



## Slovakia – Field Market Survey

*(Continued from previous issue)*

### Foreign Policy Orientation of the Slovak Republic

After the peaceful split of the Czech and Slovak Federal Republic, Slovakia took over all international agreements and obligations including the main direction of the foreign policy - orientation towards membership of the European Union and NATO. Both these strategic aims were confirmed by all governments until now in their programme declarations. The independent Slovak Republic was shortly after its origin diplomatically recognised by almost all countries in the world. In 1993, Slovakia became 180th member of the UNO, member of the European Council and in October the Association agreement on Slovakia's joining the European Community was signed. In 1995 the SR officially applied to join the EU, resulting in the accession from 01.05.2004.

High support among the Slovak population for EU integration was confirmed by the referendum on the Slovak Republic joining the EU in May 2003. 92.46 per cent voters who participated in referendum voted YES and just 6.2 per cent were against it. 52.15 per cent of the total number of legitimate voters took part in the referendum.

The Slovak Republic continues to participate actively in NATO operations. Its participation in missions in the Balkans, provision of a unit of radiation, chemical and biological protection to multinational forces operating within the framework of the Iraqi Freedom operation to Kuwait (during war operations) and an engineering unit to Iraq (within stabilisation forces) as well as the participation and operation of a Slovak unit in the operation Permanent Freedom in Afghanistan were very positively viewed and accepted.

At the same time the Slovak Republic is also one of the most significant contributors to the peace operations of UNO. Military units of the Slovak Republic (approx. 600 soldiers) continued in conducting demanding tasks in seven UNO missions in Europe, Africa, Asia and the Near East.

The third foreign policy priority was already achieved by Slovakia in 2002, when it joined the Organisation for Economic Cooperation and Development (OECD).

An important item in the regional foreign policy of the SR is its membership in the Visegrad group of four countries (Hungary, Poland, Czech Republic, and the Slovak Republic) whose activities were substantially increased also due to the initiative of the SR in 1999. Not only the EU, but also Russia and other countries have been interested in cooperation with the Visegrad

Group (V4). In the last few years the Visegrad Four continued to prove the substantiation of its existence also after its member countries join the European Union.

### Business Environment

Within the framework of the admission process of the Slovak Republic into the European Union, on 01 May, 2004, Slovakia has undertaken a full implementation of *acquis communautaire* in the field of trade companies legislation into the national system of law. This obligation was realised continually through the amendments of basic legal regulations dealing with this area including the Commercial Code, Trade Law, Civil Court rule as well as by-passing a new Act on Commercial Register. Changes were most of all related to the protection of third parties, observation of proceedings at separations and mergers of trade companies, unification of conditions of registration of trade companies and final adjustments of the Commercial Register and compiled statutes from the processional, technical and personnel point of view as well as accessibility and disclosure of documents on companies registered in the Commercial Register. The establishment of single and fully operational information network will enable inclusion in the Commercial Register in the project of the European Commercial Register.

Doing business is defined in the Slovak legal system as a systematic activity performed independently by an entrepreneur in his own name and on own responsibility with the goal of making a profit.

### Doing Business of Foreign Persons

Foreign persons are allowed to do business on the territory of the Slovak Republic under the same conditions and to the same extent as Slovak persons unless it is stated otherwise in the Commercial Code. A foreign person can be a natural person with a place of residence or a legal person with an address outside the territory of the Slovak Republic. A Slovak legal person is a legal entity with an address on the territory of the Slovak Republic. Foreign persons with a right to do business abroad are considered entrepreneurs also in accordance with the Slovak legal system.

The Slovak legal system guarantees the observance of international treaties by which the Slovak Republic is bound. There exist four forms of doing business for foreign persons in the Slovak Republic.

The first form includes common conclusion of agreements with Slovak partners and is not conditioned by any other formal terms. Each subject who is an entrepreneur according to the law of the mother country can also be a subject of commercial law relations according to the Commercial Code. The legal regime of trade agreements will be regulated by applicable provisions of the Commercial Code unless, in case of a dispute, the contracting parties agree upon the law of another country.



