

Watch

MONTHLY REVIEW

2009

Slovak Economy in Comments and Analyses

SPECIAL FOCUS

Slovak Economy in Deep Recession

During the first quarter of this year, Slovakia's economy declined by even more than the mid-May flash estimate of the Statistical Office. According to more exact figures published by the Office at the beginning of June, Slovak economy has shrunk annually by 5.6% in constant prices. This is the worst quarterly figure ever reported, and the first negative dynamic since 2000. Similar downturns were registered only in 1999/2000 and 1990-1992. The first quarter 2009 result is even worse than the decline in the Eurozone (-4.8%), which happened also for the first time in years. The very negative development has to do with two major factors: Slovak economy being more susceptible to higher volatility in times of global crises due to the very high rate of foreign trade openness, and the January natural gas shortage that took place as a result of Russia's dispute with Ukraine. The worst situation in the EU is in the Baltic countries, where economies declined at double-digit rates during the first quarter of this year according to Eurostat (12-18%).

Decreased economic activity has been registered in all segments of Gross Domestic Product (GDP), except for public consumption (increased by 1.2% in constant prices). Greatest decline was posted by exports of goods and services, which fell by 24.3% due to collapsed foreign demand. Domestic demand shrank by 4.6%, of which gross capital formation decreased by 16.4% in annual terms. This number owes more to inventories' decline than a recession in investment. Fixed investment decreased by 4.1%. Household consumption stayed relatively stable, when it decreased only by 1.2% in real terms during the first quarter. This decrease occurred despite real wage growth (1.6%), which has to do with higher savings rate of households and decreasing employment. Gross savings of households increased by more than a fifth compared to first quarter of 2008 as people became cautious in spending money in times of uncertainty.

According to value added reporting, production declined mostly in agriculture (-22.7%), industry (-15.1%), wholesale, retail, hotels, restaurants and transportation (-13.8%). In construction, value added decreased by almost twelve percent. Net indirect tax revenues, on the other hand, increased by almost fifteen percent, which has to do with cigarette pre-stocking before an excise tax increase. Value added increased also in the sector of

financial intermediaries and state administration, including education and health care.

Employment in the economy according to total employment by branches of NACE classification decreased by 2.7%. People lost their jobs mostly in industrial production and administrative services. Part of the decrease in employment has to do with workers dismissed abroad, mostly in the Czech Republic or the United Kingdom. Still, more than five percent of Slovak workers live in foreign countries. The decline in employment has not been accompanied by a respective rise in statistical rate of unemployment, however. The rate of joblessness according to LFS stayed stable in the first quarter at 10.5% compared to the same quarter last year, partly because of activation works for the jobless people, which disqualify them to appear in the unemployment statistics. Registered unemployment reported by Labor Offices, more realistically, has been increasing swiftly,

reaching almost 11% at the end of April. Higher unemployment struck mainly young people – joblessness in younger cohorts (15-34) grew, while within older age groups (>50) narrowed. Consistent with this finding, employment of older registered annual increase; employment in younger cohorts on the other hand decreased. This might have been caused by firms deciding to keep their more

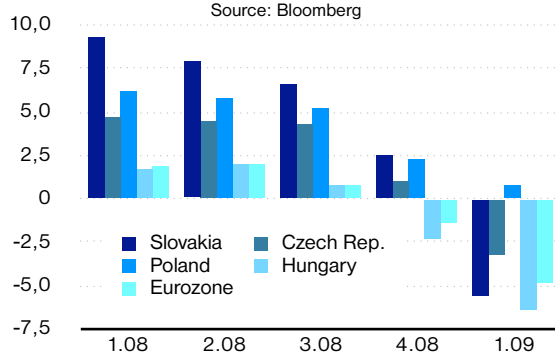
experienced employees and dismissing mostly younger workers.

Average gross monthly wage in the economy increased by almost five percent to more than € 710, despite serious downward pressures. The overall average was influenced by salaries in the public sector, where annual valorization was shifted to an earlier date (January). This way, the annual increase currently incorporates two valorizations of the public officers' salaries. Wages in public administration and defense increased by 11%. Interestingly, the depreciation of Hungarian forint has led to the fact that for the first time in history, the average monthly wage in Slovakia was not the lowest in Visegrád Four countries (including also Poland, the Czech Republic and Hungary). Hungarian wage in Euro terms narrowed to € 666.

