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STAGNATING INWARD FDI PERFORMANCE IN BELARUS

Inward FDI performance of Belarus improved slightly after the introduction of the Investment Code in October 2001. However the inward FDI has been stagnating at a level around USD 200 million since 2002. The political situation, the investment climate and the privatization policy of the Belorussian government are the most significant influencing factors of inward FDI.

POLITICAL AND ECONOMIC SITUATION

After the independence of Belarus, declared in August 1991, the transition from planned to market economy had been started slowly led by Stanislav Shushkevich. However the reforms did not come true as the leader was ousted by the Parliament because of his support for market economy in January 1994. The new president, Aleksandr Lukashenko was elected in July 1994 and expanded the powers of the presidency over the following two years. He also signed a treaty with Russia in April 1997 aimed at increasing the cooperation between the two countries. Due to this tight cooperation the Russian financial crisis in 1998 greatly affected the Soviet-styled planned economy of Belarus. Using authoritarian means Lukashenko was reelected in 2001 and is expected to win on 19th of March 2006.

Although the economy of Belarus (market socialism) is closer to the planned than to the market economy model, main economic indicators have been improving since the Russian financial crisis in 1998 (*see Table 1.*). After the decrease of GDP in 1995 the economic growth exceeded 11% in 2004 and was almost 10% in 2005. Inflation has slowed down from 703% in 1995 to 8% in 2005. The indicators of unemployment and budget balance have been eminent in this period. By the data on unemployment proved by IMF it is shown almost full employment without considering the structure of Belorussian labor market. In the case of budgetary balance after the zero-balanced 2004 year, the 2005 year brought almost 2% high deficit that is still within the finger-ruled 3% “Maastricht criterion”.

Table 1. Main economic indicators of Belarus 1995-2005

	1995	2000	2001	2002	2003	2004	2005
GDP growth (%)	-13.8	5.8	4.7	5.0	7.0	11.4	9.2
Inflation (%)	703	107.5	46.1	34.8	25.4	14.4	8.0
Budget Balance (% of GDP)	-3.2	-0.9	-3.1	-1.9	-1.1	0.0	-1.8
Unemployment rate (%)	2.7	2.1	2.3	3	3.1	1.9	1.5

Source: IMF

The country is very poor in natural resource endowment, especially compared to the natural resource rich CIS states. Belarus disposes of granite, chalk, sand, clay and small quantities of oil and natural gas. Thus the main branches of the economy are machine building, metalworking, chemical and petrochemical industry, electrical energy industry, light and food industries, medical and microbiological industry, forest and woodworking industry and last but not least agriculture employing still a large share of the population. 33.3% of GDP was produced by industry, 8.9% by agriculture and 57.8% by the service sector in 2004. (*Source: Ministry of Foreign Affairs*) 80% of the raw material, fuel and energy needed for the above mentioned economic segments originates mainly from Russia and other CIS countries. These countries represent the main customers of the industrial products of Belarus.

According to EBRD only 25% of GDP was produced by the private sector in 2002 due to the fact that few of the main enterprises have been privatized and the State retains extensive golden share provisions (introduced by a decree in 1997). The privatization started in 1993 according to the Law on Denationalization and Privatization of the State Property in the Republic of Belarus (January 1993) having the priority of selling communally owned facilities, such as trading outlets, consumer-service establishments and restaurants. By the end of 1999 only 15.2% of state property in terms of value had been privatized according to the Ministry of Foreign Affairs. 8500 state and communal enterprises were selected for privatization but only 28% of them had been sold by August 2002.

The investment climate became more encouraging after the Investment Code was put into force on 9th of October 2001. Foreign entrepreneurs have the right to organize enterprises in Belarus but cannot own land. However they may take land on lease for a maximum period of 99 years. The Code guarantees stable legislation for foreign investments, free repatriation of incomes, as well as a 5-year moratorium as regards of business deteriorating norms. Joint ventures and foreign enterprises are allowed to set product prices freely without governmental interference. In case the share of foreign ownership of a company exceeds 30% the tax on profits does not need to be paid for a 3-year period. Imported equipment as part of the capital of these enterprises is exempt from duties and value added tax and from the mandatory sale of currency revenues. Foreign investors importing new and high technologies enjoy even more priorities in form of lower taxes and duties and a longer tax free period.