EEPC INDIA



The second form includes the establishment of a so-called organizational constituent (branch office) of the foreign person in Slovakia. Entry into the Commercial Register, the procedure which is stipulated in the Commercial Code, is a necessary condition for its legalization. Any foreign person is entitled to do business on the territory of the Slovak Republic from the day of the entry of this person's company, or its branch office, into the Commercial Register, covering the range of business activities entered in the register.

The third form of doing business includes the presence of a foreign person in a Slovak company where the foreign persons have identical rights and duties as Slovak persons. There are two situations which may occur in this case.

The foreign person may conclude a partnership agreement about the foundation of a business company or a cooperative with a Slovak person, and if the law allows it, this foreign person may be the sole founder of the company or as a partner he may join an already existing company e.g. through the purchase of shares or stock. No special permission is required for this form of doing business. Besides the procedure prescribed by the Commercial Code, foreign persons, at their entry into the Commercial Register must present a document confirming their existence (e.g. extract from the company register of their mother country) and in case of legal persons a decision of a statutory body on the foundation of or joining the company.

The last form of doing business is moving the address of a foreign company founded with the aim of doing business into Slovakia if this is possible in accordance with an international agreement by which the Slovak Republic is bound. The same also applies to moving the address of a Slovak legal entity abroad. The moving of the address is effective from the day of its entry into the Commercial Register. This way the foreign legal person actually becomes Slovak but at the same time the internal relations of the company continue to be regulated by the law of the country whose nationality it had in the beginning. Liability of its partners or members towards third parties must not be lower than specified by Slovak law for an identical or similar form of a legal entity.

### **Business Companies in the Slovak Republic**

Business companies are as follows : unlimited partnership, limited partnership, limited liability company and joint-stock company. They are defined as legal entities founded with the aim of carrying out business activities.

Legal as well as natural persons may be founders or partners of a company. They may be founders or partners in only one unlimited liability company. Any abuse of partner rights, especially of majority or minority of votes in a company, is prohibited by operation of law.

From the point of view of acquiring a legal personality it is important to define two terms : founding of a company and the origin of a company. A company is usually founded through a foundation deed signed by all its founders containing basic data

about the company and its founders, representatives, means and liability for the company obligations.

A company comes into existence on the day of entry into the Commercial Register. While the founding of a company means constituting the company as far as the obligations and adjustment of relations between partners or founders are concerned, the origin of the company means a possibility of the company to exist like a legal entity towards third subjects, to be a bearer of rights and obligations, to acquire a legal personality.

During its existence the company may change its legal form into another legal form of a company or a cooperative. After the change of a legal form the company is not dissolved as a legal entity. After the entry of the change of a legal form into the Commercial Register a company or a cooperative exists in the legal form into which it was changed. The effects of the change of a legal form of a company start with the entry of the change of the legal form into the Commercial Register.

### **Exporting to the Slovak Republic**

The Slovak Republic is a member of the World Trade Organization (WTO), and the Brussels Tariff Nomenclature applies.

- There are no Import duty for goods with their origin in member states of the European Union.
- Import duties are reduced for goods from the member states of the European Free Trade Association (EFTA) or the Central European Free Trade Association (CEFTA).
- Customs-free zones are established for some business operations.

### **Import Duties**

Goods imported to the Slovak Republic are generally subject to the following import duties :

- Customs duties
- Value-added tax
- Excise tax

### **Customs Duties**

As a member of the WTO, the Slovak Republic has adopted the Brussels Tariff nomenclature.

The Slovak Republic has become a member of the EU from May 1, 2004, and upon its accession all import from EU member countries are duty-free.

The Slovak Republic is a member of CEFTA, together with the Czech Republic, Hungary, Poland, Romania, and Slovenia.

Under these agreements, rates of import duty are reduced, in some cases to nil, for goods with their origin in member states of the EFTA or CEFTA. A gradual reduction in duty rates is continuously under way.

