

## BREAKING NEWS

**TAXES:** The intention of the opposition SDKU-DS to introduce a 15-percent income tax and subsequently a tax on cashless transactions features several risks, warn analysts. Director of the Institute for Economic and Social Reforms (INEKO) Peter Golias says that there is no place for experiments without previous analyses in the tax system. "I see as the main pros of the proposal simple collection and control but there are several risks there at the same time – possible transfer of taxing from consumption to production, motivation to barter swaps and cash payments or possibilities of evading through other countries," Golias evaluated the SDKU-DS's draft. The INEKO head also recommends to analyze who would pay most for the new tax rate and who would save on reducing other taxes. "If the proposal was ultimately implemented, it should be realized gradually, and not through radical changes to the tax system," added Golias. Director of the Institute of Economic and Social Analyses (INESS) Richard Durana considers the draft tax reform from the SDKU-DS's workroom to be very unfortunate. "We recommend the authors of the plan to concentrate in compensating for shortfalls on the income side following the praiseful and economically beneficial reduction of direct taxes and VAT on the expenditure side of public finances where there is great space for saving, for example the introduction of really targeted social benefits instead of across-the-board payout of contributions to those who do not need them. The state does not need higher income but it needs to get rid of expenditures that are expensive and do not bring value," said Durana. Taxation of non-cash transactions, as proposed by SKDU-DS, is not suitable for the Slovak financial system, leader of the Freedom and Solidarity (SaS) party Richard Sulik says. In addition to property, consumption and profit, also turnover would be taxed.

## MAKROECONOMICS & POLITICS

**CONSOLIDATION:** Energy companies, aviation operators and telecommunications providers are pumping huge amounts of money into state coffers

**REAL ESTATE:** Housing real estate prices in Slovakia moved higher over Q3

**AGRICULTURE:** State to put aside EUR 17M to support farming primary production

**CONSTRUCTION:** The crisis forces builders to reduce quality of works

**BANKS:** Average interest rate on housing loans gets close to historic minimum

**COURTS:** Former justice minister insists that the Slovak government does not advocate interests of Slovakia but of Stefan Harbin as a private individual

**NOMINATION:** SMER still does not have a candidate for Nation's Memory Institute top job. OLaNO to support Frantisek Miklosko's candidacy

## PHOTO OF THE DAY



**TRANSPORT:** Minister Pociatek at a briefing on collapsed bridge on D1 stretch Janovce-Jablonov

## EXCHANGE RATES

USD	U.S. dollar	1.2777	▲
JPY	Japanese yen	102.6	▲
GBP	British pound	0.7999	▲
CZK	Czech crown	25.234	▼

## TOP EURO STOXX 50 UP

Title	Rate	Change (%)
CRH	15.194	+1.97
ASML	43.816	+1.00
MUENCHENER RUECK	125.25	+0.93

## TOP EURO STOXX 50 DOWN

Title	Rate	Change (%)
IBERDROLA	3.90	-2.96
BBVA	6.324	-2.86
GDF SUEZ	17.38	-2.46

## EXPECTED EVENTS

**PARLIAMENT:** The eighth session of the Slovak Parliament continues

**MANAGEMENT:** TREND conference titled TOP Management 2012 – What does impede business?

**LEGISLATION:** Session of the Legislative Council of the Slovak Government

## CORPORATE & FINANCE

**TRANSPORT:** Minister blames the bridge's collapse on Czech firm Bogl a Krysl

**GAS:** SPP sent its proposal to increase gas rates by almost a fourth to the regulator

**GLASS PRODUCTION:** New owner of glass manufacture in Poltar, Convey, is asking the state for millions of euros

**CARS:** Volkswagen Bratislava starts production of a new model

**BANKS:** Slovakia's President appointed Jan Toth to the post of Vice Governor of NBS



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## ECONOMY

**CONSOLIDATION:** Energy companies, aviation operators and telecommunications providers are pumping huge amounts of money into state coffers. They channeled more than EUR 17.5 billion in special levies into the state budget over the first two months since the levy introduction. This sum exceeds half of the projections for this year. The Cabinet planned to collect EUR 33 million from September onwards. If the collection develops similarly in the last two months of this year, the concerned entities will provide the state with a few million more than Finance Minister Peter Kazimir (SMER-SD) projected.