Investors looking for better conditions can set up their enterprise in one of the six free economic zones of Belarus (Brest, Minsk, Gomel-Raton, Vitebsk, Mogilev and Grodnoinvest.). The first free economic zone (Brest) was started in December 1996. Residents of these zones face only 15% tax on profit and 10% of value-added tax which are half of the tax in other areas of the country. Companies of a free economic zone are exempt from tax on profit for 5 years. In case the company exports at least 70% of its own products only half of the tax needs to be paid for an additional 5-year period. Import and the export of products produced in the free economic zone are duty-free.

TENDENCIES OF INWARD FDI

According to the Investment Code and the rules of the free economic zones the country seems to be attractive for foreign investors. However the tax burden is substantially higher than in the neighboring countries (the total explicit tax burden amounted to 44.7% compared to 34.7% of Russia in 2003 by World Bank), the political situation is rather instable and the costs of entry and compliance with administrative regulations are high and the business registration is slow (twice as long as in the neighboring countries according to World Bank). The high incidence of government interference also damages the investment image of the country and limits its opportunities for attracting FDI.

These negative factors are reflected by the weak FDI performance of the country. In the period 1989-2003 the cumulative FDI per capita amounted to 200 USD, which is about 10 times less than in the Central European countries. (*Source: World Bank*) The country has the worst Inward FDI Performance Index ranking among its neighbors and overtakes only Ukraine in the rankings of Inward FDI Potential Index (*Table 2.*). Only four (Kyrgyzstan, Republic of Moldova, Turkmenistan and Uzbekistan) out of the 12 CIS countries had lower FDI inflows than Belarus in 2004.

Table 2. Ratings of Belarus and its neighbors

	Inward FDI Performance Index Rankings						Inward FDI Potential Index Rankings				
	1995	2000	2001	2002	2003	2004	1995	2000	2001	2002	2003
Belarus	121	89	90	104	102	99	64	65	62	57	52
Latvia	20	34	52	65	70	47	86	58	52	46	44
Lithuania	79	35	59	43	61	59	91	59	56	51	47
Poland	43	47	46	61	72	75	55	41	43	43	43
Russia	101	104	106	111	97	88	31	39	33	30	27
Ukraine	98	98	92	91	74	71	53	81	76	69	62

Source: UNCTAD

After the introduction of the Investment Code the FDI inflow jumped from USD 96 million to USD 247 million, but the tendency was not long lasting. The inward FDI dropped by USD 70 million and has been stagnating at a level around USD 170 million since 2003 (*Chart 1.*). The main FDI receiving economic sectors are industry (71.1%), trade and public meals (17.5%) and transport (4.5%). The most targeted sub-sectors of industry are the food sector (46.8%), machine building and metalworking industry (11.6%), light industry (8.7%), chemical industry (8.5%), woodworking sector (8.5%) and medical sector (6.3%). (*Source: Ministry of Statistics and Analysis*)

Chart 1. Development of Belorussian inward FDI 1995-2005

*01.01.2005 - 01.10.2005 data from National Bank of the Republic of Belarus

Source: UNCTAD, National Bank of the Republic of Belarus

The main investor countries as regards the number of formed joint ventures and foreign enterprises in 2002 according to the Ministry of Statistics and Analysis were Germany (14.9%), Poland (14.85%), USA (11.5%), Russia (7.9%) and Italy (4.2%). Beside these

countries Cyprus, Great Britain, Czech Republic, Ireland and Switzerland has also investments in Belarus. Famous transnational companies such as the German MAN (cars and truck), Fresenius (medical equipment) and Alcatel SEL (mobile phones), the Dutch Coca Cola, the American McDonald's, the Danish Maersk Medical and the Swiss SB Telecom are present.

