



## Key findings

- The government projected public-finances deficit for 2009 at 1.7 percent of GDP, the prognosis for economic growth in 2009 stands at 6.5 percent. The forecast seems too optimistic, the GDP-growth is likely to slow down to 5-5.5%.
- In spite of the fact that the Slovak economy has been the most successful in the region, it will surely feel the weakening of demand in Western-Europe. Hungary and the Czech Republic have already cut back their even lower economic growth prognoses, and Prague also announced spending may be lower than planned next year because of the expected global slowdown.
- Slovakia reacted to the financial crisis quite positively: following the European trend prevented the panic by declaring a 100 percent guarantee on deposits, but refused to give state aid to commercial banks.
- Next year, the minimum wage in Slovakia will increase from the current Sk8,100 (€268.9) to Sk8,902 (€295.5). The drastic (10%) minimum wage hike can accelerate the CPI which is the main danger in Slovak economy by now, increased by the current crisis.
- At its regular session on 1st October, the Slovak Cabinet approved a plan to re-open the second pension pillar for seven and a half months just a few months later than it was announced to be closed ultimately. The disputed step can make the business environment in the country more incalculable.
- New civic-liberal party has been formed which targets voters who cannot trust SDKU anymore but do not sympathize with the current government's politics. The Slovak political environment is rather favourable for a new party, thus the former economic minister's action can change the balance of powers in the mid-term.

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### Notation:



*Risk increase*

*(decision or event pointing to increasing political or economic instability)*



*Risk decrease*

*(decision or event pointing to decreasing political or economic instability)*

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# Taxes and factors affecting the budget

## 1.7 deficit in 2009 at any price

### ITEM

The chairmen of the ruling coalition parties have come to an agreement on a final draft of the 2009 state-budget. The government maintains the projected public-finances deficit for 2009 at 1.7 percent of GDP "at any price", PM Robert Fico said. The prognosis for economic growth in 2009 stands at 6.5 percent, and in his opinion, there is no reason to reconsider these data. According to him, Slovakia kept its spending plans unchanged for 2009, the year when the eastern European country adopts the Euro, because the global financial crisis will have little effect on the economy: "Risks aren't so big yet that they would prompt a revision of the budget".

In reaction to SDKU-DS's criticism of the 2009 budget (insufficient support for the middle-class and for Slovakia's preparation for the upcoming period), the Finance Ministry announced that social expenditures will increase by 7.6 percentage points next year, while family support is to go up by as much as 10 percent. The ministry said that the budget covers all existing investment stimuli, but that it also plans to provide an additional Sk1 billion (€33.19 million) to support investments in Slovakia.

(14-16th October, 2008)

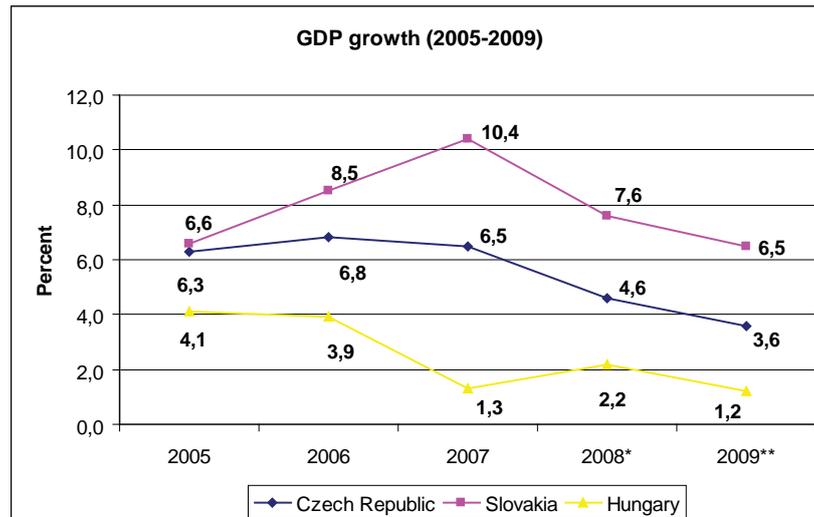
### COMMENT



Most analysts suppose that in present environment, the government's forecast is too optimistic. The economic growth is likely to slow down to 5-5.5%. (Furthermore, several economists predict much lower figures, the most extreme of them is 1.5% by JP Morgan's Miroslav Plojhar.)

