European Construction Sector Observatory

Country profile **Slovakia**

September 2020

In a nutshell

After growing by 4.0% in 2018, the economic growth of Slovakia, in terms of GDP, slowed down by 2.3% in 2019. The country's GDP amounted to EUR 89.3 billion in 2019.

The slower growth in 2019 was mainly due to lower net exports, due to both lower foreign demand and temporary domestic factors, such as changes and delays in production in the large, export-focused automotive sector. Nonetheless, strong domestic demand, low unemployment and rising wages have boosted private consumption.

In line with the overall economy, the broad construction sector in Slovakia also gained momentum. The **number of enterprises** in the sector totalled 145,042 firms in 2019 (an increase of 6.0% and 20.3% over 2018 and 2010 respectively).

Number of enterprises in the broad construction sector between 2010 and 2019 ↑ **20.3%**

In contrast, the **volume index of production** in the construction of civil engineering and narrow construction sub-sector declined by 16.9% and 3.5% respectively compared to 2015. The fall in 2019 (-13.6 index points-ip vs 2018) was partially due to a significant decline in the development of utility and power networks. Nonetheless, construction of buildings registered a slight increase of 1.7% during the 2015-2019 period.

Volume index of production in construction of civil engineering between 2015 and 2019 ↓ **16.9%**

The **total turnover** in the broad construction sector stood at EUR 18.6 billion in 2017, representing an increase of 26.6% compared to 2010 (EUR 14.7 billion). In 2019, it increased to EUR 22.3 billion, representing an increase of 9.7% over the previous year and a 52.0% increase over 2010. This overall increase in 2019 was driven by the growth in the architectural and engineering activities (+76.8%), manufacturing (+59.3%), narrow construction (+54.3%) and real estate activities (+28.5%) sub-sectors.

Turnover in the broad construction sector between 2010 and 2019 ↑ **52.0%**

In contrast, the **gross operating surplus** of the broad construction sector amounted to EUR 2.6 billion in 2017[1], a 6.6% drop from 2010, owing to an increase in construction costs. The largest decrease in the gross operating surplus was registered in the narrow construction sub-sector (-14.7%), followed by the real estate activities sub-sector (-10.1%). In contrast, the gross operating surplus in the architectural and engineering activities and manufacturing sub-sectors recorded increases of 36.2% and 22.2% respectively, over the same period.

Similarly, the **gross operating rate** of the broad construction sector, which gives an indication of the sector's profitability, decreased from 18.9% in 2010 to 14.0% in 2017, below the EU-27 average of 16.6%.

In terms of **employment**, there were 280,252 persons employed in the Slovak broad construction sector in 2019, representing an increase of 8.8% over 2010. This was driven by a rise in employment in the architectural and engineering activities (22.0%), real estate activities (16.7%), narrow construction (6.9%) and manufacturing (4.9%) sub-sectors during the same period.

Meanwhile, the **housing market** in Slovakia is characterised by increasing **house prices**. The latter have outpaced wage growth, by five percentage points since 2014, thus worsening housing affordability despite low financing costs[2]. In fact, the house price index for total dwellings in Slovakia increased by 32.4% during the 2015-2019 period.

House price index between 2015 and 2019 ↑ **32.4%**

At the same time, even though it increased, the housing supply is not expected to fully meet the demand in the near future. In 2018, the number of completed dwellings grew by 10.6% year on year (YoY), reaching more than 22,000 dwellings, the highest level since the crisis. However, in March 2020, it stood at 4,587 units, marking a decrease from the previous number of 6,801 units for December 2019. In addition, following the outbreak of COVID-19 and market related uncertainty, the preparation of the new projects for house (dwelling) buildings is delayed. Therefore, it is expected that there will be a significant gap in the outputs of the building sector in the next year.

The government of Slovakia has taken several initiatives addressing some of the issues observed in the housing market. In 2019, it introduced the 'Boarding house' measure, which aims to provide long-term accommodation to the employees originating from distant regions of Slovakia or even foreign workers. However, this measure has not yet translated into practice as the specific schemes and/or (financial) instruments as well as the total government investment amount are still to be defined.