EXPECTATIONS

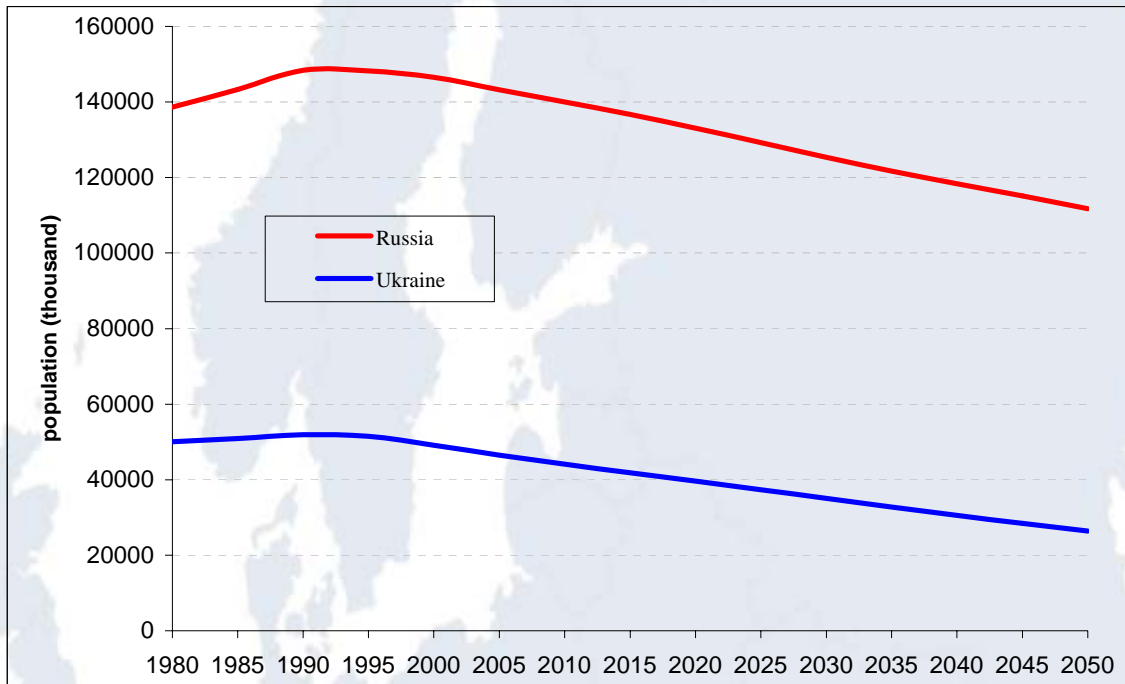
It is not probable that in the coming month a new president will be elected but the economic policy and the pace of privatization could be improved. According to the government's privatization plan for the period 2002-2010 Belarus should attract about USD 40 billion in FDI. However, only 1.5% of the planned amount flowed into the country in the first 3 years of the 9-year-long period.

In order to increase inward FDI the business environment should be improved, price control and tax burden should be reduced. New sectors such as the energy sector, oil and gas transport, and food processing industry should become priority areas for inward FDI in the future and investment in these sectors should be encouraged by government subsidies. Without improving the country's inward FDI performance, maintaining the high rate of GDP growth will face difficulties in the coming years.

RUSSIA AND UKRAINE: THE CAUSES AND EFFECTS OF A PROTRACTED DEMOGRAPHIC CRISIS

Since the fall of communism, Russia and Ukraine have experienced a severe demographic crisis, which show no signs of abating. Ukraine and Russia current have the lowest and 7th lowest rate of population growth in the world (-1.04% and -0.45%, respectively). According to UN estimates, the two countries are set to lose 43% and 22%, respectively, of their present population by 2050. (*Chart 1*)

Chart 2. Population Curve of Russia and Ukraine 1980-2050



Source: United Nations

These worrying trends have significant negative effects on several areas of the economy: they put an enormous strain on the social security system and undermine economic growth and poverty reduction.

CAUSES

Roughly speaking, demographics trends are the products of three factors: mortality, fertility and migration.

Mortality has been on the rise in Eastern Europe since the 1980s, but the situation was aggravated after 1990. Life expectancy in Russia and Ukraine has dropped by several years and is projected to remain firmly below the average of developed countries for decades to come. (*Table 1*)

Most causes of high mortality are shared by Russia and Ukraine. Some of them go back to Soviet times or even earlier: decades of ecological abuse and massive environmental pollution (the consequences of forced large-scale industrialization) have seriously undermined the health condition of generations of Russian and Ukrainians. Much of the current negative trends, however, are to be attributed to the drastic social and economic changes of the 1990s.