The Fico-administration is relying on a limited effect of the global financial crisis on state revenue to allow the government to meet its campaign promises of higher social outlays. In spite of the fact that the Slovak economy has been the most successful in the region, it will surely feel the weakening of demand in Western-Europe.

Hungary and the Czech Republic have already cut back their even lower economic growth prognoses, and Prague also announced spending may be lower than planned next year because of the global slowdown.



Source: Ministry of Finance (Hungary, Czech Republic, Slovakia)  
\*2nd quarter of 2008, \*\*2009 fiscal plan

## Guarantee on private deposits but no aid to commercial banks

### ITEM

Slovakia declared a 100 percent guarantee on private deposits. PM Robert Fico said „we do not expect this (paying the deposits off to Slovak bank depositors - PC) to happen, and we declared a 100 percent guarantee on deposits on the recommendation of EU finance ministers to calm down European financial markets and to protect our interests”.

Unlike some other European Union countries, Slovakia sees no need for state aid to commercial banks as the industry hasn't been damaged by the global financial crisis, Fico said referring to the Oct. 12 agreement by euro-zone leaders on measures to help banks hit by the credit crunch.

If such a need arises, the administration is ready to provide additional capital to banks in exchange for ownership stakes, he said.

(14-15th October, 2008)

### COMMENT



Slovakia reacted to the crisis quite positively: following the European trend prevented the panic by declaring a 100 percent guarantee on deposits, but refused to give state aid to commercial banks.

The crisis appears more softly in Slovakia, so the government can demonstrate the economy's stability and is not forced yet to provide state aid. But in case the crisis drags, it will be inevitable to provide the liquidity of the commercial banks in Slovakia.

However, it is contradictory that the re-opening of the pension system's second pillar (which plan was born months before the crisis) is explained by the impact of the financial crisis (see item below).

## Seventh-lowest tax burden within the 30 OECD countries

### ITEM

Slovakia has the seventh-lowest tax burden within the 30 OECD countries. The country's tax burden remained at an unchanged 29.8 percent in 2007, which is almost six percent less than the OECD average. The latest OECD Revenue Statistics 1965-2007 report shows Denmark as having the highest tax load (48.9 percent). In contrast, Mexico had the lowest tax burden (20.5 percent).

In 2007, the tax burden rose in 11 OECD countries, while 13 member countries reported a drop. Hungary reported the highest year-on-year growth, of 2.2 percentage points, while the Netherlands recorded the biggest fall, of 1.3 points, to 38 percent.

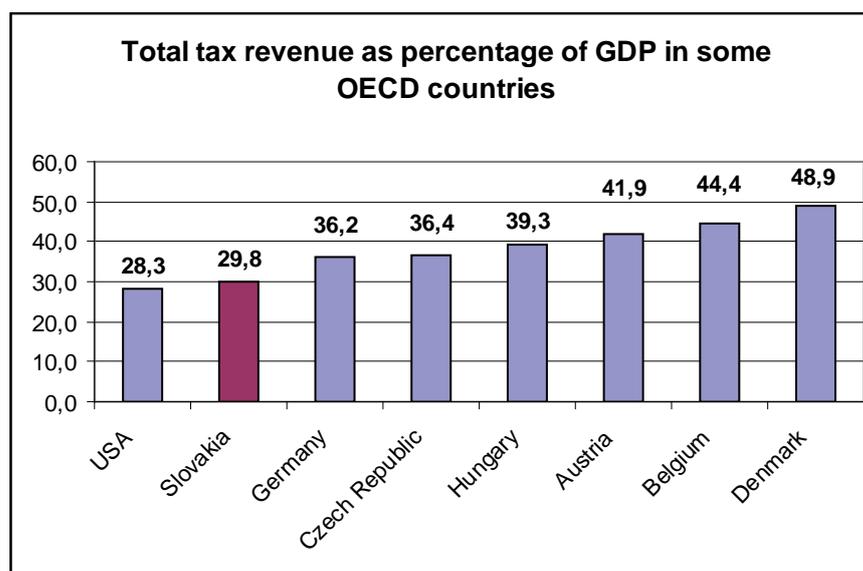
(15th October, 2008)

### COMMENT



The newest report shows Slovakia's greatest competitive advantage in the region, the low tax load. In European OECD countries only Turkey (23.7) and Switzerland (29.7) have a lower tax level, moreover the CEE countries have relevantly higher degree (the organization did not publish the data in Poland, but last year the country had a 33.5 percent level).

