	8.4%	7.7%	-
FDI inflow in USD million	4 094	1 060	1 016	689	1 315	4 971	N/A	-
1USD / SKK*	45.34	36.77	32.26	31.02	29.72	24.71	21.35	-
1EUR / SKK*	42.70	41.49	40.05	38.59	37.25	33.781	31.291	30,1260 (official exchange rate since 1. 1. 2009)
Export in EUR billion	15.4	19.4	22.4	25.7	31.0	42.6	47.7	-

* Average yearly exchange rate

Source The Statistical Office of the Slovak Republic 2009, National Bank of Slovakia 2009

Slovakia is generally recognized as an open market economy whose ability and willingness to pay its liabilities puts it, according to prestigious rating agencies, into the 'Investment' level, and this level is expected to increase. Based on ratings of Standard and Poor's, a credit rating agency, Slovakia has become a leader of the Central European region.

Country credit ranking

Country	Standard and Poor's	Moody's	Fitch	OECD Country Risk (the lower the better)
Slovakia	A+	A1	A+	0
Czech Republic	A	A1	A+	0
Poland	A-	A2	A-	2
Hungary	BBB	A3	BBB	4

Sources: Standard & Poor's, Moody's, Fitch; (February 2009)

EASE OF DOING BUSINESS Ranking

This ranking considers the quality or the attractiveness of the business environment. Rating factors are: political and institutional environment, macroeconomic stability, market potential, private entrepreneurship support, taxation system, finance, enforcing contracts, starting and closing of business, labour market and infrastructure.

Rank	Country
36	Slovakia
41	Hungary
45	Bulgaria
47	Romania
75	Czech Rep.
76	Poland

Source: World Bank, 2009, covering the period April 2007 to June 2008.

Note: Economies are ranked on their ease of doing business, from 1 – 181, with first place being the best. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business.

Business Environment

Comprehensive and deep structural reforms of the Slovak Government in the last years focused on creating a business friendly environment for investors. The following is an overview of the main reforms directly or indirectly influencing economic stability.



19 %

New system of taxation - Simple, Fair, Neutral, Effective – is probably the best known from all reforms. All types and amounts of income are taxed at a flat rate of 19%; there is no double taxation and no dividend tax. A reduced 10 % VAT has been introduced for medicaments in autumn 2006 and for books in December 2007.

Banking & Finance – The banking sector was privatized with 97% foreign ownership. This sector underwent a dramatic recovery.

New pension reform – Individual pension saving accounts in the pension administration companies were introduced.

New Labour Code – It was recognized by the World Bank as one of the most flexible in the EU.

Health care system reform – Market principles into the health care system were introduced.

Social system reform – Among other things, new measures to avoid abuse of the social system and better aimed targeting of social allowances were introduced. The introduction of employers' obligation to pay sickness insurance benefits in the first 10 days of employee's illness leave resulted in a decrease of sickness rate from 9% to 3%, the lowest in all EU countries.

Act on Commercial Registry – Amount of the time required to register a new company has been cut to a maximum of five days; the same applies to the issuance of trade license with a maximum allotted time of seven days.

New investment incentives program – On 1 January 2008, a new Act on Investment Aid entered into force. It enables a faster and more transparent negotiation and describes the requirements that should be met in a more detailed way.

Strategy for the economic development

Slovakia has successfully implemented most of the structural reforms. The task today is to maintain and utilize their positive results and to observe for possible future improvements.

The Slovak Government has approved the Competitiveness Strategy of Slovakia. This strategy includes the governmental program for knowledge economy.

Government's vision is Slovakia, which rapidly achieves the living standard of the most advanced Western European countries. Slovakia shall be synonymous at home and abroad for a country having exceptionally educated and creative people, blossoming science and technology sector and producing innovative products and services of the highest quality. Slovakia shall be home to people capable of creating incredible and technologically superior products, which can compete with products from the most advanced countries in the world, such as Japan, Germany and the USA.

