

Business Environment in Slovakia and Potential Learnings

Kyiv, May 16, 2005

Slovakia - Basic Facts



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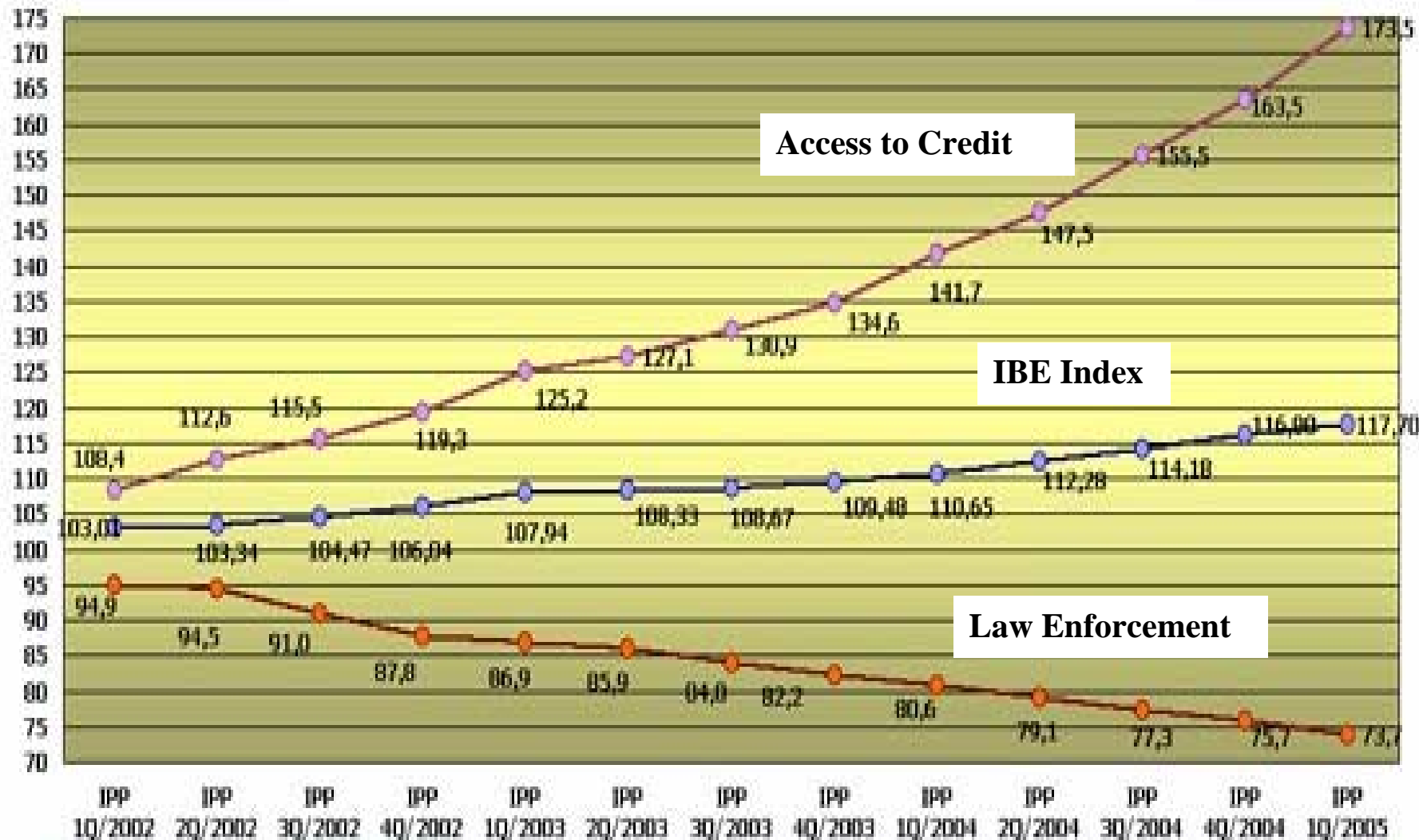
Slovak Top Points