The favourable tax level which remained unchanged in 2007 indicates that despite the Fico-government's anti-capitalist rhetoric the administration is aware of its defencelessness to the market, so tax level is likely to be kept low, which makes the country still attractive for foreign investors.



Source: OECD Revenue Statistics 1965-2007 report

## Government decided on 10 percent minimum wage hike

### ITEM

From the beginning of next year, the minimum wage in Slovakia will increase from the current Sk8,100 (€268.9) to Sk8,902 (€295.5). The lowest hourly wage should thus grow from the current Sk46.60 (€1.547) to Sk51.15 (€1.698).

According to the ministry, the proposed sum is a compromise between proposals from employers' representatives and the original ministry proposal. During tripartite talks, the Slovak Trade Unions Confederation proposed that the minimum wage be raised to €300 (Sk9,040), while employers proposed a minimum wage equalling Sk8,690 (€288.5), while the Labour Ministry originally wanted the minimum wage to be raised to Sk9,000 (€298.80).

(15th October, 2008)

### COMMENT



Slovakia's CPI rose to a two-year high of 4.5% year-on-year in September on the back of steadily rising utility prices despite an easing in the cost of food products. The drastic (10%) minimum wage hike can accelerate the CPI which is the main danger in Slovak economy by now. Furthermore, in 2009 after adopting the Euro – which probably will have a price-lifting effect itself – this act can more forcefully rise this risk of price increase, moreover it can worsen the already high unemployment rate. The rising inflation is not expected to change the political agenda nor to destabilize the government.

## Pension

### The second pillar of Slovakia's pension system is to be re-opened again

#### ITEM

At its regular session on 1st October, the Slovak Cabinet approved a plan to re-open the second pillar for seven and a half months. People will be given the opportunity to join or to quit the second pension pillar, which is administered by private pension fund management companies, and return to the first pillar, the 'pay-as-you-go' scheme run by the social security provider Sociálna poisťovňa, from November 15, 2008 until June 30, 2009.

Parliament will deal with the draft amendment to the law on old-age pension saving to allow for the opening of the second pillar through a shortened legislative proceeding.

The private second pension-savings pillar was abandoned by over 103,500 savers when it was opened between January-July 2008. Conversely, around 21,000 people joined the pillar in the same period, meaning that there are still approximately 1.5 million savers in it at the moment.

(6th October, 2008)

#### COMMENT



Although the PM explains the re-opening with the lack of immunity against the impact of the worldwide financial crisis, it is clear that the real reason is that the sustainability of the current pension system got in danger. In June only HZDS preferred keeping the pillar open for an additional six months, but in September (even before the crisis seriously affected the CEE-region) the leading governing party seemed up for the re-opening.

The Fico-administration expects an inflow to Sociálna poisťovňa's budget based on the assumption that between 30,000 and 150,000 policyholders will quit the second pension pillar by June 2009, while only 5,000 to 20,000 people may use the option to join the second pillar.

Statements of the Association of Pension Fund Management Companies ("repeated opening and closing of the second pillar is neither systematic nor effective"; "in this case we would rather choose the lesser evil") indicate that the business environment in the country is getting more incalculable, and by lurking people back to the state-owned system the government can also endanger the future of the public pension funds.

## State administration

### Former economy minister establishes new party

#### ITEM

Róbert Nemcsics, a former member of the Alliance of the New Citizen (ANO), is setting up a new civic-liberal party with the working name Liga (League). The former economy minister in the Mikuláš Dzurinda government, Nemcsics announced that prospective party members had officially started a campaign to collect the signatures needed to establish a political party.

According to unconfirmed reports, they already have half the 10,000 signatures needed to register a party in Slovakia. Nemcsics hopes to register the party within six weeks.

The ambition of the new party is to connect orthodox and leftist liberals, as well as civic activists. Publicist Eduard Chmelár and activist Oľga Pietruchová are members of the preparatory committee. A former defence minister and ex-member of the Slovak Democratic and Catholic Union (SDKÚ), Juraj Liška, is also active in the new grouping.