Real GDP Dynamic in V4 and Eurozone

(%, y-o-y, quarterly data seasonally adjusted except for Eurozone)

Source: Bloomberg



Despite ongoing economic crisis, profitability did not turn negative during the first quarter of this year. In aggregate, profits of corporations decreased by almost a half, in financial corporations by as much as 61%. Several industries, however, ended up in losses, including agriculture and automotive production. Recession is most probably here to stay for the coming two quarters. Economic growth could return to the economy in the last quarter of this year, partly because of the basis effect of already weak last three months of

2008. The timing of awaited recovery will depend on resurrection of foreign demand, in particular from Germany – Slovakia's major trading partner. Commodity and stock prices signal increasing trust in the markets, as they are already up to their fall 2008 levels. For the whole year of 2009, bank analysts expect a recession of 4% in Slovakia. Economists surveyed by the Institute for Economic and Social Reform expect a 4.3% decline. TREND Analyses for now keeps its optimistic forecast of -2.0%.

FLASH NEWS

Insulation Program Approved

The Cabinet approved a program of no-interest loans for heat insulation of apartment blocks as well as detached houses costing € 71 million. This anti-crisis measure is financed from surplus emission quota sale and should create at least eight thousand new jobs. It shall be executed by the State Fund for Housing Development (ŠFRB).

Anti-Corruption Court Declared Unconstitutional

Slovakia's 'Special Court' dealing with corruption and organized crime has been ruled unconstitutional by the Constitutional Court. However, all past decisions of the tribunal should remain valid according to the ruling. Transparency International said the decision represents a setback in the fight against crime. The court might be saved, however, by a constitutional amendment supported by the strongest coalition party Smer and the opposition parties.

New Environment Minister

After resignation of Ján Chrbet connected to a suspicious contract on surplus emission quota sale, Viliam Turský has been appointed the new Minister of the Environment. He made the wanted contract public. However, without the most important information about the price and amount of quotas sold, which is against the Act on Free Access to Information.

Commission Investigating Telecom Regulator

The European Commission is investigating the dismissal of the national telecom regulator's chairman Branislav Máčaj, who has been fired in December 2008 amid tensions surrounding a tender to select operator for the country's digital TV broadcasting. Officially, he was found unable "to ensure a timely transition to digital broadcasting". B. Máčaj, however, says that



his removal was politically motivated and that he faced political pressure interfering in the tender.

Finance Minister High in EBRD

Slovak Finance Minister Ján Počiatek has been appointed a representative deputy-chief position at the European Bank for Reconstruction and Development (EBRD). His term started in the middle of May and will last for one year. This period will be important as the Bank is going to approve its new strategy for 2011-2015.



Licenses for Credit Companies

Ministry of Finance is demanding licensing regulation for all credit companies, including alternative firms based as simple businesses. Director of the "Financial Market" section at the Ministry Vladimír Dvořáček would like the new measures to pass by the end of the year. The aim is to push unfair creditors charging too high interests out of the market.

Entrepreneurs Propose Reform of Social Security

Single tax base and only two kinds of social security contributions are being proposed by the Business Alliance of Slovakia (PAS). Unlike current scheme with six different contributions, a 25% payment should finance the pension system and a 10% one the health care. This should make the social security system more transparent and easy to comply with. The measures would also end cross-subsidizing of state-scheme pensions within the state Social Insurance Company.

Thirteen Slovak MEPs Elected

On June 6th, Slovak citizens elected their thirteen members of the European Parliament (MEPs). With a low turnout of slightly more than 19%, the elections have been won by the current government leftist party Smer-SD, member of socialist PES fraction in the European Parliament, which gained five MEPs. Center-right opposition parties SDKÚ-DS, SMK and KDH, members of EPP, won two MEPs each. The other two coalition parties: LS-HZDS (non-aligned) and nationalist SNS (member of UEN) each gained one MEP.