The governmental program focuses on four areas which are the most important for realizing this vision:

<ul style="list-style-type: none"> ▪ Education and employment ▪ Modern educational policy ▪ Higher flexibility of educational programs ▪ Achieving a high employment rate ▪ Coping with demographic changes 	<ul style="list-style-type: none"> ▪ Information Society ▪ Information literacy ▪ Effective e-government and modern on-line public services ▪ Wide internet accessibility
<ul style="list-style-type: none"> ▪ Science, R&D, innovations ▪ Training and support of outstanding scientists ▪ Research comparable with international standards and appropriately interconnected with the business sector ▪ Effective public support of business activities aimed at research and innovations 	<ul style="list-style-type: none"> ▪ Business Environment ▪ High-quality law enforcement ▪ A high-quality physical infrastructure and services in the network industries ▪ Public institutions as a partner rather than a burden ▪ Effective access to the capital market for all enterprises

The best investment opportunities

To utilize the knowledge of the Slovak people, the investment incentives focus on the investment projects from the high-tech sector and strategic services, as well as tourism. The impact of the state aid in these projects could reach up to 50% (60% for the medium size enterprises and 70% for the small size enterprises) of the eligible investment costs. Companies can also benefit from the positive effects that program Minerva has on the microeconomic environment and the talent base in Slovakia.

Contemporary best business opportunities can be found in these areas:

R&D, Design & Innovation

Technology centres

ICT & SW development

BPO

Regional headquarters

High-tech sectors

Tourism centres

Additional opportunities you can find in the traditionally strong sectors with the growth potential in Slovakia:

Machinery & Precision engineering

Automotive

Metallurgy & Metal processing

Electronics

Chemistry & Pharmacy

Wages & Salaries

The average monthly salary is still low compared to those paid in Western Europe and slightly lower than in Poland, Hungary and Czech Republic. In 2008, the average gross wage was 723 € per month, excl. obligatory social security contributions. The minimum monthly wage in 2008 was 240 €. The minimum monthly wage has been raised to 295.50 € since 1. 1. 2009.

The average monthly wages since 2005 and the forecasts from 2009 are following:

	2005	2006	2007	2008	2009 f	2010 f	2011 f	2012 f	2013 f
Monthly wage in EUR	448	504	596	723	733	798	870	952	1048

Source: The Statistical Office of the Slovak Republic, 2009, calculation and forecasts of ING Bank, 2008

Social security contributions in Slovakia cover all contributions and there are no extra or hidden costs for the employer. The contributions in Slovakia are upwards limited. The limit is 2.222 EUR and everything earned above this figure is not subject to social security payments.

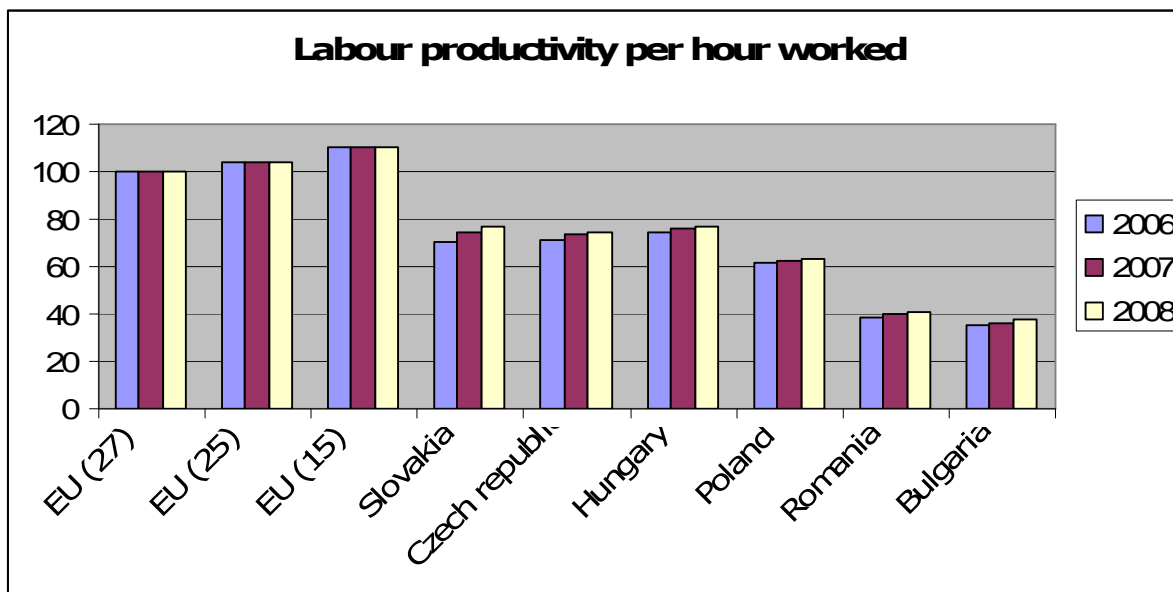
Average monthly wage and labour costs in EUR in 2008

