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Deloitte Weekly Newsletter

Deloitte in Slovakia

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Slovakia improves in competitiveness

- The country moved by six places to 40th in the competitiveness ranking, mostly thanks to solid economic development.
- Slovakia's competitiveness improved considerably compared with 60 other countries across the globe. It moved to 40th place, up by six places from last year, according to the IMD World Competitiveness Yearbook 2016 published by the Switzerland-based IMD World Competitiveness Center.
- The improved position may be ascribed to better macroeconomic development than the specific reforms of the government, said analysts with the F. A. Hayek Foundation, the partner organisation of IMD World Competitiveness Center in Slovakia, as reported by the SITA newswire.
- In the overall ranking, up to two-thirds depend on the hard statistical data about the whole economy. One-third of the final ranking is composed of the survey among local businesses.
- "The main improvement is in hard data, i.e. statistics, where Slovakia really improved compared to last year," said Martin Reguli, analyst with the F. A. Hayek Foundation, as quoted by SITA.
- In economic performance, Slovakia improved by 10 places, added Martin Lindák of F. A. Hayek Foundation. Regarding the government's efficiency, Slovakia still has some deficiencies. Though the country has markedly 

improved, it still lags behind its maximum from 2007 when it placed 30th, Reguli added.

- Slovakia has potential to grow, mostly by improving its business environment. Also the world competitiveness report's results prove that the biggest challenges for the country's growth are high taxes and payroll taxes, big regional differences, social problems, increasing dissatisfaction with the health sector and education, as well as lingering corruption and cronyism. These all are the areas where legislative changes are required, as reported by SITA.
- The country also lags behind its neighbours. The Czech Republic placed 27th, which is the best position among the Visegrad Group (V4) countries, while Poland placed 33rd. Hungary placed 46th, the worst of V4.

10.4 percent this year and 9.6 percent in 2017.

- The inflation should stay negative this year, with OECD predictions counting with a drop in consumer prices by 0.3 percent this year, yet prices are expected to rise in 2017, by 0.9 percent.
- The financial consolidation should continue as the new government wants to achieve a surplus budget in 2019. OECD predicts that the public finance deficit will drop from 2015's 3 percent to 2.3 percent of GDP this year and to 1.6 percent in 2017. The public debt should rise from 52.9 percent of GDP last year to 53.3 percent this year, and then fall back to 53 percent in 2017, TASR reported.

OECD expects Slovak economy to slow down

- Yet it should remain above 3 percent.
- After last year's acceleration, the tempo of Slovakia's economic growth will slow down in 2016. The Organisation for Economic Cooperation and Development (OECD) predicts in its spring prognoses that the GDP will rise by 3.1 percent this year and 3.2 percent in 2017, down from 3.6 percent in 2015.
- The reason for slower growth is the weakening of stimulus provided by extended use of EU money from the previous programming period, the TASR newswire reported.
- The rate of GDP growth will, however, remain above 3 percent, mostly thanks to high domestic demand. The increase in household consumption should accelerate thanks to an improving situation in the labour market, while the drop in public investments should be partly compensated by new foreign direct investments in the automotive sector, TASR wrote.
- OECD expects private consumption to increase from last year's 2.4 percent to 3.3 percent in 2016 and 3.2 percent in 2017. The government spending should drop from 3.4 percent last year to this year's 2.5 percent and further down to 0.8 percent in 2017.
- The unemployment rate should continue declining. OECD forecasts it will fall from 11.5 percent in 2015 to

Carrefour may end up in hands of former partner of Penta

- Hefty fines may be one of the reasons behind the current problems of the retail chain.
- The retail chain Carrefour that has just undergone a restructuralisation process, may change hands when Jozef Špirko, a former partner of the investment group Penta may become its new owner, the Sme daily wrote citing information published by the refazce.sk website. Špirko did not deny the information.
- "I will nothing confirm nor deny the meeting of creditors," Špirko responded to a Sme's enquiry. "Call me on Tuesday."
- If Špirko enters the retail chain it will not be a novelty in his business as in Penta he managed activities in the meat industry for a certain period of time, which allegedly was also the reason for his separation and establishment of his own business. The refazce.sk website wrote that Špirko has been buying Slovak companies and has been investing into primary food producers.
- During the time being the Carrefour retail chain is operated by Retail Value Stores and it is undergoing a difficult period. Retail Value Stores has asked for restructuring and writing off of a portion of Carrefour's debts, a process that started in early February. The first session of creditors will take place on June 6.

