Slovakia

COUNTRY PROFILE

COUNTRY NAME:
Conventional long form: Slovak Republic
Conventional short form: Slovakia

LOCATION:
Central Europe, south of Poland

POPULATION:
5,447,502 (July 2007 est.)

GEOGRAPHY:
Landlocked; most of the country is rugged and mountainous; the Tatra Mountains in the north are interspersed with many scenic lakes and valleys

GDP - real growth rate:
8.3% (2006 est.)

GDP - composition by sector:
Agriculture: 3.6%
Industry: 31.6%
Services: 64.8%
(2006 est.)

EXPORTS:
$41.86 billion f.o.b. (2006 est.)

Source: The CIA: World Factbook

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▶▶▶ MANAGING TO SHAKE OFF A LETHARGY THAT LASTED THROUGHOUT THE 1990s, SLOVAKIA IS TRANSFORMING ITS ECONOMY INTO A CENTRAL EUROPEAN STAR. THIS IS THE COUNTRY WHERE OPTIMISM HAS TAKEN ROOT

The Euro-optimist

A WINTER stroll on the banks of the Danube in Bratislava can be transporting. Catch a silent bus that runs on natural gas and listen to people's heels as they click over the cobblestones in Old Town. In the alleys behind St Martin's Cathedral you will find echoes of Vienna, which is only 64 kilometers (40 miles) away. Such are the pleasures of life in this corner of central Europe.

But behind the serenity of its façade lies an edifying fact: income per capita here is at 138% of the EU average. It is no small accomplishment for a city in a country, the Slovak Republic, which was rudderless for much of the 1990s. Starting with its famous 19% flat tax rate and its no-nonsense reforms, Slovakia has managed a turnaround. Real GDP in 2007 grew 8.8%, with inflation set to drop to 2% this year.

"Slovaks have had their own state for only 16 years. And over that short period we have made it internationally," says Ivan Gasparovic, the President of Slovakia. The aggressive reforms implemented as of 1998 forced companies to reorient their output and many farmers to go out of business. But by the time Slovakia joined the EU in May 2004, the economy was again buoyant.

Minister of Foreign Affairs Jan Kubis says that statistics show Slovakia is today one of the most Euro-optimistic countries in the Union. For Jake Slegers, the president of the American Chamber of Commerce, what really turned the Slovak psyche around was the Ice Hockey World Championship of 2002. "It was the one thing that totally united the country and changed the attitude of the people, from defeatist to optimist. It gave Slovaks a can-do ethos," says Slegers.

Today, Slovakia is a member of NATO and will enter the Euro-Zone in January 2009. It is also the 36th economy in the world for ease of doing business. It is still a prime target for automotive investment – assembly lines here produce fixings and moulds for Volkswagen, KIA and Peugeot. Climbing up the value chain, local firms are now sought for their quality testing. The new left-leaning government is continuing the previous cabinet's probusiness agenda.

Asked where the opportunities lie in 2008, officials here will counter with 'everywhere'. Winter sports and spa tourism have taken root in the High Tatras range, bordering Poland. In the industrial self-governing region of Kosice, the focus is on mechanical engineering and high-end steel. Slide your finger in a westerly direction, past limestone fortresses and rococo castles, and you will end up in knowledge-based territory – the source of future wealth.

DUSAN CAPLOVIC
Deputy Prime Minister

YONG KYU PARK
Ambassador of the Republic of Korea

"The knowledge-based society is a long-term project for which the results will be visible in 10-12 years. That is why it is a challenge to sell," says Deputy Prime Minister Dusan Caplovic. It is difficult to convince constituents about prioritizing SMEs with a knowledge component. And yet, more than a third of the 11 billion euros that Slovakia will receive through 2013 in EU structural funds will target innovative projects.

Often in the shadow of large foreign investors, SMEs in specialized niches are the real agents of transformational change for this country of 5.5 million. The synergies are already visible in the masterplan for Eurovalley, an R&D center. Recently, the government signed a deal with Samsung LCD to transfer part of its R&D facilities to the town of Trnava. This will attract new SMEs, in turn creating a multiplier effect.