The Slovak government allocated EUR 20.0 million to support housing for 2020-2022. This is 50% less as compared to the 2019 allocation (EUR 40.0 million)[3].

Thus, reduced financial allocation from public sources may slow down the development and implementation of housing policies and thus aggravating the problem of affordability.

The EU also plays an important role in supporting infrastructure development in Slovakia, thus providing further market opportunities for the construction sector. In the 2014-2019 period, investments driven by the European Regional Development Fund and the Cohesion Fund led to the construction or modernisation of 123 kilometres of roads.

Due to the decline in demand caused by the COVID-19 pandemic, delays are expected in the commissioning of projects that are in the later stages of construction. Additional negative impacts include higher project costs, skilled labour shortage and additional business insolvencies in the construction sector.

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1

Key figures

Construction market

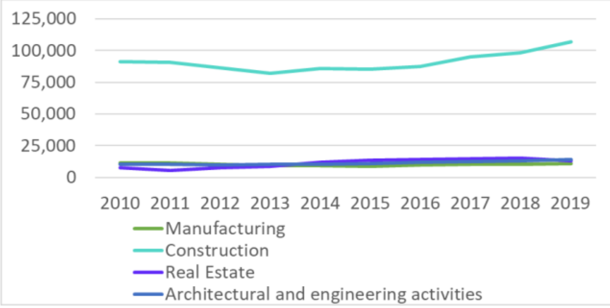
The **number of enterprises** in the broad construction sector in Slovakia totalled 145,042 enterprises in 2019[4], with the narrow construction sub-sector accounting for 73.5% of the total number of firms (Figure 1). The number of enterprises in the broad construction sector grew by 20.3% between 2010 and 2019[5]. During the 2010-2013 period, the sector experienced a decline of 8.7% before resuming its growth from 2014 onwards. The number of enterprises in the narrow construction sub-sector increased by 16.7% between 2010 and 2019, reaching 106,666 in 2019. The real estate activities sub-sector which experienced the highest growth (+76.2%) in the same period, increased from 7,511 in 2010 to 13,237 in 2019. It was followed by architectural and engineering activities sub-sector (+39.1%). In contrast, the manufacturing sub-sector recorded a decline of 3.8% during the same period.

Number of enterprises in the broad construction sector between 2010 and 2019 ↑ **20.3%**

The **volume index of production** in the broad construction sector recorded a decline of 3.5% between 2015 and 2019. In parallel, the volume index of production in construction of civil engineering dropped by 16.9% in the same period. The fall in 2019 (-13.6 ip vs 2018) was partially due to a significant decline in the development of utility and power networks[6]. Last, the volume index of production in the construction of buildings registered a slight increase of 1.7% during the 2015-2019 period (Figure 2).

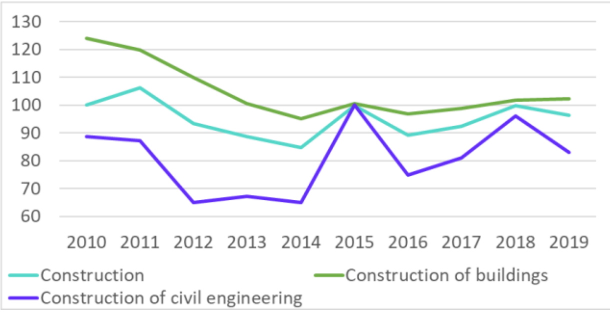
Volume index of production in construction of civil engineering between 2015 and 2019 ↓ **16.9%**

Figure 1: Number of enterprises in the Slovak broad construction sector between 2010 and 2019



Source: Eurostat, 2020.