	Slovakia	Czech	Poland	Hungary
Average monthly wage	723	942	843	792
Social Security paid by employer	35.2%	35.0%	20.4%	32%+8 €
Monthly total labour costs	977	1272	1015	1053

Source: The Statistical Office of the Slovak Republic, 2009; calculations of ČSOB, 2009

Labour productivity

The labour productivity index expressed in terms of GDP per hour worked in the table below shows very strong labour productivity growth in Slovakia. The growth is much higher not only in comparison to the 15 original EU member states, but also in comparison to the neighbouring countries like Hungary, Poland and Czech Republic which have similar conditions:



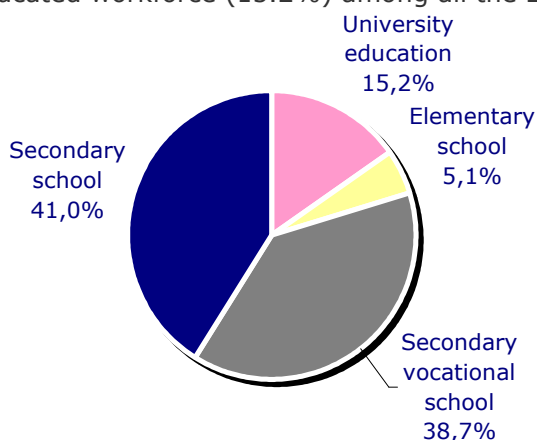
Source: Labour Productivity per hour worked, GDP in Purchasing Power Standards (PPS) per hour worked relative to EU-27 (EU-27 = 100), Eurostat, 2008

EDUCATION

The workforce of more than 2.1 million has a strong tradition in engineering and mechanical production. Foreign companies frequently praise the motivation and abilities of younger workers, who also have good language and computer skills. According to the World Bank's Student Learning Assessment Database, Slovaks outscore all other central and eastern European students in math and place third in science. This section will give you basic information on the quality of education in Slovakia. The educational system is a springboard to a high quality workforce entering the labour market.

Educational achievement of labour force

The graph below shows the distribution of economically active population (all employed in age 15 and more) according to the highest attained education. The share of people with the university education is increasing. This positive development is underlined by the fact that Slovakia reaches one of the highest shares of workforce with the secondary or higher education (95%) and one of the highest shares of the university educated workforce (15.2%) among all the European countries.