The sharp economic decline experienced by most CIS countries in the first half of the 1990s meant that large chunks of the population lived in poverty: this resulted in widespread malnutrition (especially the lack of vegetables from the daily diet of millions), which in turn undermined the immune system of millions. The health care system inherited from the Soviet Union proved to be unsustainable: as a result, the quality and accessibility of health care deteriorated sharply after 1990. Alcohol and tobacco abuse have long been serious problems in Russia and Ukraine, but in the years of social turmoil and insecurity, these addictions have reached epidemic proportions. A worryingly high proportion of deaths are attributable to accidents due to unsafe work and road conditions. In recent years, international organizations have been pointing out the dangers of a looming AIDS epidemic (it is estimated that in 2000-2005, the impact of AIDS decreased life expectancy by one year; in 2015-2020, the effect will probably be 3 years). The governments of Russia and Ukraine, however, have largely remained silent about the problem of sexually transmitted diseases, although there have been signs recently (in 2005) that Russia starts to address the situation seriously.

An important feature of mortality in both countries is that men are more hardly hit than women: this results in a significant difference in life expectation and a very low population sex ratio (the ratio of males per females, which, in developed countries, is usually firmly above 90%).(Table 1)

Table 3. Life expectation and population sex ratio in Russia, Ukraine and Western Europe 1980-2050

	1980-1985	1990-1995	2000-2005	2025-2030	2045-2050
Russia					
<i>Males</i>	62.6	60.6	59.1	64.3	68.9
<i>Females</i>	74.0	72.8	72.2	73.9	76.5
<i>Ratio</i>	0.865	0.885	0.866	0.842	0.867
Ukraine					
<i>Males</i>	64.2	61.9	60.1	66.5	70.8
<i>Females</i>	73.4	72.0	72.5	75.3	78.0
<i>Ratio</i>	0.851	0.867	0.847	0.810	0.805
Western Europe					
<i>Males</i>	70.7	73.1	75.7	79.1	81.2
<i>Females</i>	77.7	80.0	81.9	85.0	87.0
<i>Ratio</i>	0.934	0.950	0.956	0.953	0.945

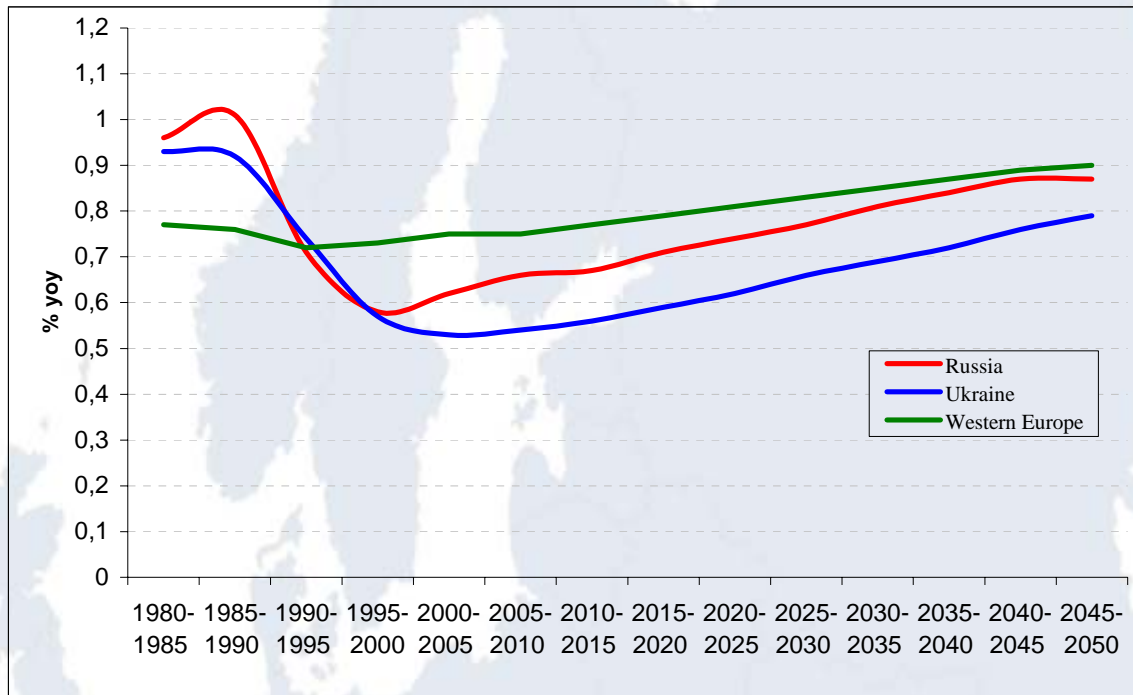
Source: United Nations

As far as *fertility* is concerned, some of the reasons are historical here as well. At present, most Western countries benefit from the secondary effects of the baby boom after the end of the Second World War. In the Soviet Union, however, the increase in births was less pronounced, so the secondary effects enjoyed by CIS countries are also slighter.