- **Referendum for EU entry – the highest percentage voting YES (92.5%)**
- **The fastest growing economy in Central Europe (4% CAGR 1997-2004)**
- **The largest country entering to EU and NATO in 2004**
- **First EU country introducing one VAT rate and one Flat Corporate and Personal Income Tax (19%)**

Development of IBE

2002 Q1 2002 Q2 2002 Q3 2002 Q4 2003 Q1 2003 Q2 2003 Q3 2003 Q4 2004 Q1 2004 Q2 2004 Q3 2004 Q4 2005 Q1

Index of Business Environment



Slovakia – the best items

- 3. – FDI bringing new technology
- 4. – Conditions for employment of foreign labor
- 8. – Tax impact on doing business
- 10.- Access to credit
- 11. – Availability of engineers and scientists
- 13. – Quality of education of math and science

Slovakia – the worst items

- 96. – Regional differences
- 89. – Airport infrastructure and transport
- 81. – State budget deficit
- 66. – Governmental support for information technologies
- 66. – Cost of agricultural policy
- 64. – Efficiency of judiciary system

Ukraine – the best items

- 7. – Local Availability of Process Machinery
- 8. – Hiring and Firing Practices
- 11. – Local Availability of Components and Parts
- 18. – Real Effective Exchange Rate
- 19.- Pay and Productivity
- 19. – Railroad Infrastructure Development

Ukraine – the worst items

- 103. – Pervasiveness of money laundering through banks
- 102. – Cost of agricultural policy
- 101.- Efficiency of the Tax System
- 99. – Subsidies for Energy or Materials
- 95. – Judicial Independence
- 93. – Foreign Ownership Restrictions

SWOT

Strengths

GDP Growth

Tax Reform

Labour Law

New Business Start Up

Opportunities

Informatization

Social Cost reduction

EMU Membership

Weaknesses

Law Enforcement

Regional Differences

Environment Protection Policy

Threats

Harmonization Trends in EU

CAP

Business Environment Priorities

1/ Easy Market Access

2/ Flexible Labor Market

3/ Simple Tax and Administrative Rules

1/ Easy Market Access

- Entry Cost to Market
 - Denmark 0 fee
 - In most EU countries high fee (1500-6000 EUR)
- Entry Time to Market
 - Denmark 3 days, UK 5 days
 - 2-3 months in some new EU countries
- Simplification of Administration for Start of new business

2/ Flexible Labor Market

- Need for Improvement of Labor Mobility
- More flexible Labor Code
 - Working Time
 - Variable Job Contracts
 - Temporary Workers Use
- Comparison with US
 - 25 – 54 OK
 - <25 far behind
 - >54 far behind

3/ Simple Tax and Administrative Rules

- Income tax level is lower than in US (average 13.3% vs. 15.7%)
- Social cost is doubled than in US (29.9% vs.14.2%)
- Social cost reform is necessary in most European countries
- Simple and Stable Rules
- Flat Tax

Priorities of Lisbon Strategy in Slovakia

- **Information Society**
- **Innovation, Science and Research**
- **Investments into HR and Education**
- **Business Environment**

SME's as the Core of the Economy

- There is more than **20 million** SME's in EU
- SME's create in EU **66%** employment in a private sector
- SME's **react faster** for market needs as big companies
- Development of SME's will support **faster and more stable GDP growth**

The FDI Impact

- **Direct Investments and Employment**
- **Indirect Employment (multiplier effect)**
- **Improvement of Productivity**
- **Education**
- **Ethical Standards**

Learnings

- **Simple and Transparent Legislation**
 - **Easy Market Access**
 - **Flexible Labor Market**
 - **Simple Tax and Administrative Rules**
- **Efficient Institutional Framework**
 - **Law Enforcement and Judiciary Efficiency**
 - **Ethical Standards**
- **Regular Communication between Business and Politics**



**Development of Business
Environment will contribute
to the Improvement of Quality
of Lives in Ukraine**

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