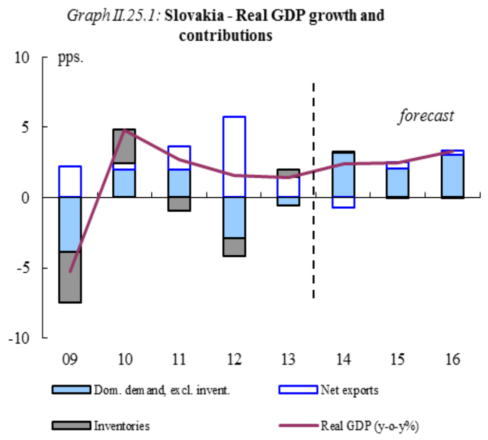
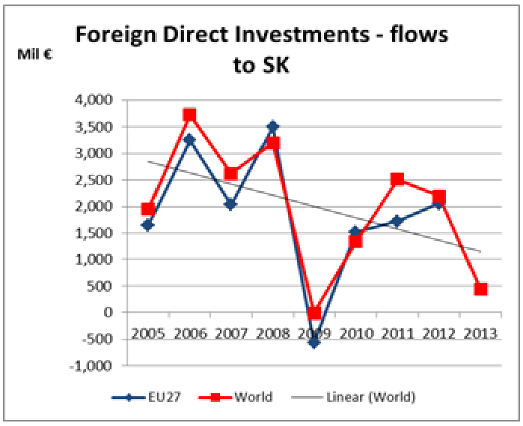
INVESTMENT IN SLOVAKIA

What is the situation in Slovakia?



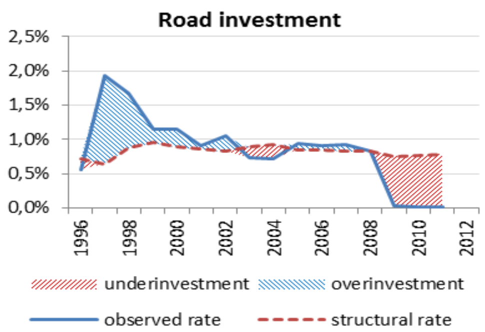
Despite significant Foreign direct investment (FDI) into the country before the crisis, investment in Slovakia is currently subdued. In 2003-2013, when real GDP growth was some 4.3% on average, investments contributed only 0.6 percentage points annually. In 2012-2013, investment in Slovakia dropped by 2.4% of GDP, which is the largest fall in the region. Investment declined to 20.4% of GDP, but is still in line with the EU average of 19.3% of GDP. The share of non-housing construction in overall investment spending has decreased, suggesting that the stock of physical infrastructure has not increased significantly.

What is the main challenge?



Creating an investment-friendly environment with stable, transparent and a predictable regulatory framework and effective public administration is crucial for Slovakia. There are a number of weaknesses, from cumbersome procurement procedures to management verifications and project selection. Lower levels of FDI than in pre-crisis years are another cause for concern, given that Slovakia's growth model relies strongly on FDI, the stock of which amounts to some 60 % of GDP. This could have a negative impact on long-term growth, especially since domestic investment in R&D is low and companies depend largely on imported technology and investment seem to be concentrated in a few sectors. Making other sectors more attractive to FDI could increase the economy's resistance to global shocks. There is also a brain-drain of the qualified workforce which can influence medium-term investments prospects.

Opportunities for investment



Slovakia's specialisation in manufacturing for export places high demands on the quality of transport infrastructure. The rail and road transport infrastructure is still underdeveloped. Furthermore, the low quality of education and training and their limited compatibility to the labour market hampers the ability of skilled people to find the right jobs. This is partly due to public spending on education that is well below the EU average (4.1% of GDP in Slovakia compared to 5.3% in the EU . More capital is needed to improve energy infrastructure in Slovakia, to strengthen interconnections with its neighbours and to improve energy efficiency.

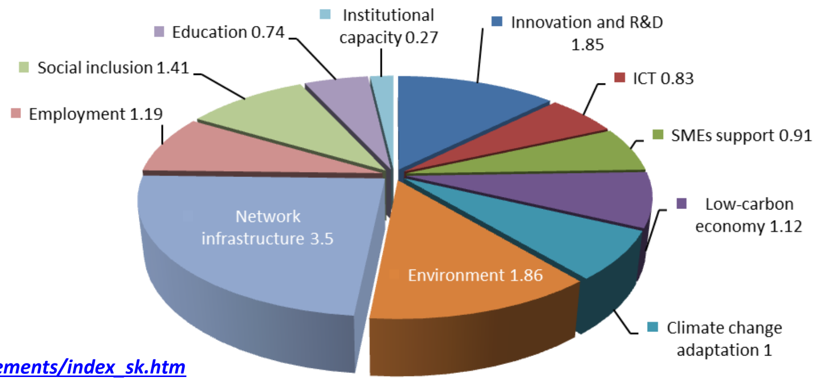
Reforms for investment

In the Country Specific Recommendations for Slovakia, the European Union recommended:

Reinforce the budgetary measures in the light of the emerging gap relative to the preventive arm of the SGP requirements	Implement plans to foster effective knowledge transfer and cooperation between academia, research and business
Improve the efficiency of the tax administration	Step up efforts to make the energy market function better
Address long-term and youth unemployment	Further develop interconnections with neighbouring countries, including with Ukraine
Increase the quality of teaching	Increase the independence of the public service

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_sk.htm

Past or ongoing projects for investment

Electricity interconnections

Electricity interconnection.
Commissioning date: 2016
(**Hungary, Slovakia**)

Gas interconnections

Interconnection.
Commissioning date: 2015
(**Hungary, Slovakia**)

Oil interconnections

JANAF-Adria pipelines.
Construction permit was obtained in November 2012;
the Project has been postponed
(**Croatia, Hungary, Slovakia**)

Bratislava-Schwechat-Pipeline.
Commissioning date: end of 2015
(**Austria, Slovakia**)

Transport interconnections

Connecting Europe Facility:
"Baltic – Adriatic" core network corridor
(**Austria, Italy, Poland, Czech Republic, Slovakia, Slovenia**)

Connecting Europe Facility:
"Orient – East Med" core network corridor
(**Germany, Czech Republic, Austria, Slovakia, Hungary, Bulgaria, Romania, Greece**)

Connecting Europe Facility:
"Rhine - Danube" core network corridor
(**France, Germany, Austria, Czech Republic, Slovakia, Hungary, Romania, Bulgaria**)