Slovakia in Macroeconomic Statistics

Indicators	Unit	2005	2006	2007	2008	Recent figures	2009 ^e
Headline inflation (national CPI)	%, dec-dec	3.7	4.2	3.4	4.4	2.3 (4.09) ↘	1.8
Harmonized inflation (HICP)	%, dec-dec	3.9	3.7	2.5	3.5	1.4 (4.09) ↘	1.2
Real GDP growth	%, yoy	6.6	8.5	10.4	6.4	-5.6 (1Q09) ↘↘	-2.0
Rate of unemployment	%, ILO	16.2	13.3	11.0	9.6	10.5 (1Q09) ↗	12.0 (4Q)
Central Bank 2-week repo rate	% p.a.	3.00	4.75	4.25	2.50	1.00 (since 5.09) ↘	1.25
Trade balance	% GDP	-5.0	-4.5	-1.1	-1.1	-0.3 (1.-3.09) ↘	-1.0
Current account balance	% GDP	-8.5	-7.7	-5.3	-6.5	-3.5 (1.-3.09) ↘	-4.0
State budget balance	% GDP	-2.3	-1.9	-1.3	-1.0	-3.0 (1.-5.09) ↗	-1.4
FDI inflow	EUR bn	4.76	7.48	3.84	3.32	0.48 (1.-2.09) ↗	na

e - prognoses of TREND Analyses®; state budget balance according to the Act on 2009 State Budget; na - not available

SOURCE: www.etrend.sk, www.statistics.sk, www.nbs.sk, www.finance.gov.sk

MACROECONOMIC SUMMARY

Industrial Production Continues to Underperform

Output of the local industry registered smaller decline in March compared to the first two months of the year. Yet, the production narrowed by still strong 18%. Moreover, part of the monthly improvement has to do with the basis effect of weak March 2008. Without this impact, March 2009 would report roughly a 22% drop. Compared to February, all three major segments of industry have reported smaller declines. Only mining has posted higher output than last year. Production and distribution of electricity, gas and steam has narrowed by four percent. Output in manufacturing has fallen by 20.8%. Of its various branches, vehicle and machinery manufacturing declined the most – the former by more than 30% and the latter by as much as 38%. Electronic industry, on the other hand, outperformed all others positively, when its production has grown by about a half in annual terms. This development owes most probably to the increase in LCD output of Sony, as well as to the fact that Samsung has not yet completely moved its plasma TV production to Hungary. Similar trends are being reported by the development of industrial sales. For the whole first quarter, Slovak industrial output has shrunk by approximately 23%. If an equivalent fall in value added took place, industry would have contributed negatively to the first quarter GDP dynamic by as much as eight percentage points. Confidence in industry further narrowed in April according to the survey of the Statistical Office, mainly due to lower expected production in the next three months.

Inflation Close to Historical Low

Growth of consumer prices measured both by the national (CPI) as well as EU-harmonized indices (HICP) continued to decelerate in April. Y-o-Y inflation reached 2.3% and 1.4% respectively, the lowest dynamics since

the summer of 2007. Major downwards pulling factor was constituted by foodstuff prices, which declined by almost two percent in March and April. In annual comparison, prices of food products were by 2.1% lower. Transportation has been cheaper than last year as well thanks to cheaper fuels. Price of housing also decelerated; however, it still remains the major upward pulling factor. Its inflation reached 4.5% according to HICP and almost eight percent according to CPI. The difference between the two measures is constituted by inclusion of so called imputed rents in the national consumption basket – an item by a fifth more expensive than in April 2008. Annual increase of 7.9% has been registered also in the category of alcoholic beverages and cigarettes, which has to do with the increase in excise tax on tobacco. A month-on-month growth factor lies within fuels, which are climbing from their several-year lows with the increasing prices of crude oil on global markets. Consumer prices as a whole could continue to decelerate in coming months, however. In June to September, TREND Analyses expects the inflation rate to reach its historical low of below two percent in CPI and less than one percent in HICP. In the Eurozone, inflation narrowed to 0.0% according to flash estimate in May.