"Nowadays, thanks to KIA and Samsung, there's an increasing awareness of the tandem between Slovakia and Korea," says Yong Kyu Park, the Ambassador of Korea. The 320 million euro investment by Samsung LCD will put Trnava on the global map for decades, enhancing Slovakia's overall competitiveness.

President Ivan Gasparovic says that Slovakia is in the lead among the new EU member states.

PRESIDENT OF SLOVAKIA
IVAN GASPAROVIC

'Slovakia has launched the most aggressive reforms in the EU'

Slovakia carried out bold reforms before even joining the EU in 2004. Foreign investment flowed in, largely as a result of the favorable tax conditions. Now, the President believes that the government's credibility and prudent economic policy are Slovakia's draws. His ultimate goal is to transform this small country in central Europe into a knowledge-based society.

What comes to mind when you think of Slovakia?

Today, Slovakia is virtually in the lead of the new EU member states. Slovakia launched the most aggressive types of reforms in the EU. We embarked on reforms that even the original member states had never considered. But Slovakia has not yet completed its infrastructure projects and there are regional economic disparities.

You worked very hard to gain EU status. Three years later, is the EU all you hoped for?

Beyond any doubt, it made sense. One of the incentives that attracted foreign investment initially – the low cost of labor – is no longer here. Slovakia is no longer a low-cost environment. And the reason why we see investment continue to flood into the domestic market is that we have sound economic policies. We adopted new laws and set up a tax system that benefits investors. Whether it was worth the effort, we'll have to ask the citizens.

Will your cabinet keep up the economic momentum?

Previously we had a right-of-center government, whereas the current cabinet has a more social agenda. The first positive signal we gave was that we would continue the reforms that were underway. The second signal was directed at the population. Today, the government enjoys 60% approval ratings and the ruling party stands at 48%.

You are personally involved in building a knowledge-based society. Any progress?

A knowledge-based society requires high dynamics and the government should be engaged in this effort. It's time to set science, research, education and culture on the list of national priorities. The school system is an area where I see room for improvement.

As we begin 2008, what message would you like to convey to readers?

I think freedom is the most important thing for people on this planet. It's sad to see people die for freedom and for their rights. May I wish peace and freedom to all people.

FINANCE

'We are different from other nations'

Foreign companies choose predictability over high-risk growth as sound policies make economy a regional winner

AT THE SLOVAK Finance Ministry, officials work within sound and prudent limits. When they have a program, they follow it. The introduction of the euro, which is scheduled for 2009, is expected to run smoothly, signaling the end of the 16-year stint of the koruna (SKK). After tweaking parity issues, the European Central Bank has approved the SKK's track record for 2007. Meanwhile, the structure of GDP growth is healthy, with output set to reach 7.3% in 2008. Inflation is projected to fall to 2%. Does all this mean that there is little of note in Slovakia's transition to an open economy?

Not exactly. This is the country, after all, that did away with 21 categories of personal income tax and replaced them with a flat tax of 19% in 2004. As a result, $13.6 billion of FDI flowed into domestic industry. The surprising fact is that even with middle-of-the-road policies, it still manages to outperform its competitors. Samsung, Peugeot, Hyundai and Volkswagen have opted to establish factories in Slovakia because of its level of transparency, ease of doing business and quality workforce.

"We are developing pretty fast and we're very different from other nations," says Minister of Finance Jan Pociatek.

Overall, the country's competitiveness has more to do with European integration than with low taxation. By locking in the reforms, the previous government bought precious time. Pociatek thinks the current account deficit, at 6.5%-7.5% of GDP, will drop to 4% as Slovakia rolls out new products. He points at a Samsung factory specializing in LCD modules as an example. Managers there have already extended contracts to sub-suppliers in the region.

JAN POCIATEK
Minister of Finance

IGOR VIDA
Chairman and CEO of Tatra Banka

In the financial system, the three largest public banks were privatized in 2000-2001. Together, they amassed two-thirds of the sector's total assets. Foreign investors have not only re-capitalized banks, but have also engulfed the insurance sector. With the exception of Postova Banka, nearly 100% of banking institutions are now foreign-owned. Credit growth, meanwhile, has come down to sustainable levels as people adjust to the entry of the euro. For Central Bank Governor Ivan Sramko, things could not be better. "The banking structure is OK, performance is OK and there are no special risks in the industry," he says.