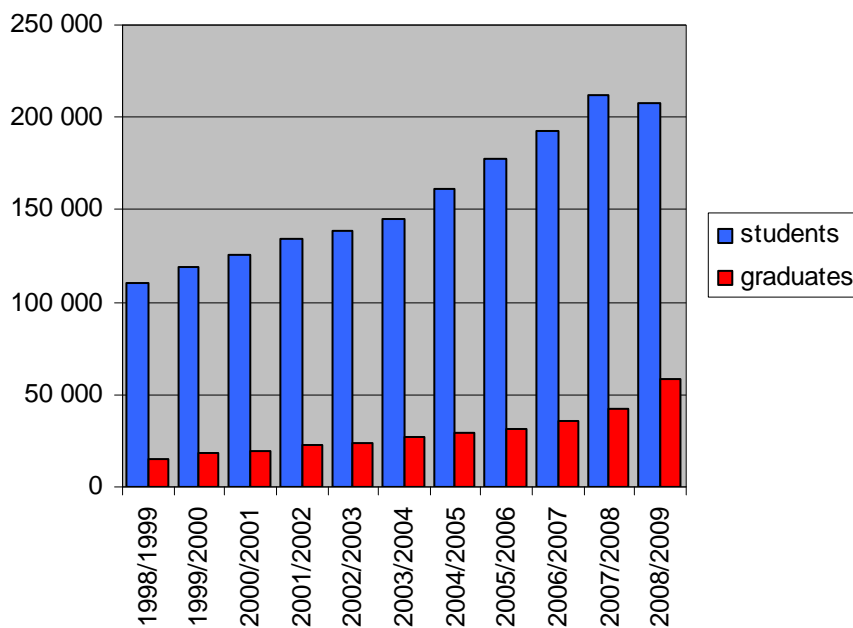


Source: The Statistical Office of the Slovak Republic, 2008

UNIVERSITY EDUCATION IN NUMBERS

In the academic year 2008/2009 there are 208 072 students enrolled on Slovak universities and 58 447 will graduate. In the academic year 2007/2008 there were 212 273 students enrolled and 42 036 students graduated that year. There are two reasons behind these large numbers: the baby boom in the 80's and a high percentage of secondary schools graduates that enrol on universities. Currently more than 60% of all secondary school graduates (19 years old) continue their education on universities and this figure ranks Slovakia among the top countries in the world of secondary school graduates attending university. The development of enrolled university students and graduates is below.

Number of University Students and University Graduates



Source: The Institute for the Information and the Prognosis in the Education, 2009

University Cities

Technical universities have a strong tradition in Slovakia. The largest technical universities are in Kosice, Bratislava, Zilina, Zvolen, Trnava and Trencin. Cumulatively, there are 5 5562 students on technical universities in 2008/2009 and 12 985 students will graduate this year. Technical University in Kosice has with 14 234 students the highest enrolment. In 2008/2009 3 566 of them will graduate.

Bratislava is the centre for university students of economics with an enrolment of 11 924 in the faculties of economics.

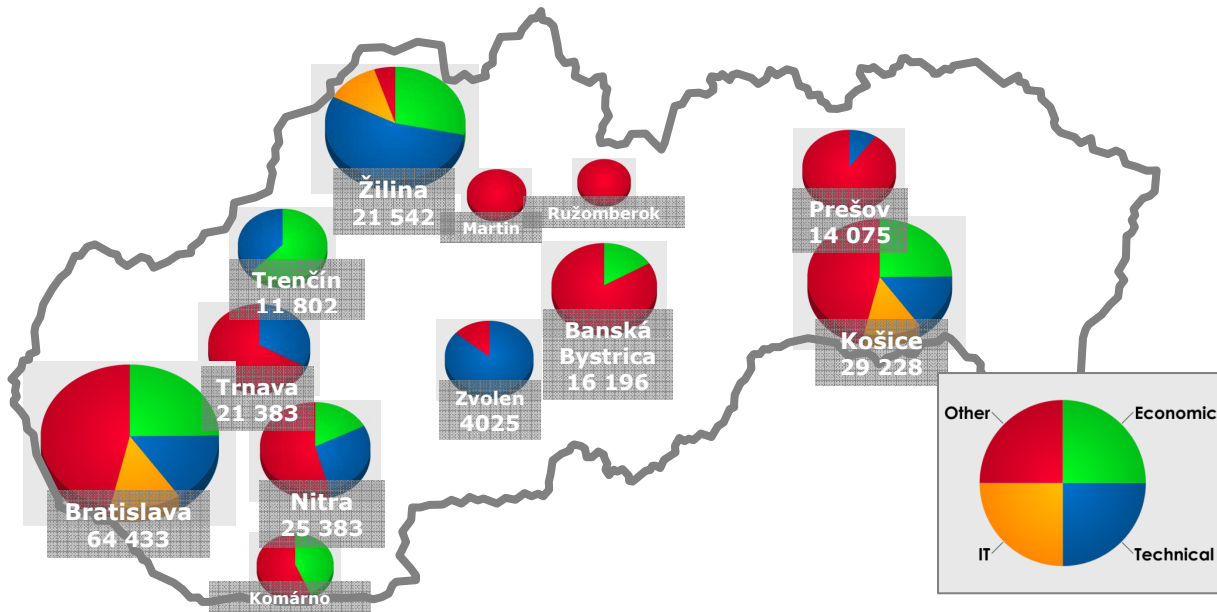
The following picture shows the regional coverage of universities in Slovakia.