(6th October, 2008)

#### COMMENT



Since the Slovak party system is more fragmented than, for instance, the Hungarian, and several factors in Slovak political environment are rather favourable for a new party (electoral system; the Smer-precedent which proves that a new party soon can become the most dominant political force), it is not hopeless to enter the political arena. In Slovakia after every election the parliamentary balance of forces changed radically and the 5-percent threshold does not seem to be high for new or re-entering groupings (the table below shows that as a result of all last three elections new parties appeared in the parliament).

The defeat of the Dzurinda-government indicated that a critical part of right-wing and liberal voters turned aside from politics (see 2006 turnout which is 15% under the 2002 data). The new party probably aims at people who cannot trust SDKU anymore but do not sympathize with the current government's politics either.

Mr Nemcsics's new party also counts on young voters, furthermore, one of the party's first proposals is to change the election law in order to extend the right to vote to 16- and 17-year olds.

Year of election	1998		2002		2006	
<b>All voters</b>	4 023 191		4 157 802		4 212 802	
<b>Voters participated, turnout</b>	<b>3 385 536</b>	<b>84,15%</b>	<b>2 909 998</b>	<b>69,99%</b>	<b>2 303 139</b>	<b>54,67%</b>
Party	Votes	Seats	Votes	Seats	Votes	Seats
<b>Direction – Social Democracy (Smer)</b>			13,46%	25 (16,67%)	<b>29,14%</b>	<b>50 (33,33%)</b>
<b>Slovak Democratic and Christian Union – Democratic Party (SDKU)</b>			<b>15,09%</b>	<b>28 (18,67%)</b>	18,35%	31 (20,67%)
<b>Slovak National Party (SNS)</b>	<b>9,07%</b>	<b>14 (9,33%)</b>	3,29%	0 (0)	<b>11,73%</b>	<b>20 (13,33%)</b>
<b>Party of the Hungarian Coalition (MKP)</b>	<b>9,13%</b>	<b>15 (10%)</b>	<b>11,17%</b>	<b>20 (13,33%)</b>	11,68%	20 (13,33%)
<b>People's Party – Movement for a Democratic Slovakia (HZDS)</b>	27,00%	43 (28,67%)	19,50%	36 (24%)	<b>8,79%</b>	<b>15 (10%)</b>
<b>Christian Democratic Movement (KDH)</b>			<b>8,25%</b>	<b>15 (10%)</b>	8,31%	14 (9,33%)
<b>Alliance of the New Citizen (ANO)</b>			<b>8,01%</b>	<b>15 (10%)</b>		
<b>Communist Party of Slovakia (KSS)</b>			6,33%	11 (7,33%)		
<b>Slovak Democratic Coalition (SDK)</b>	<b>26,30%</b>	<b>42 (28%)</b>				
<b>Party of the Democratic Left (SDL)</b>	<b>14,66%</b>	<b>23 (15,33%)</b>				
<b>Party of Civic Understanding (SOP)</b>	<b>8,02%</b>	<b>13 (8,67%)</b>				
<b>Other</b>	5,82%	0	14,90%	0	12,00%	0

Source: Statistical Office of the Slovak Republic, Political Capital's compilation

## Reforms in the political context

### Presidential elections: invisible campaign

#### ITEM

Incumbent president Ivan Gašparovič is leading the polls with a comfortable lead that could even help him to win a first-round second term. The Our President movement has already collected the sufficient number of signatures for him, but continues the work. Ivan Gašparovič is supported by the very popular Smer-SD (Robert Fico's party), as well as its coalition partners, the SNS and the HZDS.

The opposition's task is much more difficult, not only because the Smer and Ivan Gašparovič is so popular. There are ideological fractions in the opposition, and these evidently constitute barriers to an effective campaign. For example, the Christian democrat party, the KDH had to debate whether they would keep up their support towards Iveta Radičová even if she had voted in favour of abortion few days earlier (the party decided to stay behind the candidate). Another party leader, Mikuláš Dzurinda said that the SDKÚ party would support by all means Iveta Radičová, who also has the sufficient number of signatures. She plans to begin preparations for the campaign the 17th November.