Igor Vida, Chairman and CEO of Tatra Banka, believes it all hinges on the inflows associated with government reforms, a combination that was crucial for Slovakian banks. With the changeover in management came a more aggressive strategy for market share. Many banks refocused their energy on retail because of the growth in purchasing power.

"It's a very competitive environment today. There are a lot of banks, maybe too many. Whether there will be consolidation in the future is questionable," says Vida. Nominated the Best Bank in Slovakia in 2006, Tatra Banka is a greenfield investment by Austria's Raiffeisenbank. Vida's strategy of building the retail segment and being inventive with products has paid off handsomely. In 2006, the bank opened eight new branches and profits after tax were up 27.5%. Earnings per share also grew by 19.1%.

Tatra Banka was the first financial institution in the country to introduce Internet banking and call centers. About 83% of transactions these days are electronic, with more than a third of the bank's 600,000 customers transacting online. By setting up a virtual bank as a subsidiary early on, it tapped a niche segment.

"We did it as a defensive move to dissuade others from moving into Slovakia. After five years of existence, we migrated customers to the main bank and shut it down. The mission is complete," comments Vida.

TATRA BANKA

A brave new world of derivatives

THE BANKING MARKET in Slovakia is gushing with liquidity. Purchasing power has made a leap since the out-in-the-cold 1990s. As in any competitive environment, banks are on the selling side of a brave new world of financial derivatives. As their customers become savvier, risk management will be an important part of the game.

In 2007, Tatra Banka announced a new business partnership with SuperDerivatives. A leader in the commodities trade, SuperDerivatives will deploy its platform via the Slovakian bank. The platform lets users analyze trends in energy, metals and agriculture. In real time, it factors in data on risk and global prices. Traders at Tatra Banka, who have used the firm's foreign currency platforms, say they like the intuitive interface – as well as its accuracy.

Tatra Banka has relied on SuperDerivatives for setting commodity prices since 2006. For Chairman and CEO Igor Vida, it is part of the bank's push to build its own knowledge base. An early adopter, Tatra Banka was the first in Slovakia to build an Internet portal and the first to set up call centers and mobile banking. "Our institution has always been known for being innovative. We were the first bank in Slovakia to take many services online," says Vida.

In the world of futures, forwards and swaps, however, the learning curve will be steep. After all, commodities trade is a relatively new field in Slovakia, where people tend to park their cash in mutual funds and shun risk. With capital markets still weak, the benchmark pricing models of SuperDerivatives can seem intricate to the non-initiated.

Still, Vida is targeting the risk takers and the wealthy. "For the banking sector, the good days are still ahead of us," he states.

THE CAPITAL

Bratislava, the business profile

The city accounts for 26% of national GDP and its citizens are among the wealthiest in the country. Just 64 kilometers (40 miles) from Vienna, Bratislava is now looking to boost trade links with Austria

FOR CENTURIES, Bratislava has bathed in the waters of two rivers: the Danube and the Morava. Part of a medieval trade route, the city has managed to retain a mercantile ethos. It is normal here for people to work 11-hour days. The region also accounts for 26% of Slovakia's GDP. But today, it is at a new confluence of interests that pits historic preservation against urban developers.

Luckily, Bratislava (pop. 425,000) is steeped in a central European tradition of common sense. Its citizens, the wealthiest in Slovakia, are sticklers for accountability. They demand efficient facilities, including river hydrofoils that take them on business to Vienna, 64 kilometers away. A new 30-year master plan will allow the city to expand in a sustainable fashion. Its proximity to regional neighbors offers the possibility of developing 'city break' tourism, a sector the municipal government is actively promoting.

With the adoption of the euro in 2009, Bratislava is also keen on maximizing its trade relations, especially with Austria. Just ask the mayor, Andrej Durkovsky. "I met with Vienna's city mayor recently to ensure that we carry out joint projects and make the most out of each country's competitive advantages," says Durkovsky. Apart from ferry boat links, Durkovsky runs a twin-city journal that promotes joint business conferences.