It is estimated that Carrefour owes food producers and suppliers more than €930,000 excluding interest payments and fees related to late payments.

- One of the creditors of Carrefour is also the state as the Agriculture Ministry has imposed on it a total fine of €2.29 million for inappropriate conditions in business relations.

Slovaks abroad help their relatives

- One-third of people in Slovakia receive financial assistance from their relatives, mostly from the Czech Republic.
- Their family members prevailingly send them financial resources. These come mostly from the Czech Republic, the USA, Scandinavia or Benelux countries, according to a poll of the Money Service SK company which operates services for making payments in Slovakia.
- Estimates place thousands of Slovaks as working and living abroad, while there are no reliable statistic data. Many people left the country to pursue a career abroad and to earn more money, the TASR newswire wrote in April. The survey showed that financial aid of relatives who work abroad has been admitted by 34.8 percent of those polled.
- The regions which most of all receive help from abroad are mainly in the east of Slovakia: Prešov and Košice. They are followed by Žilina Region. The citizens living in the Bratislava and Trnava regions are the least dependent on help from abroad.

Slovak presidency symbolically begins in Brussels

- Slovak PM meets with several EU representatives during his early June visit to Brussels.
- Prime Minister Robert Fico said he has certain ideas regarding the priorities of Slovakia's presidency over

the Council of the European Union which should be accepted on June 30, following the referendum in the United Kingdom on June 23, and the EU summit on June 23 and 24.

- "We are ready to be flexible when it comes to our presidency's programme," Fico said during his June 1 visit to Brussels, as quoted by the TASR newswire.
- Slovakia wants to focus on four areas: an economically stronger Europe, strengthening the digital single market, sustainable migration and asylum policy, and the global involvement of Europe in various projects and processes where Europe should be more active.
- Slovakia is ready to deal with these issues, Fico added.
- The whole presidency will be dominated by the result of the UK referendum and the results of the EU summit, he continued.
- The PM stressed that the presidency was an important factor when forming the new government after the March 5 parliamentary elections. The aim was to create a cabinet composed of standard political viewpoints, he stated.
- Fico believes that his government will handle all the challenges that are awaiting the country's presidency.
- "We want to stress that we are fully aware of the task of the presiding country," Fico said, as quoted by TASR, adding that Slovakia wants to be a so-called honest broker which means that the country wants to make compromises in every possible area. "This however does not mean we want to change our national attitudes. We will not place these national attitudes on the table in the first place."
- Meeting with Juncker and Tusk
- After meeting with EC President Jean-Claude Juncker, Fico admitted that there are topics on which the member states disagree, as well as those on which certain agreement may be achieved. On the other hand, most of the EC proposals are acceptable, he added.
- He mentioned as an example the "Back to Schengen" plan which should be in place this November, as well as the implementation of the political decision to establish the European coastal and border guards.

