

# Slovakia

|  |   |             |             |              |
|--|---|-------------|-------------|--------------|
| <b>Prime Minister:</b> Robert FICO           | <b>Population</b> (2008 est.): 5,455,407      |             |             |              |
| <b>Finance Minister:</b> Ján POČIATEK        | <b>GDP</b> (2007): € 54.8 billion             |             |             |              |
| <b>Central Bank Governor:</b> Ivan SRAMKO    | <b>GDP/capita:</b> € 10,200                   |             |             |              |
| <b>Joined the EU:</b> 2004                   | <b>GDP by sector:</b>                         |             |             |              |
| <b>Adopted the Euro:</b> 2009                | Agriculture 2.6%                              |             |             |              |
| <b>Currency prior to Euro:</b> Slovak koruna | Industry 33.5%                                |             |             |              |
|  | Services 63.9%                                |             |             |              |
|  | <b>Life Expectancy</b> (women / men): 78 / 70 |             |             |              |
|  | <b>2005</b>                                   | <b>2006</b> | <b>2007</b> | <b>2008*</b> |
| <b>Real GDP growth rate</b>                  | 6.5%  | 8.5%        | 10.4%       | 7.0%         |
| <b>Inflation</b>                             | 2.8%  | 4.3%        | 1.9%        | 4.0%         |
| <b>Unemployment Rate</b>                     | 16.3%   | 13.4%       | 11.1%       | 9.9%         |

\* forecast

## Slovakia in the EU and the Euro Area

Slovakia became a member of the European Union in 2004 and will be the fourth of the so called "new" EU member states to adopt the Euro on 1 January 2009, replacing the Slovak Koruna. Following major economic reforms, the Slovak economy has grown strongly in recent years, driven by rapid productivity growth, but still has far to go to catch up to the per capita income levels in the advanced European countries. The rapid process of integration with the EU has made Slovakia one of the most open economies among the EU-27 Member States, while triggering a process of restructuring of production.

## Economic Overview of Slovakia

Slovakia has become one of Central Europe's strongest economic performers over the past few years. Slovakia has mastered much of the difficult transition from a centrally planned economy to a modern market economy. Slovak manufacturing is highly dominated by capital intensive industries which are mostly medium-high and medium-low technology sectors. As a relatively small and open economy, Slovakia has been significantly affected by the development of import prices. In particular, the impact of recent price increases for oil and agriculture commodities pushed inflation higher in Slovakia and at the same time weighed on growth.

The government has successfully implemented reforms in the banking sector and helped facilitate a foreign investment boom with business friendly policies such as labor market liberalization and a low tax rate. Slovakia's economic growth exceeded expectations in 2001-07 despite the general European slowdown. Unemployment, at an unacceptable 16% in 2005, is expected to drop to 10% in 2008 but is likely to remain the economy's Achilles heel.

In 2008, economic growth is expected to slow down to 7% with domestic demand likely to remain the main driving force of growth while the contribution of net exports is likely to decelerate, due to slower world economic growth.

### Some Economic Challenges Facing Slovakia

#### *Improve funding and effectiveness of the education system*

To improve education achievements, especially among children from less favourable socio-economic backgrounds, pre-school education should be expanded, additional funding for schools with a high proportion of groups at risk of under-achievement should be provided, and the age at which children are selected into different tracks should be postponed. Further, the value of vocational education is still relatively low in Slovakia and should be increased by making it more relevant to labour-market requirements. So far the government has decided to make kindergarten free of charge for five-year-olds from 2008 onwards. Some reduction in segregation has been achieved by encouraging the integration of technical and vocational secondary schools.

#### *Reform housing markets*

Labour mobility in the Slovak Republic is still considerably low and the functioning of the housing market needs improvement. Strengthening competition in construction and targeting housing subsidies better could help to establish an effective private rental market.

#### *Promote employment for low-income workers and reduce incentives for early retirement*

To promote employment of low-skilled and low-income workers in Slovakia, an in-work benefit for low-income households with children could be introduced and the minimum wage should be kept sufficiently low so as not to hamper employment prospects. As there are still incentives for early retirement it will be necessary to extend the 2003 reform of the pension system and to introduce policies to discourage premature withdrawal from the labour market.