"We want to restructure the city's economy. We're calling it the 'white city', nothing to do with a racial context, but everything to do with education, science and a knowledge-based economy," says Durkovsky. The formula is to integrate non-polluting industries in the urban grid, while respecting historic landmarks. For Durkovsky, companies with a strong technological base will take to Bratislava's small city feel, as well as ensure its economic future.

Nowhere is the economic transformation of the city more obvious than in Nivy. The main business district has witnessed the mushrooming of sleek office buildings and skyscrapers. Because 75% of the population is employed in banking, IT and tourism, downtown construction is likely to grow.

For Juraj Siroky, a businessman and president of the Slovak Ice Hockey Federation, real estate is the most promising investment niche. "There's an amazing boom in real estate. It started here in Bratislava, but it will expand," says Siroky.

Bratislava is driven by a low baseline in residential and office space. A company like Volkswagen may run several operations domestically but its headquarters will always be in Bratislava. As such, the city sees a promising future in MICE (meetings, incentives, conventions and exhibitions) tourism.

In addition, Bratislava will host the ice hockey world championship In 2011. Siroky is running against the clock to negotiate public-private partnerships that will endow the city with a multifunctional venue, as well as more 5-star hotels. Why Bratislava?

"Because we haven't ever organized it before. They understood that it was very important for the city's economy, as well as for our hockey fans," says Siroky.

TOURISM

Conventional logistics

MICE tourism: mountain resorts offer ideal facilities for conferences, while the capital is also holding its own

"RIGHT NOW, there are two important regions for convention tourism here in Slovakia. One is Bratislava and the other is the High Tatras. We've become the flagship of the industry in Slovakia," says Janka Gantnerovna.

She may be 100% business, but Gantnerova likes the heights of the Tatra Mountains. Nothing matches the views atop Lomnicky Stit (2,634m), accessible by cable car. The General Manager of the Grand Hotel Bellevue, Gantnerova is a tireless promoter of alpine retreats. Together with thermal spas and Baroque castles, everything here is geared for relaxation.

In 2006, almost 300,000 people were drawn to this part of northern Slovakia for peace and quiet. "The High Tatras have always been considered a center of tourism. But it used to be a mainly agricultural region," says Gantnerovna. In the 1990s, winter sports like snowboarding gave the mountains a new cachet. With the winter sports came water parks, wellness resorts – and the convention halls.

The Grand Hotel Bellevue is situated in Stary Smokovec – in the heart of the High Tatra resort's principal town, 1,010 meters above sea level. Rooms, as well as the sun deck on the eighth floor, look out over a scenic view of the Poprad Valley and Low Tatra mountain range.

Begun as a family resort and arising from two hotels – the Hotel Bellevue and the Hotel Sport – the Grand Hotel Bellevue was fully refurbished in 2004. A conference hall was added, with capacity for 600. It attached five multipurpose rooms for special events.

Completely refurbished in 2004, the Grand Hotel Bellevue combines business and spa tourism.

Featuring 141 rooms, a wellness center and sports facilities, the Grand Bellevue serves as a nexus between business conferences and health spas. Meanwhile, the airport of Poprad, 10 minutes away, serves as a conveyor belt for distance travelers.

Bratislava certainly has lures of its own, starting with its proximity to Vienna (64 kilometers) and Budapest (180 kilometers). It may lack the bird's eye view of the High Tatras, but the outlook atop Koliba Hill is no less inspiring. Orange roofs huddle tightly next to the Danube, occasionally interrupted by glimpses of the city's gleaming New Bridge, once a hotly debated architectural scandal.

"We want to cover the city of Bratislava from four angles: a city break destination, a magnet for convention tourism, a destination for real estate investors and a business hub," says Andrej Durkovsky, the city mayor. Quality of life, as characterized by the ultra-civilized 'presso s mliekom' (espresso), is one of Bratislava's selling points.

At the other side of the country, Kosice, with its rich history, also has MICE potential. It was once the second most important city in the Hungarian Empire. Slovakia's first university was founded here in 1628 and St. Elizabeth Cathedral is the easternmost example of Gothic architecture.