- Fico would like to term the difficult European agenda in more human and understandable language, in order to explain the decisions the country makes to Slovaks.
- “The agenda is especially important and necessary for the people,” Fico said, as quoted by TASR.
- Juncker perceived the meeting positively. He asked Fico to be pro-European leader, TASR reported.
- Fico also met with European Council President Donald Tusk, with Tusk inviting the Slovak PM to the building of the European Council. He said that the expectations for Slovakia’s Presidency of the Council of the EU are rather high, as it comes at a decisive moment for Europe.
- There is no need to stipulate every individual challenge that Slovakia will face, Tusk said.
- Slovakia would like to be a country that helps to find compromises with respect to key decisions at the EU level, Fico said. He also reiterated that the presidency is a great opportunity for Slovakia.
- “We’re in an optimistic and constructive mood, and as we have excellent partners such as the European Council president and the European Commission president at our disposal I believe we’ll manage it without any complications,” Fico said, as quoted by TASR.
- estimate of GDP,” he added.
- Germany and France contrast
- The exception was Germany where the surveys of manufacturers showed rising demand within the country – rather than exports – lifted production to a four-month high.
- German companies also raised hiring for the second month running.
- “New business also continued to rise despite subdued demand from international markets hindering a stronger expansion,” said Markit economist Oliver Kolodseike.
- France,” the region’s second biggest economy”:<http://www.euronews.com/2016/03/15/french-gdp-not-seen-as-enough-for-jobs-growth/>, saw manufacturing activity contract for the third straight month in May, although not as sharply as in April.
- Another round of price cuts failed to prop up sales.
- New orders and export orders declined for the fifth consecutive month, while staffing levels fell for the third month in a row.
- Slovak PM meets with several EU representatives during his early June visit to Brussels.

Eurozone manufacturing still lacklustre

- Eurozone factory activity remained pretty much stagnant in May despite manufacturers cutting their prices again according to analysis of the latest surveys of businesses.
- “Manufacturing in the euro area remained stuck in a state of near-stagnation in May, failing to break out of the slow growth phase that has plagued producers since February,” said Chris Williamson, chief economist at survey compiler Markit.
- “The disappointing performance of manufacturing adds to suspicions that the pace of eurozone economic growth in the second quarter has cooled after a surprisingly brisk start to the year based on the latest

Spanish unemployment falls below 4 million as tourist influx boosts hiring

- Slovak PM meets with several EU representatives during his early June visit to Brussels. Spain just saw its biggest fall in unemployment ever recorded in the month of May.
- The number of Spaniards registered as being out of work fell last month by three percent from April as nearly 120,000 fewer people signed on as jobless.
- The total has dipped below four million for the first time in six years at 3.89 million, according to the Labour Ministry.

- The main reason is that with a record number of tourists due to arrive in the country this holiday season resorts are hiring a lot of staff.
- More than one in three jobs created was in hotels and restaurants.
- However Spain's jobless total is still above 20 percent of the workforce, with only Greece having worse numbers in the eurozone.
- Boost for Rajoy?
- The latest statistics are a potential boost for acting Prime Minister Mariano Rajoy in an election re-run in three weeks.
- The vote on June 26 follows an inconclusive December election that stripped Rajoy's centre-right People's Party (PP) of its absolute majority.
- Opinions polls show there could be another political stalemate, forcing parties to once again try to form a coalition.
- Spain's dysfunctional labour market played a major role in December's political upset, as the vote was fragmented by support for upstart parties advocating stronger workers' rights or an overhaul of job contracts.
- The only issue'
- Surveys of voters show the PP will still come in first place but again well below a parliamentary majority.
- Around a quarter of voters made up their minds in the very last days of December's campaign, meaning the undecided could still be swayed at the last minute.
- "If the campaign is important, then these (job) numbers are important, especially for the PP as it's the only issue they can campaign on," said Teneo Intelligence analyst Antonio Barroso.
- The anti-austerity party Podemos – which translates as 'We Can' – has now teamed up with a smaller left-wing force.
- They are expected to place second or third thanks to strong backing from millions of Spaniards who have yet to benefit from the gradual economic recovery.