That said, a strong drop in births after 1990 can be observed. (Chart 2) Some of the contributing factors are those present in developed countries as well: urbanization, the decline of the traditional family and the tendency of getting married later have lead to a lower number of births in much of the world. There are, however, specific factors as well: the economic crisis of the first half of the 1990s caused widespread unemployment and a general feeling of

social insecurity in Russia and Ukraine, a high number of families were destabilized; all of which led to pessimistic reproductive attitudes. It should also be noted that abortion is more readily available in many CIS countries (including Russia and Ukraine) than in much of the world, and is widely used as a means of contraception. This means that many women have undergone multiple abortions, which of course negatively affected their later reproductive capacity. Because of the high prevalence of sexually transmitted diseases and several environmental factors, many men also have fertility problems.

Chart 3. Development of Net Reproduction Rate in Russia, Ukraine and Western Europe



Source: United Nations

As far as **migration** is concerned, the picture is varied. On the one hand, Russia has benefited from the repatriation of millions of ethnic Russians from other former Soviet republics (the number of those having repatriated in the period between 1985 and 2005 is estimated at 3 million). However, this wave of migration is probably near to its end now. Other CIS countries, such as Ukraine, have failed to benefit from such a phenomenon.

At the same time, there has been constant emigration from CIS countries to parts of the more developed world. It is estimated that hundreds of thousands of Russian and Ukrainian citizens have emigrated to North America, Western Europe and Israel in search of higher salaries and better living conditions. Most of them belonged to the more highly skilled part of the population, thus this process could be describe as a brain drain.

In all, migration has only partly offset other demographic processes in Russia, and in most other CIS countries (including Ukraine) it has actually contributed to the decline of the population.

EFFECTS

The effects of the demographic crisis are manifold. For one, a sharply decreasing population could undermine economic growth: on the one hand, labor shortages could possibly arise. On the other hand, the general health condition of workers could hamper a rise in productivity.

Also, because of the low birth rate, Russia and Ukraine are experiencing the phenomenon of an ageing population, which puts extra strain on their already crumbling social security, pensions and health care systems, although this process is less pronounced than in Western Europe, say ‘thanks to’ the higher rate of mortality.

Finally, the demographic changes could have other social and national security effects, primarily in Russia. While the number of ethnic Russian is falling, many ethnic minorities in the Russian Federation are actually experiencing a population rise. This process could slowly but steadily change the ethnic makeup of the Federation as a whole, and, as many in Russia fear, could eventually threaten the unity of the Federation. Moreover, the sheer decline of the population raises national security concerns: the fear is that entire rural regions could become virtually depopulated, which again would undermine the cohesion of Russia and threaten its future as a strong state.

AGREEMENTS FOR COOPERATION BETWEEN CENTRAL-ASIAN COUNTRIES

Central Asia is a region with high geopolitical importance. The five countries located in the region (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) are all landlocked. Some of them are rich in natural resources (fossil fuels). They face many common threats, and would gain tremendously from increased cooperation both economically and politically. However some factors (internal and external) keep them from acting together and from reaping the benefits of cooperation.

There is a high level of interdependency between the Central Asian countries. First of all they depend on each other in terms of transport routes. The other important cause of interdependency is the reliance on common water resources. Upstream countries (the Kyrgyz Republic and Tajikistan) which have an influence on water resources are in need of fossil fuel imports. At the same time countries located downstream (Uzbekistan and Kazakhstan), which need the water for irrigation, are rich in fossil fuels. Until now, no matter how much benefit cooperation would have brought, only disputes developed between the states. The many existing cooperation agreements and unions only exist on paper, they are not functional in effect, and no real results have yet been made by them. The Central Asian states also face the common threat of terrorism. Drug trafficking in the region is a serious problem for all of them. There are large minorities from the surrounding nations living in the Central Asian countries. The movement of these people is currently a problem, as they face complicated border controls and visa requirements. Cooperation and some level of integration between the states could ease this problem as well.

Since the disintegration of the USSR a number of regional cooperation agreements and bilateral trade agreements were created between, or with the participation of the five Central Asian countries. The most important ones are the following.