Figure 2: Volume index of production in the Slovak construction sector between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

The total **value added** of the broad construction sector amounted to EUR 5.6 billion in 2019[7], with the narrow construction sub-sector contributing to 59.4% of the total[8] (EUR 3.3 billion). This represents a growth of 23.7% between 2010 and 2019. The real estate activities sub-sector contributed 15.4% of the total[9] (EUR 859.1 million), followed by the manufacturing (14.6%, EUR 818.7 million) and architectural and engineering activities sub-sectors (10.7%, EUR 598.0 million).

The share of gross value added of the narrow construction sub-sector in the GDP stood at 6.9% in 2019, above the EU-27 average of 5.0%. Conversely, the real estate activities sub-sector gross value added in the GDP, which stood at 9.0% in 2019, was slightly below the EU-27 average of 9.7% (Figure 3).

Share of gross value added of the narrow construction sub-sector to GDP in 2019

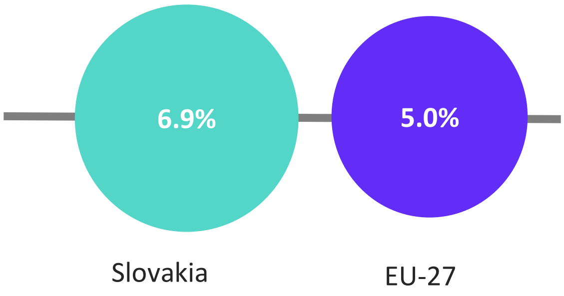
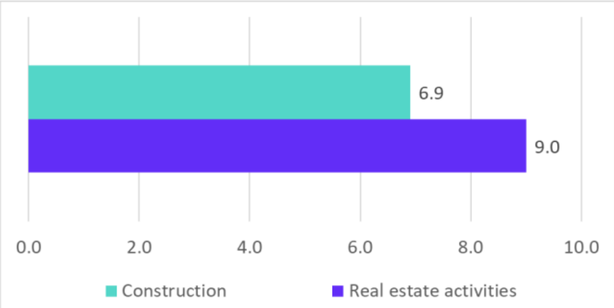


Figure 3: Gross value added as a share of GDP in the Slovak broad[10] construction sector in 2019 (%)



Source: Eurostat, 2020.

There are four statistical regions in Slovakia - *Bratislavský kraj*, *Západné Slovensko*, *Stredné Slovensko* and *Východné Slovensko*. The gross value added is not equally split over these regions. *Východné Slovensko* had the highest share (28.5%) in gross value added in the narrow construction sub-sector in 2018, followed by *Západné Slovensko* (27.4%), *Stredné Slovensko* (27.2%) *and* *Bratislavský kraj* (17.0%).

Similarly, in the real estate activities sub-sector, *Bratislavský kraj* had the highest share (37.5%) in gross value added in 2018, followed by *Západné Slovensko* (23.4%), *Východné Slovensko* (21.4%) and *Stredné Slovensko* (17.7%).

Compared to other regions, *Východné Slovensko* exhibited the highest growth (+37.9% and +58.1%) in gross value added in the narrow construction and real estate activities sub-sectors respectively between 2010 and 2018.

Productivity

Apparent labour productivity[11] of the broad construction sector reached EUR 18,158 in 2017[12], an increase of 3.3% during the 2010-2017 period. It remained well below the EU-27 average of EUR 50,079 for the same year.

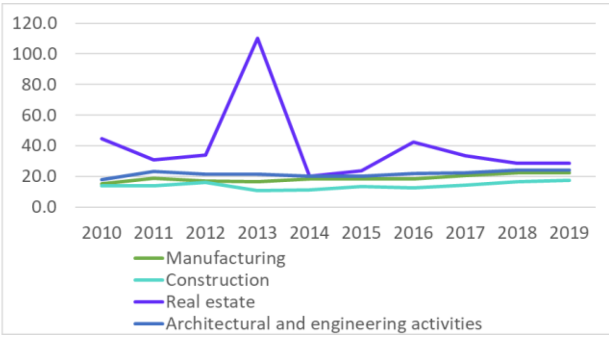
The manufacturing sub-sector experienced the highest increase in apparent labour productivity, growing from EUR 15,300 in 2010 to EUR 20,382 in 2017 (+33.2%), followed by architectural and engineering activities sub-sector, which increased from EUR 18,000 to EUR 22,400 over the 2010-2017 period (+24.4%). Similarly, the labour productivity in the narrow construction sub-sector slightly increased from EUR 14,000 to EUR 14,100 (+0.7%). However, the real estate activities sub-sector – though exhibiting the highest productivity, experienced a decline from EUR 44,500 in 2010 to EUR 33,500 (-24.7%).