ECB says growth prospect slightly better, but still many risks

- Slovak PM meets with several EU representatives during his early June visit to Brussels. ECB President Mario Draghi said the prospects for eurozone economic growth are looking slightly better this year and it's the same story for inflation, but there are still many risks.
- After a meeting of the Bank's governing council in Vienna, Draghi said: "The latest data point to ongoing growth in the second quarter, though possibly at a lower rate than in the first quarter. Looking ahead, we expect the economic recovery to proceed at a moderate but steady pace."
- The Bank upgraded its 2016 eurozone growth forecast to 1.6 percent this year from the 1.4 percent it predicted in March, maintaining its forecast of 1.7 percent next year and trimming it for 2018 to 1.7 percent from an earlier 1.8 percent forecast.
- It also raised its 2016 inflation forecast to 0.2 percent from 0.1 percent, citing factors including the base effect of a recent rise in oil prices.
- There was no change in the cost of borrowing from the ECB's policymakers at their latest monthly meeting and they plan to press on with unprecedented stimulus measures – that is buying companies' bonds in the fight against deflation. That operation will start on 8 June.
- Draghi once again urged eurozone governments to speed up reforms. "Economic recovery in the euro area continues to be dampened by subdued growth prospects in emerging markets, the necessary balance sheet adjustments ... and a sluggish pace of implementation of structural reforms," he told reporters.
- Athens disappointed
- The ECB disappointed Athens by saying it will not yet allow Greek banks to borrow from it at cheap interest rates.
- That is because the Greek government bonds the banks are offering as collateral for those loans are still considered to be "junk" rather than investment grade.

- Draghi said the waiver for Greek banks to borrow will only come when there is more progress between the Greek government and its lenders over the bailout aid it is getting.
- “The Eurogroup has asked the institutions to verify the implementation of prior actions under the supplementary MoU. And this is an ongoing discussion with the Greek government. Once the prior actions will be implemented, the governing council will take a decision leading to the reinstatement of the waiver.”
- Currently Greek banks are borrowing under the ECB’s Emergency Liquidity Assistance programme at a higher rate of interest.
- “Possibly at the next meeting of the ECB we could see a lifting of the waiver,” Greek Prime Minister Alexis Tsipras told his cabinet in comments broadcast live on state TV.
- Greek shares extend earlier losses with the banking stock index down 3.1 percent. The two-year Greek government bond yield rose.
- Among the risks to eurozone growth that Draghi listed was Britain leaving the European Union following this month’s referendum.
- Asked about that Draghi said the ECB was ready for such an eventuality but believed it was economically preferable for Britain to remain in the EU.
- He was preparing to attend a crisis meeting with members of his cabinet on Monday.
- Officials have said they do not expect water levels to return to normal for at least a week.
- Some French regions remain on orange alert, one notch down from the highest level.
- The River Seine in Paris has stabilised. Officials said the waters were slowly receding after reaching a 34-year high of just over six metres above their normal level.
- Attractions that had to close are beginning to reopen. The Grand Palais is welcoming back tourists.
- The Louvre was planning to open its doors on Wednesday. Museum workers moved valuable statues and artworks from storage in the basement in dozens of boxes marked fragile before the weekend.

French flood damage could cost insurers up to two billion euros

- The cost of France’s worst flooding in decades could reach an estimated two billion euros.
- French insurance companies are expecting to have to pay out many hundreds of millions of euros.
- Industry representatives were meeting with government ministers earlier on Monday (June 6) to discuss the damage.
- French Prime Minister Manuel Valls has announced an emergency fund for victims.

Swiss advocates of basic income for all claim moral victory, despite crushing defeat

- Swiss voters may have overwhelmingly rejected the proposal to introduce a guaranteed basic income for all, but for some that doesn’t necessarily mean the debate is over.
- Basel café owner Daniel Häni launched the initiative under Switzerland’s system of direct democracy. While 76.9 percent of people voted against his idea, he is still claiming a moral victory.
- “More than 20 percent means that one in five people who had the right to vote see this as (a step in) the right direction. The trend is set and the idea is launched,” he said after the results had been announced.
- The proposal was to offer a basic monthly income of 2,500 Swiss francs (around 2,200 euros) per adult and 625 francs (some 563 euros) for under 18s, regardless of how much they work. This, supporters claimed, would encourage human dignity and public service.
- But the government argued it would cost too much and be detrimental to the economy.

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