BILATERAL AGREEMENTS

Regarding Free Trade Agreements between the Central Asian countries, Uzbekistan is the most involved. It has a Free Trade Agreement with all the other four countries in the region. Besides these, there is one more FTA in place among the Central Asian countries, between Kazakhstan and the Kyrgyz Republic.

Even though there are a number of Free Trade Agreements in effect between the Central Asian countries, their trade regimes cannot be characterized as liberal, because numerous non-tariff barriers to trade exist in the region. These include the lack of transparent custom valuation procedures, corruption, and other kinds of unofficial barriers.

REGIONAL COOPERATION INITIATIVES

- In 1992 the *Conference on Interaction and Confidence-Building in Central Asia (CICA)* was initiated by Kazakh president Nazarbayev, with the participation of 16 states.
- In 1992 the *Economic Cooperation and Organization* was initiated between Afghanistan, Azerbaijan, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

- In 1994 the *Energy Charter Treaty* was signed by all Central Asian and most European countries. Also in 1994 a *CIS Free Trade Agreement* was created, but has not been ratified by all states.
- The *Central Asian Union* was created mainly for political reasons in 1994. It was founded by Kazakhstan, the Kyrgyz Republic and Uzbekistan. Turkmenistan declared itself neutral and did not join the union. The union was created because the founding states were concerned that the CIS might turn into a means for restoring the USSR. Apart from that the developments in Tajikistan also alarmed the three founding states. Islamic fundamentalism was gaining ground in the country, drug trafficking through its territory with active help from the armed forces was alarming to its neighbors, as well as the problems caused in the Kyrgyz Republic by the ten thousand Tajik refugees (a civil war took place in Tajikistan between 1992 and 1997). At the time of the union's creation the relationship between the founders was friendly, with interstate presidential and prime minister-level committees. Later on Tajikistan joined as well. However the union soon became dysfunctional, as the leaders were not cooperative enough and Russia viewed it as a threat to its influence in the region, and did everything it could to stop it from gaining real relevance.
- Uzbekistan joined *GUAM* in 1997, along with Azerbaijan, Georgia, Moldova, and Ukraine. This organization was initially created with the goal of developing hydrocarbon pipeline projects. A proposal to create a Free Trade Area was made in 2000.
- The *Central Asia Cooperation Organization (CAREC)* was set up in 1997. It is a cooperation effort between Azerbaijan, China (focusing on the Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Uzbekistan. CAREC is supported by multilateral institutions.
- The *Silk Road Agreement* was founded in September 1998. The signatories were the CIS countries (excluding Russia and Turkmenistan), Bulgaria, Romania, and Turkey. The agreement provides for coordinated development of transport links between China and Europe, and the regulation of transport tariffs and custom procedures across the region.
- The *Caspian Sea Oil and Gas Agreements* were signed in November 1999. The signatories included Azerbaijan, Georgia, Kazakhstan, Turkey, and Turkmenistan. The agreement concerns pipeline projects for the export of Caspian Sea oil and gas to world markets via Turkey. It makes possible the export of these natural resources without touching Russian or Iranian territory.
- The members of the *Shanghai Cooperation Organization* in 2001 were China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. The creation of the organization was initiated by Russia to maintain its leading role in the region. The aim of the creation of the organization was to settle border issues between its members, but later its objective became regional security. It also approved programs on the promotion of trade and investment.

- The *Central Asia Cooperation Organization (CACO)* was founded in 2002 by Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. In 2004 Uzbekistan argued for the deepening of the integration between member states by creating a *Central Asian Common Market*.
- A draft agreement has been signed in September 2003 by Belarus, Kazakhstan, the Russian Federation and Ukraine on creating a *Common Economic Space (CES, customs union)* in 5 to 7 years time.
- *Eurasian Economic Community (EAEC)*: initiative to establish a political and economic union with the participation of Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan. The agreement entered into force in May 2001.

Some countries participate both in the EAEC and CES initiatives. The aims of the two initiatives are overlapping in some cases. These issues need to be resolved before the agreements are finalized. Ukraine's aspirations for EU membership are also not in line with its participation in the Common Economic Space agreement.

As can be seen in recent years a number of regional cooperation initiatives came to life. In addition to these, in February 2005 Kazakhstan proposed the creation of a Central Asian Union, which would be based on similar principals as the European Union.

Although since the disintegration of the USSR numerous bilateral and multilateral agreements came to life with the participation of Central Asian countries, concerning a wide range of crucial issues ranging from the management of natural resources to security issues, concrete results of these agreements have been modest. Looking at the existing agreements and groupings, Central Asian countries so far seemed to have a larger propensity to integrate with countries that are outside of Central Asia. The relationship between these countries can be characterized as conflict, rather than cooperation.