Registered Unemployment Rate at Almost 11%

By the end of April, Slovak unemployment rate has increased to 10.92%, which is a three-year high. During the previous years, the number of jobless people had been falling constantly since January till May. This year, however, the effect of the world economic crisis is much more pronounced than the usual seasonal effects. Compared to April 2008, 102,000 more job applicants have been registered this year. Registered vacant positions, on the contrary, posted a historical minimum of less than eight thousand.

Local unemployment rate is increasing at the fastest rate within the Visegrád Four countries. While Slovakia's joblessness increased by 3.5 percentage points since

October, in the Czech Republic this is only 2.7 ppts. In Hungary and Poland, according to the April estimates, the increase is even smaller. Lack of jobs is most pronounced in Southern-Central and Eastern Slovakia. Three districts of Rožňava, Revúca and Rimavská Sobota register unemployment rate of more than 25%. Most of the unemployed has secondary vocational education.

April number of paid unemployment benefits was more than twice the amount of last year at the same time. Expenses of the state Social Insurance Company (SP) are thus much higher than expected. On the other hand, SP's revenues are smaller as the economy shrinks. This development caused the company's director to say that SP's ability to provide old-age pensions might be endangered since October. Moreover, May should bring further increase in the number of unemployed persons. Mass dismissals threaten 18,300 jobs according to the Center for Labor, Social Affairs and Family.

Trade with Goods in Surplus

Quite surprisingly, the trade balance posted surpluses in March as well as in February, when exports exceeded imports by about € 80 million in each month. For the first three months of the year, foreign trade registered a small deficit of € 51 million. This means that Slovakia is keeping its foreign trade in relative balance – despite current economic crisis. In case of the strong drop in foreign demand, an export-oriented economy should post a deficit since the lost exports have higher value than respective imports of related inputs. In absolute figures, the plunge in exports stabilized in March, when the month posted an annual decrease by 20.1%. In February, the fall was at 32%. Imports shrunk by 23.1% in y-o-y terms in March. Detailed information on the structure of foreign trade exists only for the first two months of the year. In January and February, largest increases in exports were registered in TV sets and components as well as freight rail wagons. Largest export decreases occurred in automobiles and refinery products. Imports decreased mostly in car components, which had to do with the crisis in the automotive industry.

Slovakia Borrowed € 2 billion by Selling Eurobonds

To refinance its debts and borrow more money for covering budget deficits, the Slovak government has sold Eurobonds worth € 2 billion. Mostly investors from Western Europe were interested in the treasuries. Compared to original plans, the sum was larger and constituted the largest issuance in Slovak history. It reflects the expected necessity to finance much larger fiscal shortfalls this year than anticipated. The bonds are due in 2015 and contain coupon yielding 4.375%. Besides eurobonds, Slovakia also sold bonds on the domestic market in amount of € 111.5 million in May, also due in 2015. The maturity year might have to do with the end of next political term in 2014, and the current

administration expecting another government to deal with the financial burden. Moreover, the state is planning to issue € 1 billion more domestic bonds later this year. Yet, as the volume of bonds maturing this year is much higher, the refinancing amount can also be larger than announced.

ECB Lowered and Kept its Key Rate at 1.00%

The European Central Bank continued in lowering its key interest rates in May, when it cut its basic refinancing rate by 25 basis points to historical low of 1.00%. Money has never been so cheap in Slovakia. At the beginning of June, ECB confirmed this decision by keeping the key rate stable, with the aim of stimulating the economy. ECB's governor Jean-Claude Trichet did not confirm that this is the rates' minimum. However, he considers the current key rates as adequate to unfreeze credit markets and stimulate aggregate demand. The bank expects Eurozone's inflation to turn negative in the coming months. However, medium-term inflationary expectations remain anchored at the ECB's target – below but close to 2%. Concerning the economy, the bank believes the worst times are over; however, it reckons that recovery will be slow. ECB expects the Eurozone's economy to shrink by 4.6% this year. In addition, the bank announced new instruments for so-called quantitative monetary easing to be used in fighting the negative effects of the world economic crisis. The ECB has decided on prolonging the maturity of its liquidity-stimulating operations to 12 months as well as on purchasing bonds in open market. The authority plans to buy bonds for about € 60 billion. This is not an extremely high volume as the Bank of England, operating in a much smaller British economy, has decided to increase its asset acquisition to £ 125 billion recently.