Zdenko Trebula, president of the city and autonomous region, thinks Kosice is full of legacies. "There are many castles, caves and historic landmarks. Within our region there are five of Slovakia's accessible cave sites, all of which are UNESCO World Natural Heritage sites," says Trebula.

KOSICE

A technical gift

Regional government seeks to address imbalances between east and west, relying on a long history of excellence in education and technical know-how

THE REGION OF KOSICE, in eastern Slovakia, is finally getting the attention it deserves. For years, its engineering and metallurgical legacy was downplayed as obsolete. Scarcely 60 kilometers from the Hungarian border, foreign investors preferred Bratislava for the proximity of its sub-regional connections. Kosice lost many of its gifted engineers to the Slovak capital, five hours away.

Now, the investment flows could reverse. Led by Zdenko Trebula, the regional president, Kosice is focusing its efforts on attracting FDI. Under a regional program, up to 36% of state funds will go to the regions of Kosice and Presov. A highway headed east is already making the playing field more level. On a color-coded map, Trebula points at areas where household income has been growing. As he slides his finger east of Bratislava, the colors fade.

ZDENKO TREBULA
Regional President

"The motorways and highways are really necessary. If you can't do it through Slovakia, then connect our highway to the Hungarian network," says Trebula. For policymakers in the capital, Kosice needs to invest in high-tech clusters. Pavol Paska has vowed to use EU structural funds for 2007-2013 to empower IT industries in Kosice. But the Speaker of the Slovak National Council first wants to refocus FDI on value-added production.

"IT system development, education and training – these are the areas where we intend to tap into the EU funds," says Paska, who was elected in Kosice. He thinks devolution of decision-making to the regions is the most efficient way to channel funds.

Trebula now holds the key to economic development. So far, he has appointed a team of experts to match investors with local companies. The formula seems to work. Since 2002, the jobless rate in Kosice has dropped from 25% to 12%.

"Kosice has always been rich because of its people. The workforce here is creative and technically skilled. Today we're working on an overhaul of higher education, together with companies and investors," he says, pointing out that the region's technical know-how goes back to the early days of industrialization, when Kosice was an economic hub.

But beyond the flat tax rate and the assembly lines, Trebula thinks Kosice needs to anchor itself in the knowledge-based economy. The region needs more investors like IT-Systems, a subsidiary of Deutsche Telekom. Together with other players in Kosice's IT-Valley, the German company has created 750 new jobs. Innovation in steel, meanwhile, is courtesy of US Steel, another company with a value-added product line.

"We have a broad-based customer group: construction, packaging and tin plates," says David Lohr, the president of US Steel Kosice. Privatized in the 1990s, the company is considered a model investor in eastern Slovakia. US Steel grew out of the giant steelworks built in Communist countries after WWII. Today, its product line is entirely focused on western Europe and Turkey. Will the automotive sector become a major buyer? "We have a specialization and carmakers will clearly be a claim for us," says Lohr.

OTP BANK

European vision and creative product-tailoring extend OTP Bank's sphere of influence

The antecedent of OTP Bank, the National Savings Bank of Hungary, was established as a state-owned entity concerned with retail loans and deposits in 1949, later branching out into the provision of foreign currency accounts and exchange services. This move paved the way, in 1990, for the bank's transformation, into a public limited company and its subsequent change of name: National Savings and Commercial Bank (OTP Bank Ltd.). Three public offerings in 1990 saw the Hungarian state's ownership of the bank whittled down to a single voting preference – a 'golden' share – while the bank's listing on the Budapest Stock Exchange opened the door to the eventual ownership of the bank's stock by private and institutional investors.

Now the largest bank among Hungarian credit institutions, OTP has become a multi-faceted, integrated business entity involved in diverse operations including retail and corporate banking, asset management, investment and pension fund management, mortgaging services, vehicle insurance leasing and rental and travel agency services. In 2006 alone, OTP Bank tended 4.6 million retail customers, 192,000 entrepreneurial customers, 18,000 corporate clients and 2,300 municipal clients in Hungary, where it boasts 25 percent share of the market.

