



Slovakia



Did you know...?

History The Slovak capital Bratislava is a melting pot of cultures and a political hub for the region. It was the capital of the Hungarian Empire from 1526-1784.

Geography The Slovak landscape is dominated by the Carpathian Mountains, which are home to one of the largest European populations of brown bears.

Music The Fujara is a unique, traditional shepherd's flute that gained popularity in folk festivals across Europe. It is protected by the United Nations as intangible cultural heritage.

Sports The Slovak national ice hockey team is ranked as the seventh strongest in the world. A notable number of Slovaks play in the NHL, for the New York Rangers, for example.

Fun Fact Štefan Banič, a Slovak immigrant to the US, invented the first actively used parachute. He tested it himself by jumping out of a high building in Washington DC.

An overview of Slovakia's economy

A success story of strong growth led by exports and foreign direct investment, the Slovak economy took a strong hit in the recent crisis.

In 1993, after the first years of post-communist restructuring, Slovakia peacefully broke away from the Czech Republic in what later became known as the "Velvet Divorce". Following the establishment of the Slovak Republic, the country saw robust economic growth. In 2004, Slovakia, along with seven other Central and Eastern European countries, plus Cyprus and Malta, became a member of the European Union.

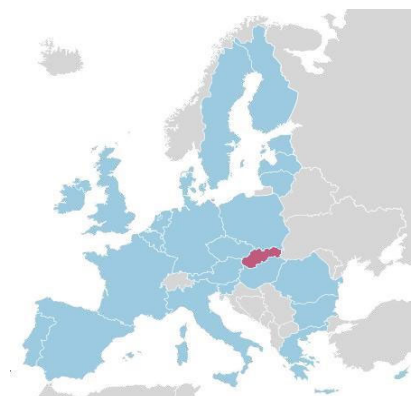
Slovakia subsequently joined the Economic and Monetary Union, and introduced euro notes and coins in January 2009. In the years from 2005 to 2009, when the country was preparing for euro adoption, fiscal sustainability became a key government priority. Aided by institutional and structural reforms, the Slovak economy rapidly integrated with its EU neighbors.

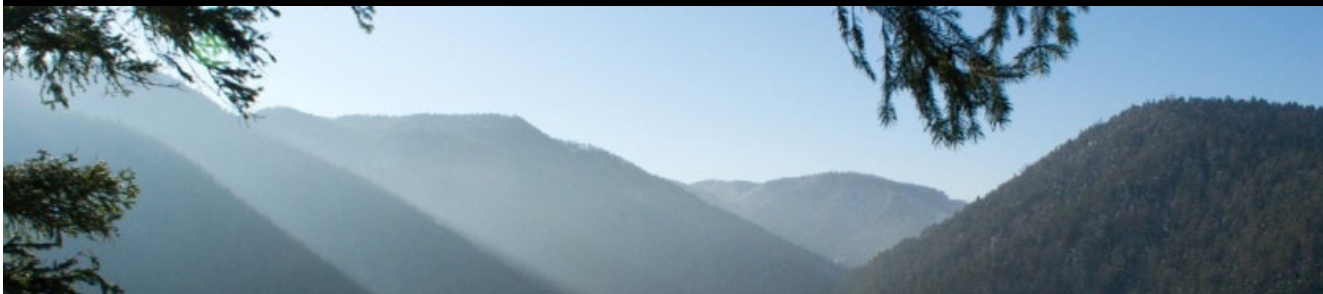
After joining the EU, strengthened external competitiveness and macroeconomic stability were overarching policy priorities for the Slovak authorities. Solid progress on privatization and low labor costs attracted substantial foreign direct investment (FDI). Low taxes, both for corporations and individuals, as well as a favorable geographical location were also seen as assets for investors. FDI inflows were particularly concentrated in high value added export industries such as transport equipment (mainly automobile manufacturing and

related activities) and electronic goods.

The high levels of FDI inflows helped to boost economic growth. In 2007, the Slovak economy grew at 10.4%, the highest rate in the EU. The automobile industry has potential for further growth, especially through the expansion of local supply chains. Consumer electronics is quickly becoming the second industrial engine.

These sectors, however, were heavily hit by the economic crisis and the plummet in international demand. Exports fell by 19.8% in 2009, but growth picked up by 16.4% in 2010, and is expected to increase, albeit at a slower rate for 2011 and 2012. Unemployment surged dramatically to about 15% in the first quarter of 2010, a stark increase from already high pre-crisis levels of about 9% and currently stands at 14% for 2011. The fight against structural unemployment, together with efforts to maintain fiscal sustainability, are the most important policy challenges.





Slovakia's Economy – Key Facts

- Slovakia is a relatively small, landlocked, but well-integrated, export-oriented economy. Slovakia ranked 45th in the world for exports in 2010, with Germany and the Czech Republic as its largest trading partner.
- The World Economic Forum (WEF) Global Competitiveness Report for 2011/2012 ranked Slovakia 69th out of 142 countries in terms of competitiveness. The country ranked relatively favorable in macroeconomic environment (31st), technological readiness (34th), and financial market development (37th). On the other hand, an inefficient government bureaucracy, restrictive labor regulations, and corruption are cited as the most problematic factors for doing business.
- The World Bank's Doing Business Report ranked Slovakia 48st out of 183 countries on the ease of doing business in 2012.
- According to the European Commission's Spring 2011 forecast, real GDP will grow by 3.5% for 2011. This robust trend is expected to continue, with growth projected at 4.4% for 2012. The general government gross debt is forecast to increase from 35.7% of GDP in 2009 to 46.8% of GDP in 2011- well below the area average.
- Even before the crisis hit, many commentators identified long-term unemployment as a main problem for the Slovak economy. Structural reforms in the labor market, education, and improved governance are seen as necessary to enhance growth prospects.

References

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Exports A large share of Slovak exports go to emerging and developing economies, mainly in Central and Eastern Europe (33.2% of total exports). These countries have weathered the crisis well, thereby helping the Slovak economic recovery.

Unemployment was at 14.4% in 2010, above the euro area average, but is expected to decline to 14% in 2011 and 13.3% in 2012.

Financial Sector Exposure to sovereign risk is limited and revenues in the financial sector are recovering after the crisis.

Education The share of workers with higher education is relatively low (15% compared to 21% in the region). Reforming the higher education system to better cater to the demands of the labor market is a key priority.

Fiscal Policy In an effort to reduce the budget deficit, has committed to a Stability Program for 2011-2014. The program's goals intend to bring the country's deficit within the euro area target of 3% of GDP by 2013.