Moody's Downgraded Slovak Banking Sector

Rating agency Moody's has changed its outlook of the Slovak banking system from stable to negative. Moody's justified the decision by expecting a more severe recession that could leave Slovak banks defenseless, as their loan portfolios have not yet been tested for such bad times. As a result, Moody's might downgrade also individual ratings of major local banks. Similar downgrade procedures are taking place in case of Czech banks. Nevertheless, the agency has ranked the Slovak banking sector as "one of the more resilient" among CEE countries. The Slovak National Bank (NBS) has responded to the downgrade by refuting Moody's opinion about the current state of the banking system, which the NBS views as healthy.

State Budget in Higher Deficit

At the end of May, the state budget was in shortfall of € 832 million (1.2% of GDP). This represents an annual

deterioration of almost € 730 million. The fiscal worsening owes mainly to lower tax revenues, which declined by almost 14% in year-on-year comparison. During the first five months of the year, revenues from VAT accrued only to little more than a quarter of the whole-year plan. Corporate income tax revenues are developing better; yet, even they do not meet the budgeted amount. The negative development is caused by the economic crisis, which is embodied in lower profitability as well as general economic activity. State expenses are by 5.5% higher compared to last year. They increased mainly due anti-crisis outlays and higher unemployment benefits. The state saves mainly on capital expenditures. Since most of the annual budget deficit is created in December (roughly € 0.8-1.0 billion, 1.3% of GDP), the end-year state budget deficit can be expected at twice the sum planned. For this, the Act on State Budget would need to be amended. Together with balances of other subjects of public finance, the general government deficit could reach around 5% of GDP this year, which is considerably above the Stability and Growth Pact criterion. Moreover, consolidation program aiming at zero public deficit by 2011 has been scrapped. The current target for 2011 is a shortfall of 2.3% of GDP.

Lower Producer Prices

Prices of producers have for the first time registered an annual decline in May, when they decreased by 0.8%. Prices in industrial production have decreased by almost six percent. Apart from refinery products, which are the cheapest compared to last year due to lower oil prices, prices in all other industrial branches have decreased as well. Export prices have decreased by almost eleven percent. Deflation in producer prices has to do with recession period, which is characterized by low aggregate demand. High declines are registered also in agricultural prices, where a significant increase occurred in 2008. Lower agricultural prices have, however, not yet fully spilled over to the prices of foodstuff. On the other hand, prices in mining and energy sector are still higher than last year. □

BUSINESS HEADLINES

Geox Closing its Local Plant

Nearly four years after its local expansion, Italian shoemaker Geox is starting to close its production in Slovakia. Geox's local subsidiary Technic Development Slovakia announced it will dismiss all of its 471 employees in the Prievidza factory (Western Slovakia) during the second half of this year. The retreat is taking place even despite investment of over € 3 million in the local shoe production in 2005. At the end of 2008, the company has been employing over 700 people. Although



Geox has not released any official statement to the reasons behind its decision, the firm is probably leaving its own production operations, currently only in Slovakia and Romania, in general. It will most probably continue with contractive production in the Far East and South America. Thereby, it expects to support its margins, which have not performed recently as good as in the past. Last year, Geox reported sales growth by 16% to nearly € 900 million, but in the previous years, excluding 2007, the firm used to report annual growths of over 30%.

Slovak Wagons to Russia

One of the most important Eastern-European manufacturers of freight rail wagons Poprad-based Tatravagónka (Northern Slovakia) is going to invest € 18 million. In 2009-2010, the company will modernize its buildings, machinery as well as a logistics. In May, Tatravagónka won a contract with Russian Railways' subsidiary TransContainer to supply it with 300 broad-gauge wagons, which will create 300 new jobs in town Trebišov (Eastern Slovakia). The same number of wagons should be produced after winning the second such contract. Moreover, negotiations about a joint venture developing and producing specialized high-capacity wagons are to begin soon. TransContainer is one of the largest rail transporters in the world.