Total number of students in 2008/2009

208 072

Graduates in 2008/2009

58 447



Source: The Institute for the Information and the Prognosis in the Education, 2009

LANGUAGE SKILLS

Slovakia is an export oriented economy that can offer workforce with a high degree of language skills. The foreign language, which is most often spoken, is English. The proximity to Austria and Germany has resulted in German being the second most-spoken foreign language. The result was the inflow of multilingual contact centres and shared services centres.

According to the results of Eurobarometer in 2006, 97% of the Slovak population speaks a foreign language, which puts Slovakia in the top position in the Central Europe for the percentage of the population that speaks foreign languages:

Rank	Country	Number of foreign languages spoken			
		1	2	3	none
2	Slovakia	97%	48%	22%	3%
16	Czech Republic	61%	29%	10%	39%
18	Poland	57%	32%	4%	3%
21	Hungary	42%	27%	20%	58%
27	Bulgaria	59%	31%	8%	1%
28	Romania	47%	27%	6%	3%
	EU25 Average	56%	28%	11%	44%

Source: Eurobarometer, 2006

The following table shows the most common foreign languages taught at Slovak secondary schools:

Language	Number of students	Grammar school	Vocational school	% of students
English	160 925	96 036	64 889	93%
French	19 886	14 650	5 236	11%
German	111 532	64 825	46 707	62%
Russian	6 572	3 311	3 261	4%
Spanish	5 434	4 784	650	3%
Italian	1 414	668	746	1%
Other	289	53	236	0%
None	216	0	216	0%

Source: The Institute for the Information and the Prognosis in the Education, 2008

Secondary schools

Slovakia has well established system of specialized training and vocational schools. To accommodate the changing requirements on the labour market, secondary schools are being given higher degree of control in creating their own educational programs to meet the current needs of local industry.

INVESTMENT INCENTIVES

The aim of the state aid is to promote the economic development of certain disadvantaged areas in the Slovak Republic and is targeted on specific regions in order to eliminate regional disparities and to assist the development of the most disadvantaged regions by supporting investment and job creation.

The new act on the Investment Aid is has been in force since January 2008:

Intensity

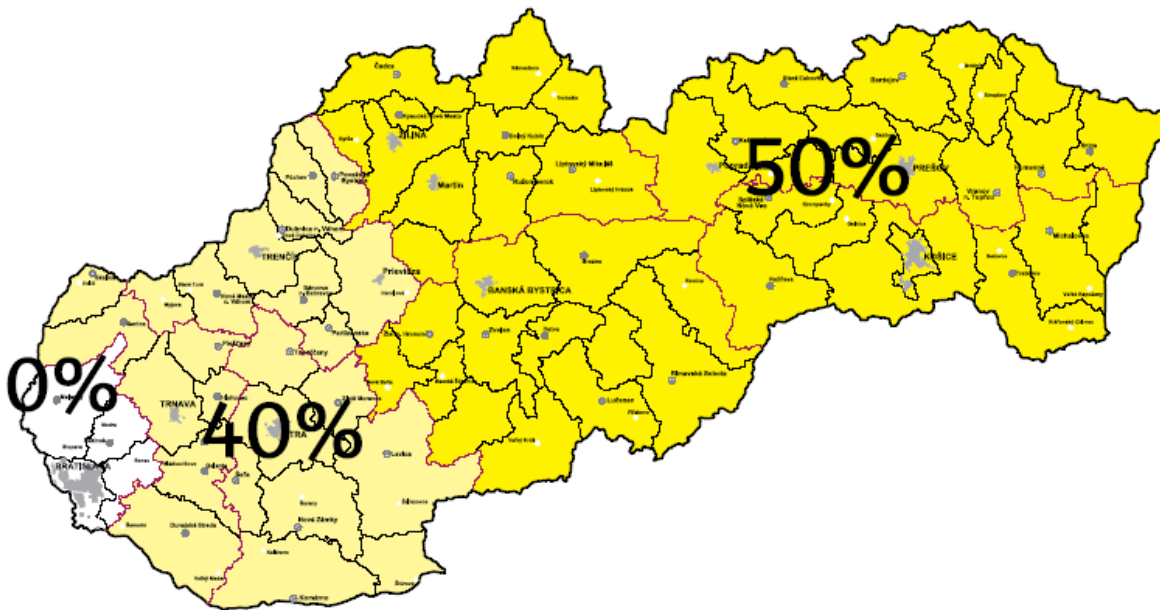
Central Slovakia 50%* of the eligible investment costs

Eastern Slovakia 50%* of the eligible investment costs

(*The maximum percentage of the aid may be increased by 10% in the case of the medium-sized enterprises and by 20% in the case of small enterprises.)

Western Slovakia* 40% of the eligible investment costs

*Except the region **Bratislava**, which is because of its high economic development excluded from the state aid.



Forms of investment projects

The investment projects are divided into four categories that differ as to the subject of the investment.

- Industrial production
- Technological centres, Research and Development
- Centres of strategic services
- Tourism

Each type has its own defined conditions that have to be met in order to apply for the state aid: minimum investment volume, certain share of costs invested into the modern technology and specific education structure of the employees.