**REAL ESTATE:** Housing real estate prices in Slovakia moved higher over the third quarter of this year in quarterly terms. The average price per square meter reached EUR 1,240 representing a q/q increase of 1.06 percent. However, real estate prices dwindled 0.6 percent in y/y comparison, according to calculations of the National Bank of Slovakia (NBS) based on data of the National Association of Real Estate Agents of Slovakia (NARKS). "Average prices surged in the third quarter practically with all types of flats while average prices of bigger apartments grew more considerably," said the central bank.

**AGRICULTURE:** The state will allocate EUR 17 million in 2013 to support businesses in the agricultural primary production. Of the sum EUR 10 million is earmarked for the so-called red diesel, said Minister of Agriculture and Rural Development Lubomir Jahňatek on Monday after the regional Information day for representatives of agricultural primary industries in Banská Bystrica and Žilina counties. As he added some EUR 7 million will be allocated for direct state assistance via subsidies, which is the same sum as this year. The minister recommends businesses in primary production to establish sales cooperatives that would secure for them a much better negotiating position towards processing companies and retail chains. When they try to conclude deals individually they are in a disadvantageous position and processing firms and retailers are "playing" with them, said the minister.

**CONSTRUCTION:** Nearly 60 percent of construction companies carries out constructions at the edge of a safe price, showed a quarterly analysis of the Czech construction industry elaborated by the Czech company CEEC Research. The quality of construction works is thus currently becoming a very significant topic both on the Czech and Slovak markets. "Several directors of construction companies confirm that the current crisis on the market, which is reflected in a lack of contracts and the related effort of investors to reach the lowest possible prices, forces them in some cases to reduce quality of construction works," stated director of CEEC Research Jiri Vacek. However, according to the chief of the analytical company primarily focused on the construction industry in the Central European region, this trend can have the opposite effect for investors from a long-term point of view, i.e. a larger number of repairs as well as significantly higher expenditures on maintenance of constructions.

**BANKS:** The average interest rate of 4.57 percent on housing loans in Slovakia in September neared the historic lows. It was lower only once, in January 2011 when it reached 4.54 percent. The company Fincentrum sees behind advantageous conditions the still stronger rivalry on the bank market and refinancing of older loans. The average interest rate dropped below five percent also at the end of last year, but it went up to 5.15 percent in January and was gradually falling since then.

**ECONOMY:** The representatives of the Freedom and Solidarity party (SaS) are calling on Prime Minister Robert Fico to reject the third rescue package for Greece. "All the money poured into Greece is

money thrown out the window," said SaS Chairman Richard Sulík. "European leaders on the one hand prepare so-called sustainable solutions that would reduce Greece's debt burden, but the actual development of real Greek economy is moving in the opposite direction," said SaS MP Jozef Kollar. Finance ministers of euro area member states can approve releasing the next tranche of aid to Greece at the next regular meeting to be held on November 12 on the condition is that Athens approved previously agreed measures and reforms needed to put them into practice. According to the updated state budget proposal put forward by the Greek government to the parliament, the Greek economy will contract next year by 4.5% and the general government deficit will reach 5.2% of GDP. This is a deterioration compared with the original projections, which talked about an economic decline of 3.8%, and a deficit of 4.2% of GDP.

**ECONOMY:** The large number of legislation standards in the form of laws, concepts, strategies and regulations is a problem that very unfavorably impacts the Slovak business environment, stated representatives of the opposition neo-liberal party Freedom and Solidarity (SaS) who presented the project Singapore 2 on Monday. It contains 165 proposals to improve quality of the business environment in Slovakia. SaS plans to push through the measures in the form of deputy drafts. "More than 70 percent of Slovak entrepreneurs say they are not able to carry out business without violating the law. This is because there are too many laws and they are complicated," stated SaS member Martin Chren. "The twelve most important laws governing the conduct of business have been amended once in two weeks on average over the past ten years," he added.