Last year, Tatravagónka has manufactured more than two thousand freight wagons and almost eight thousand undercarriages. Nine-tenths of the production has been exported. This year, the share of exports will reach almost 100%. Tatravagónka's sales doubled to € 280 million last year. Despite current crisis, the firm's sales should increase this year as well. Some of the company's clients have demanded postponement of their contracted orders; however, no terminations were registered. The firm's net profit reached more than € 20 million last year, up by two-fifths from year before. Tatravagónka employed more than 1,900 workers at the end of last year. Its majority shareholder (98%) is Optifin Invest owned by Michal Lazar and Alexej Beljajev.

RF Malacky with New Projects

German group Richard Fritz is going to invest over € 1.5 million in new projects this and the next year in its local subsidiary RF Malacky (Western Slovakia). Since the firm's establishing in Slovakia in 2001, RF has invested more than € 40 million. The new investment will go into purchase and modernization of the firm's machinery. It should create 100-150 new jobs this year, with 50 more in 2010. RF Malacky is focusing on car window glass treatment, module production and engineering in plastics injection. The Malacky facility supplies car windows to Volkswagen, Opel, BMW, Mercedes, Maserati, Audi, Porsche, PSA and others.

In 2009, RF Malacky will begin with thirteen projects for new car models such as Porsche Panamera. One of the projects is production of panoramic ceiling windows for Rolls Royce and BMW. Next year will bring ten more new projects. In Slovakia, RF delivers its products to Volkswagen based in Bratislava – mostly spoilers and window glasses for models Touareg and Cayenne. Of the firm's € 68 million total sales last year, up to 40% come from supplies to local VW plant. The rest had been exported.

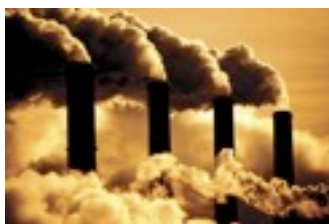
The company employs 630 workers in Slovakia. RF Malacky expects its turnover to narrow by about a fifth to € 55 million this year due to the crisis. The firm operates one production hall also in city of Prešov (Eastern Slovakia), employing 60-80 workers. With the new VW model Up! to be produced in Bratislava, the firm is competing on supplying it with side and rear opening windows. The German group employs altogether around 1,700 workers. It has reached sales of € 160 million last year. Its production sites are in Germany, USA, Hungary and Slovakia. The Slovak plant is the largest one.

Matador Expanding Despite Crisis

German rubber producer Continental is closing two of its factories in Germany and France. Yet, its Slovak facility Continental Matador Rubber in Púchov is to expand according to the pre-crisis plan. New halls of Matador will increase the firm's passenger car tire production from 5.5 to eight million pieces a year by the beginning of 2010. Two hundred new jobs will be created as a result. A new 7-hectare regional distribution center is also being erected. Together, these investments will cost Continental about € 70 million. When the crisis is over, a further more massive production expansion is expected – from 8 up to 16 million tires a year. Originally, Romanian Timișoara plant has been competing for this investment, but it was Púchov that succeeded, partly because Continental has its R&D center with 80 employees here. This expansion will make the Slovak facility the major production site not only for passenger car tires of Matador brand, but also of other Continental brands aimed for the Eastern markets.

CO₂ Limits Pushing Cement Producers

In 2013-2020, firms in several industries will have to purchase all their CO₂ emission permits in an auction. A study of Boston Consulting evaluating the impacts of the new regulation estimates that at € 25 per ton of emissions, Slovak cement producers will face a carbon leakage – that is, the industry leaving for less-regulated non-EU producers such as Ukraine. Apart from the auction, the total amount of available emission allowances will decrease by a fifth in line with the EU energy strategy adopted last year. One of



the options when dealing with the limitations is using alternative fuels in cement production. This strategy has earned Holcim Slovensko a decrease in unit emissions. With production up by 41% in 2004-2008, Holcim's emissions increased only by 29%.