(continuous event of October, 2008)

#### COMMENT



As of now, the incumbent president has all his chances to win a second term, because of his popularity and the general weakness of the opposition vis-à-vis government parties.

It will be a hard task for the opposition to beat Ivan Gašparovič, because he has all the advantages needed.

The fact that the Our President movement continues to collect signatures (well beyond the required number) shows that Ivan Gašparovič not only thinks about election, but thinks about campaign also. By collecting more signatures than necessary the campaign machine is sure to collect important supporters. Most of the campaigns nowadays do collect (legally and illegally) names and addresses at the same time.

	Party affiliation / organization(s) behind	Support in September 2008	Support in July 2008 (pro memoria)
<b>Ivan Gašparovič</b>	Smer-SD, HZD, SNS	<b>54,3 %</b>	47,9 %
<b>Iveta Radičová</b>	SDKÚ-DS, KDH, OKS	<b>30,2 %</b>	35,4 %
<b>František Mikloško</b>	KDS	<b>4,7 %</b>	-
<b>Zuzana Martináková</b>	SF	<b>4,1 %</b>	-
<b>Sergej Kozlík (not an official candidate)</b>	HZDS	<b>2,9 %</b>	-

Source: MVK

## Foreign affairs

### Visa deal with the US expected

#### ITEM

It seems that Slovakia, just as other CEE countries, is about to enter this year the US Visa Waiver Program (VWP). CEE countries would be admitted in the programme in two steps, and the first one is expected in the middle of November 2008. Citizens of countries which are not obligated to acquire a visa are in turn bound to use the electronic pre-registration system called Electronic System for Travel Authorization (ESTA).

The President of Slovakia, Ivan Gašparovič paid a five-day-long visit to Washington and on the 9th October he was hosted by US President George W. Bush at the White House.

At the official press conference the two politicians talked about general matters, praised each other's good will and respective role in the NATO, but President Bush was rather direct in the matter of visa waiver by saying: "Finally, we talked about visa waiver. I told the President that Slovakia has made a lot of progress on visa waiver. And I expect that in mid-November there will be a – you know, a positive decision for the people of your good country, Mr. President". The visa deal is not the sole responsibility of the President and the State Department: the decision is now up to the Congress.

(8th-12th October, 2008)

#### COMMENT



The European Union insisted for a long time that there should be no discrimination between old and new EU members in visa domain, they should equally be preferred and / or they should face the same restrictions; otherwise the EU as a whole would require visas from US diplomats. It meant clearly that the EU expects the US to enter the new member states in the VWP.

However, the expansion of the VWP was not an international relations' problem, but an internal policy debate in the US.

At this moment, a softening US policy does not seem to worsen internal credibility of the strict security policy of the federal government. This is for two reasons. Firstly, the ESTA is an information system that provides almost as much information as the visa-system, secondly, because CEE countries are about to fulfil all requirements needed to enter the system by their own also, without the pressure of the European Commission.

For internal reasons the Congress has so far been a continuous obstacle, by raising questions and concerns of security. Now the vote is scheduled right after the November elections, so that the outgoing Congress (serving until the 3rd January 2009) can pass it without direct electoral pressure. It increases the possibility of an eventual Slovakian entry to the VWP.

Current Visa Waiver Program member countries		
Andorra	Iceland	Norway
Australia	Ireland	Portugal
Austria	Italy	San Marino
Belgium	Japan	Singapore
Brunei	Liechtenstein	Slovenia
Denmark	Luxembourg	Spain
Finland	Monaco	Sweden
France	The Netherlands	Switzerland
Germany	New Zealand	United Kingdom

Source: US State Department

## Worsening relations: Hungary is to inspect 1990s basic deal

### ITEM

Bilateral relations are getting worse between Hungary and Slovakia. On 2nd October, Hungarian Foreign Minister Kinga Göncz personally sent for the Slovak ambassador, and this fact, being rather extraordinary, "shocked" the Slovakian party. Ms. Göncz gave one week to Slovakia to explain several things: why the so-called minority status quo was hurt, and why Hungarian schools do not receive amounts from EU funds. Besides, the minister mentioned ongoing subjects of debate (educational rights of Hungarians, Ján Slotá's views). Ms. Göncz also said that she was surprised by the ongoing attacks against the Forum of Hungarian MPs of the Carpathian-basin (KMKF).