**FINANCE:** The turnover limit above which an audit of financial statements is required in companies will not be increased in Slovakia for the time being. This option was one of the points aiming to improve the business environment that was considered by the previous government, which in July last year instructed the Finance Ministry to increase the limit for compulsory audits of financial statements by the end of 2012. However, the current leadership of the Finance Ministry proposes to abolish this task, arguing that increasing in the current limit on a simultaneous effort to improve tax collection is not an appropriate solution. In determining the requirement to have financial statements audited, the Finance Ministry says also other factors must be taken into account in addition to the administrative burden, such as the size of the economy, its growth, the size of companies in it, and the needs of society, including the state.

**FUEL:** Prices of petrol and diesel dropped in the 43rd week in Slovakia while LPG prices surged. The price of natural 98-octane petrol dwindled by EUR 0.074 to EUR 1.669 per liter while the price of 95-octane petrol dropped EUR 0.018 to EUR 1.559 per liter and the price of diesel went down EUR 0.012 to EUR 1.461 per liter. Drivers however paid more for LPG the price of which went up EUR 0.001 to EUR 0.738 per liter, the Statistics Office has informed.

## POLITICS

**COURTS:** Former justice minister Lucia Žitnánska and MP for SDKÚ-DS Lucia Žitnánska insists that the Slovak government does not advocate interests of Slovakia but of Stefan Harabin as a private individual. According to her the government has delivered a stance to the European Court for Human Rights in Strasbourg that plays into Harabin's hands in his legal dispute with the Slovak Republic. The litigation concerns the decision of the Constitutional Court of the Slovak Republic that confirmed disciplinary punishment for Harabin, downsizing his salary by 70 percent for a year because Harabin as head of the Supreme Court repeatedly did not allow an audit of the Finance Ministry to take place at the court in his previous era. "I consider it

to be absurd that the government has asked the Strasbourg court to decide on a compensation to Harabin for non-pecuniary damage," said Zitnanska.

**NOMINATION:** The ruling SMER-SD will propose no candidate for the post of the Nation's Memory Institute. As chairwoman of its deputy caucus Jana Lassakova said MPs for SMER-SD will not come up with a candidate for the top post in the institute. "We have not found yet a suitable nominee. We will continue searching," she said. She refused to say whether her party will support the opposition's candidate in the election. According to her there is still enough time to elect the new head for the institute as the tenure of the current chairman terminates as of February 1. Originally, SMER-SD wanted to propose for the post historian Marcel Pecnik from the Central Slovak Museum who is a deputy of the Banská Bystrica Local Council for SMER-SD. He however turned down the offer from the strongest political party. Most OĽaNO deputies will support Frantisek Miklosko's candidacy for the post of chairman of the administrative board of the Nation's Memory Institute. "We think that he is a good and dignified candidate whose nomination we had been considering even before other parties came up with it. The nomination pleased us and therefore we will gladly join it," said OĽaNO leader Igor Matovic. Miklosko already enjoys support from KDH, MOST-HID and SDKU-DS.

**NOVA:** Integration on the right part of the political spectrum is necessary, according to Daniel Lipsic, leader of the newly registered party NOVA (Nova Vaccina) [New Majority], but not at the party level, but at the level of voters and supporters. As Lipsic said, NOVA has no interest in integrating old politicians from existing parties, but is interested in people who have a clean slate, regardless of from which party they come from. Lipsic introduced as a new party member a former SDKU deputy mayor of the town of Sala, Josef Meciar, who according to him, promoted transparency in self-governments. "I'm glad our membership is growing to include such people," said Lipsic. Responding to a media question, Lipsic said he considers as people with a clean slate KDH member Radoslav Prochazka and SDKU member of Lucia Zitnanska. The SDKU-DS says that the way to integration is not when each opposition MP sets up his/her own party and selects its members from one and then from the other side. As the SDKU-DS's stance provided by its spokeswoman Jana Zvoncekova reads it is the way to even bigger chaos that weakens the right wingers and plays into the hands of Socialists.