Only One Concessionaire Interested in Tunnels

The concessionaire to win the third package of highway public-private partnership (PPP) projects, which includes technically demanding tunnels in Northwestern Slovakia, should be chosen by the end of June. So far, only one applicant, however, has expressed interest in building and maintaining the respective D1 highway sections. According to yet unconfirmed information, this is an association led by German firm Hochtief. The investment costs of highway sections in total length of 30 km from Hričovské Podhradie to Dubná Skala reach roughly € 2 billion. Financial closing of the project is expected by TREND Analyses only next year, since similar delays are occurring in the first two PPP packages as well. These road sections should be constructed in 2012-13 by companies Granvia and Slovenské diaľnice. Yet, financing of these sections (approximately € 5.7 billion) by banks is difficult to arrange. Similar problems are witnessed in case of London M25 bypass.

Farmers Afraid of Draughts

Central-European farmers are worried about this year's harvest due to dry season. After record yields last year, this year will thus bring much lower yields. Hungarian farmers expect their wheat production to decline by 28% this year. Their Czech colleagues project a 17% decrease in corn production. Slovak farmers expect decline by about a fifth. Lower harvest might as a result stop the current price decline in agricultural commodities. Yet, in case the draughts are only a regional occurrence, which is the case so far, this expectation might not materialize. Poland and Ukraine report production expectations similar to last year's harvest. French analyst company Stratégie grains projects the EU production to decrease by less than two percent compared to last year. This hints rather at stabilization, not at growth in the sector's prices. This also means that there should be no significant effect on the prices of foodstuff for consumers either.

Sapa Planning New Investment

Swedish Sapa subsidiary in Slovakia is keeping its promise to expand local production of aluminum profiles. The group entered local facility in city of Žiar nad Hronom in 2005 by acquiring it from investment group Penta. Now, Sapa is planning another € 8 million investment into expansion of its capacities. That should regard modernization and expansion of surface treatment of aluminum profiles with anodic oxidization, and will require building of a new hall. The new technology will triple the

firm's capacity for surface treatment to more than three million square meters a year. No new jobs will be created. The starting date of the investment will depend on the recovery out of the today's demand crisis. The new production could start at the end of 2010 the soonest, depending on situation possibly two or three years later.

Speedy Exit of ON's Production

One of the largest power solution producers – American ON Semiconductor – is closing down its production site in Piešťany (Western Slovakia). Last year, the firm announced moving its production of silicon chips and wafers to its other sites in Europe by the end of 2009. Due to economic crisis, ON speeded up this project and it will close the production in Piešťany in July this year. Piešťany site was one of the smallest one within the group, with only 2% of total ON Semiconductor's manufacturing capacity. It has been equipped with older type of machinery compared to other ON sites. After several acquisitions made by ON in the past two years, the company gained other capacities across Europe. As a result, the firm needed to optimize its production portfolio. Piešťany site will move its product lines and capacity to the Czech Republic (50%), Belgium (25%) and USA (25%). It has dismissed 400 workers. ON Semiconductor will save \$ 30-40 million a year.

ON started manufacturing silicon chips in Piešťany in 1999. In 2001 it opened its customer service center there. Now, this is the second largest ON service center, taking care of European and American customers. The center will continue to operate and develop with its almost 200 employees. The other division of ON is located in Bratislava. After six years of a close cooperation with Slovak University of Technology (STU), ON opened its own IT and development center. Twenty-five scientists and programmers focus mostly on power solutions for the automotive, IT and telecom sector. Also this site will be further developed with more orders from the US headquarters.

Panasonic Adding New Operations

Panasonic Electronic Devices Slovakia based in Trstená (Northern Slovakia) is adding new operations to its current ones. The change pertains to manufacturing plastic parts for the brand's products. Although the plant has never had problems with deliveries of plastic components from its subcontractors, it will cover part of its demand by its own production. Panasonic uses the same strategy in Asia for years. Besides secured just-in-time deliveries, it gains a bargaining power when negotiating on delivery contracts in the future. On top of that, the global Panasonic Electronic Devices' strategy is to focus more on the automotive business – manufacturing modules for car producers and their subcontractors. These product lines need more plastic components.