Slovakian PM Robert Fico reacted afterwards and rejected all ultimatums on the Hungarian part. The Hungarian ambassador's deputy was also sent for by the Slovakian Foreign Ministry. Bratislava later said that it had no intention to officially respond to the Hungarian questions. However, a source said that the Slovakian party sent a letter presenting its standpoint to the diplomatic representations of EU- and NATO-members and Switzerland.

On the occasion of the EU-summit of 15th and 16th October, Foreign Minister Ján Kubiš met his counterpart. Bratislava signalled that it had the intention to response to some question by diplomatic letters that Budapest has already asked for. Budapest said that Hungary invited Mr. Kubiš to bilateral talks in order to see through the realisation of the so called Slovakian-Hungarian basic treaty. These talks are scheduled for December 2008.

(Continuous events of October, 2008)

## COMMENT



The views of the two countries are antagonistic regarding the minority rights. At this point both countries accuse each other with not fulfilling their respective obligations. Hungary expects a wide range of autonomous, mainly cultural rights to Hungarian minorities. In turn, Slovakia considers itself as an undividable state and considers all sorts of Hungarian expectations as interference in its internal affairs. On the other hand, Slovakia is also aware of the situation of its crossborder minorities, as it has been in the case of the Slovakian minority of Pilisszentkereszt (Mlynky), where the Slovakian party criticized the Hungarian policy manner.

In both countries, the minority question has an internal magnitude.

In Hungary, for nearly two decades, the question of the crossborder Hungarians was a political fracture where the political right positioned itself as the protector of minority Hungarians and Hungarian interests, and the political left as the conflict-regulator, negotiator force. It seems that the left-wing Gyurcsány-government has split up with the left-wing tradition and occupies a tougher position. In this situation, the government has to react to Slota's comments, and it would be difficult for Fico to distance himself from his coalition partner and go against anti-Hungarian sentiments. All this results in a vicious circle that can make the bilateral relations even worse. At this phase, all Hungarian parties support the Foreign Minister and her policy.

Slovakian politicians tend to attack the opposition party (Fidesz) rather than the incumbent governing one (MSZP).

On the other hand, the Slovakian government uses the minority question for internal electoral purposes. Studies show that secondary and tertiary party preferences of government supporting electors vary between the three governing parties, therefore economic populism and nationalist discourses are indeed the "good" mixture of policy that government supporting electors need.

## Debate on national identity and minority rights

## ITEM

Educational and cultural debates have risen between ethnic Hungarians (including their party, the Party of the Hungarian Coalition - SMK) and Slovakian government parties (especially the Slota party, the SNS). The debate was the main reason for the deterioration of the Slovakian – Hungarian bilateral relations.

The launch of the debate was a meeting between the president of the SMK Pál Csáky and Romanian-Hungarian EP member László Tőkés where they allegedly talked about "autonomy". Slovakian politicians accused the SMK of wanting a "Great Hungary" (i.e. of wanting to take territories from Slovakia) and of the intention of creating a Kosovo-type territorial autonomy in Slovakia. Slovakian politicians criticised Hungary also because of the Forum of Hungarian MPs of the Carpathian-basin (KMKF), which is regularly attended also by Hungarian politicians from Slovakia.

The debate has mainly become an education-policy debate. Recently the Education Ministry preferred that the names of localities be written in Slovakian in the Hungarian textbooks, which is considered by Budapest as an attack to the minority status quo. On 15th October Foreign Minister Ján Kubiš noted that PM Dušan Čaplovič said that the Hungarian version would appear. However, Hungarians are not content as the Hungarian form would appear second.

(continuous event of October, 2008)

## COMMENT



Autonomy is a word that raise harsh conflicts in the whole Central-Eastern Europe Region because of the ethnic minorities. The word itself has several different meanings. When Hungarian politicians talk about cultural and educational autonomy, a part of Slovaks tend to understand territorial claims. Because of this misunderstanding, the debate over this term can deepen Hungarian-Slovakian conflicts.

Regarding the fact that a political group with participation of László Tőkés asked the European Commission to monitor the Slovakian minority policy, it is all but certain that the subject will remain on the political agenda of Slovakia in the weeks to come.

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