## CORPORATE & FINANCE

**TRANSPORT:** Transport Minister Jan Pociatek insists that the contractor Bogl a Krysl is fully accountable for the collapse of the supporting frame of the bridge that is part of the construction of the D1 highway section Janovce-Jablonov. The Slovak Transport Ministry urges the company to instantly reimburse the survivors of four victims of the tragedy and also people who were injured there or suffered some damage. In the case that the company will not be sufficiently active in it the government is prepared to compensate people, says Pociatek. The transport minister confirmed after the sitting of the ministry's crisis body on Monday that the reason of the Friday

tragedy on a part of the bridge under construction was the failure of its supporting frame and says that it is unacceptable. "The investigation will be very detailed and we will see exactly who erred and where. Currently all construction objects where a similar supporting frame could be used are under scrutiny," said Pociatek. The ministry has also issued a ban on using supporting frames of this type for construction of road and railway bridges and is analyzing supplier relations of the company Bogl a Krysl.

**GAS:** Gas utility Slovensky Plynarensky Priemysel has disregarded the warnings of the Cabinet and sent its price proposal that would increase gas rates by almost a fourth to the regulator, although the state, one of the company's stockholders, disagreed with the proposal. German and French managers of the gas utility ordered the submission of the proposals, a move that breached the legislation governing the submission of price proposals.

**GLASS PRODUCTION:** The new owner of the bankrupt glass factory Slovglass Poltar is asking for assistance from the state to kickstart production. Convey requests millions of euros. "The company Convey delivered a request for incentives totaling EUR 11 million to the Economy Ministry," spokesperson for the department Stanislav Jurikovic said for the HN business daily. The new owner applies for tax allowance as well as aid in cash.

**CARS:** The factory of Volkswagen Slovakia (VW SK) in Bratislava on Monday began mass production a new car model, Volkswagen eco up! that is powered by compressed natural gas (CNG). The company's spokesman Vladimir Machalik announced that its production required investments of approximately EUR 1.8 million. Preparations for production of this new model started already at the beginning of this year. "It was necessary to train more than one thousand employees for its production," said Machalik. In addition to building adjustments the new production necessitated the installation and adjustments of production lines, from the body shop, through chassis assembly, vehicle assembly line to logistics. More than a hundred people participated in the preparatory works.

**BANKS:** Slovakia's President Ivan Gasparovic has appointed Jan Toth to the post of Vice Governor of the National Bank of Slovakia (NBS) on Monday. He was appointed to serve as deputy governor of the central bank for a five year term, during which he will also be a member of the NBS Bank Board. The presidential office informed that NBS Governor and ECB board member Jozef Makuch was also present at the ceremony of appointment of the NBS deputy governor.

**IT:** The IT company Lenovo Slovakia netted EUR 866,000 last year, up almost four times from the previous year. According to the annual financial statements of the company published in the Commercial Bulletin, the firm recorded a positive development also in the area of sales of its products an services that stood at EUR 26 million. Also added value of the company improved going up 13 percent to EUR 19.3 million in late 2011.

**TRADE:** Sales of goods of the food trade company CBA Slovakia (CBA) in 2011 reached EUR 146.5 million, which is an improvement by



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more than 5% compared with the previous year. As the financial statements of the company published in the Commercial Bulletin show, CBA achieved 4 percent growth in sales of its own products, which brought it nearly EUR 10.9 million. Despite rising sales, taxed profit of CBA last year fell by over 10% to EUR 1.5 million. Its liabilities of EUR 23 million remained almost at the same level as in 2010, when they only increased by 1.2%. A similar 1-percent annual growth was also recorded in added value that amounted to EUR 18.4 million.

**BANKS:** As of the end of September, Prima Banka reported a loss of EUR 10.3 million. In an annual comparison its loss has deepened, since for nine months of last year its loss was EUR 6.2 million. According to data the bank released, net income from banking activities decreased by 18.3% to EUR 35.4 million. General and administrative expenses decreased by 2.4% to EUR 38 million. The balance sheet total of Prima Banka at the end of September totaled EUR 1.998 billion. Compared to the end of September of last year it fell by 13.9%. Loans to customers amounted to EUR 1.158 billion and decreased by 24.2%. Client deposits were EUR 1.471 billion on a year-on-year decrease of 19.7%. In the structure of deposits EUR 893.3 million were deposits of the population and EUR 316.7 million deposits of municipalities.