UNEMPLOYMENT RATE IN SLOVAKIA IS THE SECOND HIGHEST IN THE EU

The yearly Slovakian unemployment rate in 2005 was 16.2%, which is quite high, but still smaller than 18.1%, as it was in 2004. The unemployment rate was the highest in the first quarter of the year 2005 and was gradually decreasing when it reached 15.3% in the last three months of the year.

According to *Eurostat*, in January 2006 the Slovakian unemployment rate was 15.8%, which is the second highest after Poland's 17.2%. Comparing it with the Irish record-low that was 4.3%, or with the average of the EU 25, the difference is more than significant.

Unemployment rate is the only macroeconomic parameter the country cannot be satisfied with. Due to the country's economic performance resulted from deep reforms Slovakia is now considered as the „economic tiger” of region. As a peak of the reform series it is expected to adopt the Euro by January 2009.

THE DEVELOPMENT OF UNEMPLOYMENT

The total number of unemployed was 427 500 in 2005, which could be even considered as quite favorable compared with that of the earlier year's 480 700.

Chart 1 below shows the unemployment rate since 1994. As we can see the unemployment rate has always been quite significant. It is started to grow faster after the year of 1998, from 1998 to 1999 it increased by 3,7 percentage point.

Chart 4 Development of Unemployment Rate in Slovakia 1994-2005



Source: Statistical Office of the Slovak Republic

It reached its record peak in 2001 with 19.2%. In this time series last year shows a remarkable improvement, unemployment rate decreased almost by 2 percentage points.

Considering the last two years we can realize that in every quarter the rate of unemployment was gradually improving. The improvement must be partly due to the new system of social policy and labor market policy and to the economic reforms the government introduced in 2004. The government eliminated progressive income taxation and created a 19% flat rate income tax that contributed to the whitening of black work. Efforts to attract more foreign capital were successful and resulted in growing investments.

Furthermore, because of the EU membership a lot of Hungarian from Slovakia came to work in Hungary. This also reduced the number of unemployment people. Besides, many Slovakian small entrepreneurs are working in the Hungarian service industry and mainly in construction industry.

Table 4. Development of Main Unemployment Indicators in 2004 and 2005 by Activities in Quarterly Division

Indicator	2004					2005				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<i>Number of unemployed (thousand persons)</i>	511.5	489.4	466.9	455.1	480.7	461.9	425.3	415	407.6	427.5
<i>Index (corr. period of previous year=100)</i>	106.5	109.5	104	99.3	104.7	90.3	86.9	88.9	89.6	88.9
<i>Unemployment rate (%)</i>	19.3	18.5	17.5	17.1	18.1	17.5	16.2	15.6	15.3	16.2
<i>Unemployed by economic activities of last job</i>										
Agriculture, hunting and forestry; Fishing	31.8	28.1	26.1	28.2	28.6	42.4	31	29.1	30.4	33.2
Industry	90.3	84.4	78.1	77.3	82.5	109.7	102.4	90.1	89.9	98
Construction	32.9	24.9	25.4	25.6	27.2	43	33.9	30.7	27.5	33.8
Wholesale and retail sale; repair of vehicles	34.8	30.2	28	29	30.5	38.7	39.6	37.5	37.2	38.3
Hotels and restaurants	15.9	13.8	10.4	11.2	12.8	16.2	14.9	15.2	16.8	15.8
Transport, storage, posts and telecommunications	11.8	12.3	10.3	9.7	11	10.9	11.8	13.6	13.4	12.4
Financial intermediation	4	3.5	2.9	2.7	3.3	2.6	3.2	2.5	3.4	2.9
Real estate, renting and business activities	7.2	8	7.3	7.3	7.5	10.3	10.2	7.9	7.2	8.9
Public administration and defense; compulsory social security	11.4	10.5	10.2	10.6	10.7	14.7	12.9	13.9	10.6	13
Education	9.5	8.8	7.6	7.2	8.3	5.9	7.7	9.5	10.1	8.3
Health, social work	12.1	10.6	10.9	11.6	11.3	15.4	16.2	14.2	12.9	14.7
Other community, social and personal activities	30.7	24.3	25.3	21.4	25.4	40.8	37.5	34.5	28.9	35.4
Household activities	0.9	0.8	1.7	1.3	1.2	1.6	1.4	0.6	1.1	1.2
Extra-territorial organizations	-	-	-	-	-	-	-	-	-	-
Not identified	68.2	66.8	66.4	62.8	66.1	63.2	66.7	64.7	63.4	64.5
Unemployed without work experience	100.3	98.5	104.5	101.7	101.3	96	99.9	102.8	102.4	100.3

Source: Statistical Office of the Slovak Republic

Most unemployed live in industrially undeveloped regions with no infrastructure and unqualified population. A lot of them are ethnically Hungarians.