### **Value-Added Tax**

An importer must pay value-added tax (VAT) on imported goods, irrespective of their origin. The tax rate for imported goods is 20



EEPC INDIA

per cent, although selected goods have a 14 per cent tax rate. The amount to which import VAT is applied is the total of the Customs value of imported goods, the Customs duty, Excise tax, and charges collected by the Customs authorities. Entities and individuals registered for VAT in the Slovak Republic may recover import VAT. This is permitted only in the VAT period in which the import VAT is actually paid, provided that a valid Customs declaration is available.

**Excise Taxes**

Excise tax is charged on the import of wine, beer, spirits, tobacco products and mineral oils.

**Documentation Procedures**

The documentation procedures for the import of goods to the Slovak Republic are quite extensive. Most of the documents are normally completed by the Slovak importer or by the importer's Slovak Customs agent.

The Slovak Ministry of Economy has issued a Decree listing all of the goods in respect of which an import licence must be held by the importer. Goods not included in this list may be imported into the Slovak Republic without an import licence.

To confirm that imported goods comply with current Slovak technical standards, Slovak Customs authorities may require a Product Certificate before goods can be imported into the Slovak Republic. The certificate can be obtained from the Slovak State Testing Laboratory after appropriate testing has taken place. However, if the product already has a foreign certificate complying with the Slovak requirements, only a certificate of consistency is issued without any prior testing of the product.

**Customs and Storage**

The Ministry of Finance designates both public and private customs storage facilities. These facilities must adhere to the Customs Act. They are located at or near all points of entry into the Slovak Republic.

There are also duty-free Customs warehouses available for goods in transit, as well as Customs-free zones established for some business operations.

**Local Representation**

Only a legal entity seated in the Slovak Republic or an individual with a permanent address in the Slovak Republic are entitled to import goods into the Slovak Republic directly. A Slovak branch of a foreign entity can only import the goods via a Slovak Customs agent acting in its own (the Customs agent's) name on behalf of the Slovak branch.

A list of institutions in the Slovak Republic is given in *Annexure I*.

**The Economy**

**Macroeconomic Indicators**

An independent Slovak economy has been in operation for more than ten years and it has not fought with recession yet. The

transformation from a planned economy into a market oriented one was successful.

The growth of the Slovak economy in the last ten years was one of the fastest in the countries of Central and Eastern Europe. However, lagging behind the real parameters of the European Union average is still quite significant. It will probably take several years to catch up. If we look at the level of gross domestic product per capita on a purchasing power parity basis, the Slovak economy produces less than 50 per cent of the EU average.

Due to an expected inflow of direct foreign investments, the rate of economic growth in Slovakia will overtake the dynamics of GDP in the European Union countries in the following years. High public finances and foreign trade deficit also applies to Slovakia and in the last ten years it led to restrictive measures and efforts for structural changes. These changes took place in both public finances and the entrepreneurial environment.

They were mainly related to the taxation system, social welfare, state budget management, public finances, the price liberalisation of goods and services until now regulated. In 2003, the macro-economic development of Slovakia was an object of several positive international evaluations.

**Gross Domestic Product in the 2nd Quarter 2004**

In the 1st half of 2004 production of gross domestic product reached 636.6 billion SK according to preliminary estimation. Compared with the same period of the last year gross domestic product was really higher by 5.4 per cent (growth was faster by 1.5 p.p. than in the 1st half of 2003). It increased by 11.4 per cent in current prices.

The private sector produced 89.5 per cent of the total gross domestic product (the percentage was higher by 0.2 p. p. than in the 1st half of 2003). The private sector shared on its production by 98.9 per cent in agriculture, by 48.4 per cent in forestry, by 84 per cent in industry, by 99.5 per cent in construction, by 63.1 per cent in transport and by 99.8 per cent in trade.

**Economic Indicators 2003**

GDP (USD bn)	32.5
GDP per head (USD)	5,990
GDP per head (USD at PPP)	13,370
Consumer price inflation (%; av)	8.6
Current-account balance (USD bn)	- 0.3
Current-account balance (% of GDP)	- 0.9
Exports of goods f.o.b (USD bn)	21.8
Imports of goods f.o.b (USD bn)	22.5
External debt (USD bn)	18.3

(Source : Economist Intelligence Unit, Country Data)

(Source : EEPC Duesseldorf Office)

(To be continued at next issue)