**BANKS:** Nine-month profit of Postova Banka fell 7.3% year-on-year to EUR 43.7 million. Although net interest income as well as income from fees and commissions of the bank increased, it reported a loss from financial operations of EUR 24.7 million and it widened year-on-year by EUR 15.3 million. According to data the bank released its operating income increased by about half a percent to EUR 113.4 million and operating expenses by 14.4% to EUR 49.1 million. The balance sheet total at the end of September was EUR 3.201 billion, up 11.2% compared with the situation a year ago. Receivables from clients were at EUR 1.597 billion. Client deposits amounted to EUR 2.652 billion.

**TELECOM:** UPC Holding BV, which is the parent of the Slovak company UPC Broadband Slovakia, reported sales of EUR 1.08 billion for the third quarter of this year according to preliminary results, representing 6-percent growth. Consolidated sales for the first nine months of the year to the end of September increased at an equal 6% rate to EUR 3.18 billion. The company informed about its results on Monday. In Central and Eastern Europe, UPC recorded sales for the third quarter of EUR 218.7 million, representing a 9-percent annual increase. In the first nine months of 2012, UPC Holding's sales in CEE reached EUR 647.1 million, an increase of 8.8%. Operating profit in the third quarter increased by 7% to EUR 271 million. Overall, the group recorded 10.3 million customers at the end of June.

**FOOD:** The food concern Unilever has a new director for Slovakia and the Czech Republic. As the company informed, starting November 1 the new director general of Unilever in the Czech Republic and the Slovak Republic is Florin Trandafirescu, a Romanian national. He stood at the helm of the Russian company Inmarko also owned by

Unilever. The so far sales director of Unilever in the Czech Republic and Slovakia Lubomir Bratko holds the post of country manager and business director for Slovakia.

## MACROECONOMICS DATA

GDP	2Q/12	1Q/12	2011
y/y (%)	2.8	3.0	3.3
<b>State Budget</b>	<b>9/12</b>	<b>8/12</b>	<b>12/11</b>
Balance (bn. €)	-2.59	-2.68	-3.28
<b>Unemployment</b>	<b>9/12</b>	<b>8/12</b>	<b>12/11</b>
Disposal rate (%)	13.44	13.19	12.46
<b>Inflation</b>	<b>9/12</b>	<b>8/12</b>	<b>12/11</b>
Headline – y/y (%)	3.6	3.7	4.4
Core – y/y (%)	3.1	2.9	2.3
Net – y/y (%)	2.6	2.6	2.2
<b>Producer prices</b>	<b>8/12</b>	<b>7/12</b>	<b>12/11</b>
Industry – y/y (%)	1.9	1.5	3.1
Construction – y/y (%)	0.8	0.7	0.6
<b>Foreign Trade</b>	<b>8/12</b>	<b>7/12</b>	<b>2011</b>
Balance (bn. €)	2.141	2.118	2.442

## MARKETS

**FOREX MARKET:** The euro fell to a near two-month low against the dollar on Monday on uncertainty over a Greek vote on reforms needed to secure international aid and as investors awaited the U.S. elections on Tuesday. Greece's government present the latest austerity package to parliament on Monday but will struggle to get it approved in a vote expected on Wednesday. The euro fell as low as USD 1.2765 to mark its lowest since Sept. 11. It was last at USD 1.2783, down 0.4 percent on the day. Euro weakness drove the dollar to a two-month high against a basket of currencies. The dollar index rose as high as 80.843, the strongest since Sept. 7, and last rose 0.2 percent to 80.769. The yen gained. The dollar slipped 0.2 percent to 80.26 yen. The Polish zloty was weaker on Monday on expectations the central bank will cut interest rates on Wednesday. By 1014 CET the zloty dropped 0.46 percent to 4.124 PLN/EUR while the Hungarian forint lost 0.25 percent to 282.1 against the euro. Conversely, the Czech crown boosted 0.1 percent to 25.217 CZK/EUR.