Panasonic was hit by a decreasing demand in its best

year of 2008. The company added a new product last year – steering wheel switches for Toyota. All deliveries for the auto business, including car speakers, witnessed a dramatic decline since September last year. Audio-video parts, switches, tuners, chargers as well as control units for household appliances followed this trend since December. In May the firm's orders were down by 25% compared to last year. Panasonic does not plan to add new products this year. It is manufacturing for other companies as well as own plants, such as Panasonic AVC Networks Slovakia in Krompachy (Eastern Slovakia) manufacturing DVD and Blu-ray recorders and players. New products might be added to Trstená plant if there is a new manufacturing hall built. There is one planned but due to the economic downturn this remains to be only a vision for the future.

Logis to Build Second Facility with Brückner

Czech packaging firm Logis will erect its second facility near Topoľčany (Western Slovakia) together with German packaging line producer Brückner Group. Brückner is Logis's trade partner for years. The Germans have already one production plant nearby for four years, employing roughly hundred people. Part of the facility is operated by Logis. Assembled lines produced by Brückner are packaged for end clients by Logis there. The new second plant should be built only a few kilometers away. The business model is similar: Brückner will assemble its packaging lines and Logis will pack them. The Germans will employ more than 130 workers there; the Czech almost twenty more. The new facility should be built since fall this year till summer 2010.

Lesy SR Looking for Investors

Slovak spruce forests are being damaged by woodworms. Hence, the wood-processing industry will be able to rely on spruce wood less than before. This will be replaced by oak wood, as oak is the most common substitute for spruce wood. Oak as the most adaptable local tree is already the most common tree in Slovak forests. State forestry company Lesy SR wants to adapt to the change as well. It tries to attract investors that would build large sawmills for processing quality oak wood. This type of sawmills are lacking in Slovakia so far; while there is a surplus of sawmills for coniferous trees (mainly spruce).

The foresters are currently able to sell only the lower quality oak wood for pulp. Cellulose processing factories use it to produce paper. For higher quality wood, there are few clients in Slovakia. Most of the quality material is therefore exported, which incurs expenses due to high transportation costs. Slovakia exports 300-thousand tons



of oak wood a year. Lesy SR have been in the negotiations about building high-volume oak sawmills at the beginning of 2008. The interested parties were from Germany, Austria as well as Slovakia. The emergence of the current economic crisis had, however, brought the negotiations to a halt due to a drop in demand for wood. When the crisis is over, the negotiations should resume. Sawmill oak products are used mainly for furniture and floors. Lighter and softer spruce wood is used in construction.

Avex Postponing Its Project

Slovak firm Avex Production, manufacturing electronic components for Samsung and several German companies, is postponing its project in Senec (Western Slovakia). There, Avex should later manufacture modules for Samsung in nearby town Galanta. It already supplies Samsung with DVD player and satellite dish modules. However, due to growing demand from its clients, it needs to extend and upgrade its production at its site in Oravská Lesná (Northern Slovakia). This year it will invest € 3 million in total, of which two million will go into

expansion. To satisfy the needs of its clients, Avex will produce triple the amount of products compared to last year according to its officials, which will put pressure on its capacities. The firm has also decreased its prices due to the crisis, so the spike in production will not be fully reflected in increased revenues. Its Oravská Lesná site will already reach its limit.

Thus, eventually, Avex will need to put up new plant in Senec. There, Avex wanted to place two high-volume assembling lines. According to original plan, the site in Senec should have been put in operation last year. Avex however plans to start building by the end of 2009. Due to the ongoing economic downturn, which hit also electrical engineering sector, Avex still has not decided when the new production site is to start its operation. Despite growing volume of orders from its clients, Avex was hit by the exit of some of the Samsung Electronics Slovakia's product lines to its affiliate in Hungary (due to lower labor costs). For example, the production of satellites is moving from Avex to the Hungarian site of Samsung. This year, the number of Avex employees is expected to rise by another one hundred people along with the current five hundreds.



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