In 2002, OTP made its first foray into international acquisitions in the form of Slovakia's IRB Bank, now OTP Bank Slovakia (OBS). Today, the OTP Group is present in nine European countries, with a client base of over 10 million customers and a network of 1,300 branches. The key to the bank's success in Europe has been its diversity and a keen eye for niche segments. Indeed, it has been this sharp eye for niches that has contributed to its success in Slovakia.

Although OBS was focused from the beginning on developing its retail banking, it was also looking for the type of rapid growth it could only get from corporate business. Consequently, the bank initially focused on large corporations, quickly establishing itself in the market and building up a loan portfolio of $20 billion within three years (although it still managed to increase its retail business by 60 percent between 2002 and 2006). Last year, however, it really struck gold when it began to target smaller companies in a range of sectors, resulting in a 48 percent increase in profits by year's end.

"We were the most creative bank, coming up with new products every quarter," explains Ernö Kelecsényi, OBS CEO and Chairman of the Board of Directors, "Agriculture is a prime example. We were the first bank in Slovakia to manage EU funds for the agriculture sector. We also made special sub-segments within SMEs. One of these was agriculture, but we also moved into the health sector, including private doctors, the church, housing associations and many other organisations that didn't have banking services. We prepared a special and complex product offer for these groups. This is how to sum up how we want to proceed with our development. The principal four or five banks in Slovakia are very strong, but we aim to focus on these segments and to maximize our market share to reach at least 10 percent. This is a possibility as early as this year, especially in the agriculture and health sectors."

ERNO KELECSENYI
General Director of OTP Bank

Enabling OBS's move into SMEs last year was a €10 million loan from the EBRD in 2004 that provided the bank with the catalyst to build a solid portfolio of small and micro loans of either €30,000 or €125,000. According to Mr. Kelecsényi, profitability is traditionally stronger in smaller and micro clients than in larger clients, which explains the bank's astounding 2006 jump in profits.

OBS still hasn't lost its focus on retail, however. Moving forward, Mr. Kelecsényi says OBS plans to use its corporate, including SME, business to expand its retail base. By developing links between its niche markets, such as health, to build connections with individual customers, OBS believes it can survive in Slovakia's heavily concentrated banking market.

"There are big players in the market and it very difficult to compete, so in the long term we want to explore retail business, while continuing to build relations with our larger clients," he comments, saying the bank is seeking to acquire a client base of between 100,000 to 300,000 customers through this niche link. "We have to find synergies to prepare a common product, and then we can sell it."

With this well-defined strategy, Mr. Kelecsényi is confident about the bank's future in Slovakia, despite the pressure from larger competitors. Although there is still room for improvement in the bank's operations, such as maximizing efficiency and minimizing its cost-income ratio, OBS is well supported by the larger and stronger (and nearby) OTP Group.

"There are 1,000 kilometers of border between Hungary and Slovakia," continues Mr Kelecsényi. "There is good dialogue and cooperation between the governing regions of the two countries, and also support from the EU. Together, Slovakia and Hungary are going to lobby for EU funds. We also have strong support from our shareholders, and our knowhow is very strong."

REGIONAL MAKEOVER STRENGTHENS BRAND

New look at the OTP

TO SURVIVE in the cutthroat markets of Central and Eastern Europe, brand recognition is crucial. That is why the general director of Slovakia's OTP Banka, Ernö Kelecsényi, recently announced an image remake across the board.

At a press conference in Bratislava, Kelecsényi justified the new design and communication style in terms of market strategy. At a cost of one million euros, it entails giving branches a uniform look in all nine countries where it operates. The parent company in Hungary, as well as all other affiliates, will undergo the same makeover.

"We calculated these expenditures into the budget for 2007. It will therefore not significantly affect the company's economic performance," Kelecsényi told the media. Profits at OTP Banka in the first nine months of 2006 were up by SKK 169.9 million (4.7 million euros), with net interest income at SKK 778.8 million (21.4 million euros).

In the meantime, Kelecsényi has hinted at the acquisition of another Slovak bank in 2008. The press has speculated that the national postal bank, Postova Banka, could be a viable candidate for privatization.