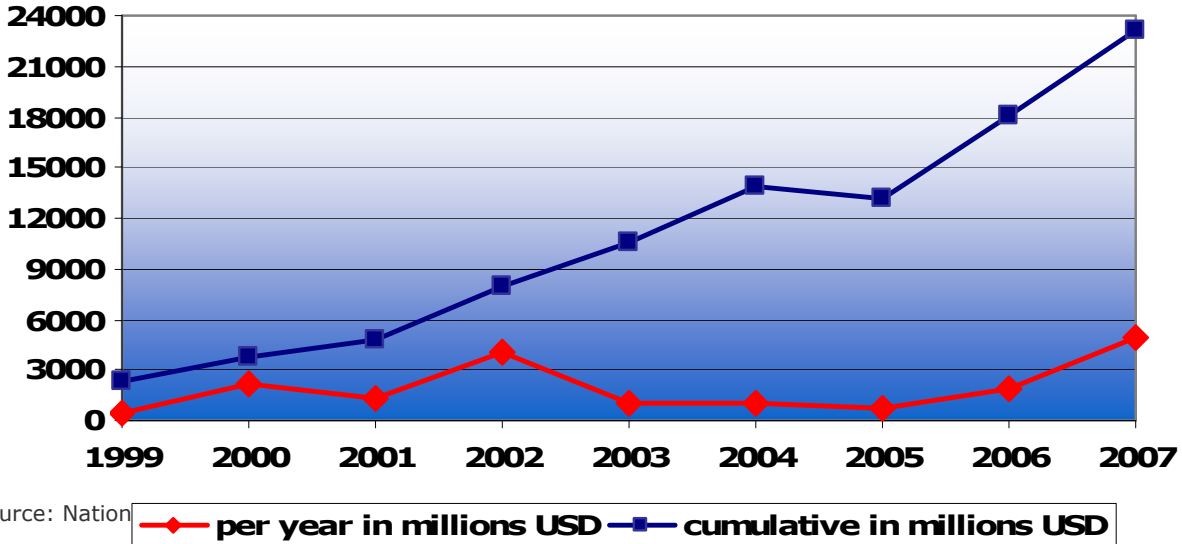
Forms of aid

- Cash grant
- Partial tax relief
- Contribution to new jobs – certain percentage of two-year salary costs per each new employee
- Transfer of the state/municipality property to the investor for the discounted price.

For **up-to-date information** about the investment incentives and the state aid, please visit SARIO website www.sario.sk and the tab “Invest in Slovakia”. You can also find this information in the SARIO publication *Regional Aid – Investment Incentives*.

Success Stories

Since the declaration of independence in 1993, Slovakia has handled several hundred successful investment projects from various countries and in a wide range of industrial sectors. These investment projects have had a substantial impact on the economic growth of the country. The total volume of FDI inflow to Slovakia reached 23 105 million USD until 31 December 2007:



The table below is an overview of the major foreign investors in Slovakia. It includes only the new Greenfield or Brownfield investments, not acquisitions or takeovers:

Investment	Country of Origin	Total Employment
Siemens	Germany	9000
Volkswagen	Germany	7000
Yazaki	Japan	7000
Sumitomo	Japan	5300
PSA Peugeot Citroen	France	5200
Samsung	Korea	3000
Emerson	USA	2900
KIA Motors	Korea	2400
Matsushita	Japan	2100
DELL EMEA Centre of Excellence	USA	2000
SONY	Japan	1500
IBM International Services Centre	USA	1300
Whirlpool	USA	1200
HP European IT Operation Centre	USA	1100
Molex	USA	1100
Hyundai Mobis	Korea	940
Getrag Ford	Germany/USA	750
Johnson Controls R&D Centre	USA	550
SOITRON	Spain	530
T-Systems	Germany	512
AT&T Shared Services Centre	USA	500
Accenture Technology Solutions	USA	450
Alcatel R&D	France	300

Source: SARIO internal sources, 2008

SARIO one-stop-shop for investors

The Slovak Investment and Trade Development Agency (SARIO) is the governmental investment promotion agency. In Slovakia and around the world, SARIO provides a range of services to companies, which would like to invest in Slovakia. Our team of experts is ready to help with all aspects of the investment process.

SARIO is eager to offer you a full range of services for foreign investors:

- Advice on any question on starting a business in Slovakia
- Providing sector-specific information
- Analyses of labour market, taxation, macroeconomics etc.
- Recommendations on the best location and appropriate real estate
- Facilitating contacts and processes with the authorities
- Assisting with the process of applying for investment incentives

Our services are free of charge.

For further information please contact:

Slovak Investment and Trade Development Agency (SARIO)
Martincekova 17, 821 01 Bratislava, Slovak Republic
Tel.: 00421-2-58 260 100, Fax: 00421-2-58 260 109
E-mail: sario@sario.sk, Web: www.sario.sk



S A R I O

**Slovak Investment
and Trade Development Agency**

Slovak Investment and Trade Development Agency

Martinčekova 17
821 01 Bratislava
Slovak republic

Tel: +421 2 58 260 100
Fax: +421 2 58 260 109
e-mail: [**sario@sario.sk**](mailto:sario@sario.sk)



Best European Investment Promotion Agency
in High-Tech 2007 Award



www.sario.sk