Banksa Bystrica, Nitra and Presov are less developed regions of Slovakia with highest unemployment rate, Bratislava on the other hand is a more developed region of the country with the lowest unemployment rate. The bigger part of foreign investments goes to this region.

In Slovakia just like in Hungary, Roma people are fighting with the problems of being unqualified. They are afflicted with poverty redoubled.

THE CAUSES OF HIGH UNEMPLOYMENT

The causes of unemployment are originated from the Slovakian political and economic events after 1989. Eastern markets collapsed, the back bone of Slovakian industry, the military industry started its transformation process. With the disintegration of the former Czechoslovakia the division resulted in a loss of some industrialized areas for Slovakia. Furthermore, the period of 1997-1998 was characterized by over-manning. Economic growth stalled while labour productivity was on the rise. Consequently, in the labour market supply surpassed demand which caused a sudden rise in unemployment. Meanwhile, new job creation was inefficient.

The Slovakia's OECD membership together with Czech Republic and Hungary NATO's accession contributed to the volume of the increase of foreign investments into the country. Euro-Atlantic integration was also a guarantee for potential improvement in this field.

THE OUTLOOK FOR THE POTENTIAL UNEMPLOYMENT RATE

Black-market work, low education and labor mobility are the main factors affecting unemployment. The measures taken by the government in order to improve business environment, to increase investments and to eliminate illegal work are going to decrease unemployment in long term.

In January 2004, the new system of social contributions was launched. The employer's contribution is 35.2% of the salary and the employee contributes 13.4%. A self-employed person pays social security himself. Meanwhile pension system was also reformed. The government improved the pay-as-you-go pension insurance system and introduced a system of pension savings. This led to a mixed pension insurance system.

The increased volume of investments during last years is also going to reduce unemployment significantly in the long term. KIA-Hyundai, Peugeot, Samsung and Sony are just some names on the list of investors that have already chosen Slovakia. SARIO (Slovak Investment and Trade Development Agency) promotes the investment climate, investment projects and incentives for foreign investors. During 2005 it completed 48 investment projects, with foreign direct investments in the planned volume of EUR 692.4 million (SKK 26310 million). 7219 new jobs were created, with the planned expansion to 9463 new jobs. SARIO contributed to the implementation of investment projects of 8 KIA subcontractors, which will lead to creation of approximately 1200 new jobs, and will bring an overall investment of over SKK 4.4 billion.

From the aspects of view of industrial sectors, most projects were implemented in manufacturing industry (10 projects), rubber and plastics industry (10), in electro technical industry (8), metal working industry (6), in wood processing, furniture and paper industry (6),

automotive industry (4), information technologies and call centres (2), and finally in textile industry (2).

As for the geographical location of the investment, most of the investments were located in Nitra region (12 projects), Kosice and Trencin regions (7), Bratislava, Trnava, and Banska Bystrica regions (5), Presov region (4), and Zilina region (3). As for the country of origin of the investment projects, most investments during the year 2005 were from Germany, France, South Korea, Italy, Austria and Spain. (*Source: <http://www.sario.sk>*)

In 2007, Slovakia is expected to be the world's automotive leader. As for the production of cars per person, Slovakia is to beat the current leader, Belgium. After the beginning of full production in 2007, the automotive factories KIA and PSA Peugeot will produce 900 thousand cars per year. This success is not due only to the favourable state aid. Good geographical position, cheap, but qualified workforce, flexible labour code, much lower tax burden compared to other EU countries, no dividend tax and improving business infrastructure were the motivating factors. The competitiveness of Slovakia lies in low production costs, main parts of which are wages. They are generally 30% lower than in other V4 countries.

Investments do not only mean direct job creation but indirectly also involve potential chances of transportation for small-and medium entrepreneurs.