Over the 2017-2019 period, productivity in the manufacturing (+8.8%), narrow construction (+25.0%) and architectural and engineering activities (+7.9%) sub-sectors increased to EUR 22,180, EUR 17,619 and EUR 24,176, respectively. However, productivity in the real estate activities sub-sector is expected to decline by 14.7% during the same period, reaching EUR 28,589.

The largest labour productivity growth was reported by the manufacturing sub-sector, increasing from EUR 15,300 in 2010 to EUR 22,180 in 2019 (+45.0%).

Slovakia's productivity growth has been primarily driven by joining global value chains, particularly in labour-intensive segments. Large foreign investment inflows have also helped develop a competitive export-led industry, encouraging strong growth and productivity performance[13].

Figure 4: Labour productivity in the broad construction sector in Slovakia between 2010 and 2019 (EUR k)



Source: Eurostat, 2020.

Turnover and profitability

Over 2010-2017, the **turnover** of the Slovak broad construction sector grew by 26.6%, reaching EUR 18.6 billion. In 2019, it grew to EUR 22.3 billion, an increase of 9.7% over the previous year and a 52.0% increase over 2010. In 2019, over half of the total turnover (62.1%) was generated by the narrow construction sub-sector, followed by the real estate (15.0%), manufacturing (14.8%) and architectural and engineering activities (8.1%) sub-sectors.

Turnover in the broad construction sector between 2010 and 2019 ↑ **52.0%**

In contrast, **the gross operating surplus**[14] of the broad construction sector amounted to EUR 2.6 billion in 2017[15], a 6.6% drop from 2010, owing to the increase in the construction cost. The largest decrease in gross operating surplus was registered by the narrow construction sub-sector (-14.7%), followed by the real estate activities sub-sector (-10.1%). In contrast, the gross operating surplus in the architectural and engineering activities and manufacturing sub-sectors recorded increases of 36.2% and 22.2% respectively over the same period.

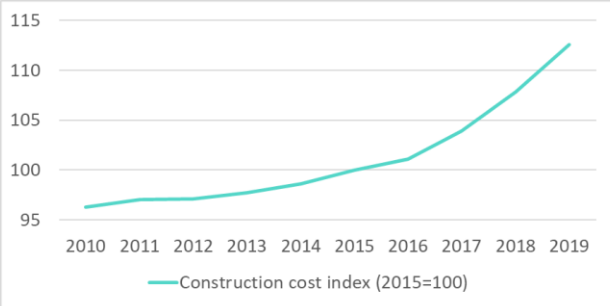
Gross operating surplus in the architectural and engineering activities sub-sector between 2010 and 2017 ↑ **36.2%**

Similarly, the **gross operating rate** of the broad construction sector, which gives an indication of the sector's profitability, decreased from 18.9% in 2010 to 14.0% in 2017[16], below the EU-27 average of 16.6%.

Increase in labour costs has led to the growth of the **construction cost index** for residential market (+12.6%) between 2015 and 2019 (Figure 5).

> **The shortage of workers in Slovakia has pushed large salary rises and due to this labour costs are now increasing faster than productivity[17].**

Figure 5: Construction cost index between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

Employment

In 2019[18], there were 280,252 persons employed in the Slovak broad construction sector, an increase of 8.8% since 2010[19] (257,539 people). Employment by the broad construction sector represented 10.8% of **employment in the total economy** in 2018.

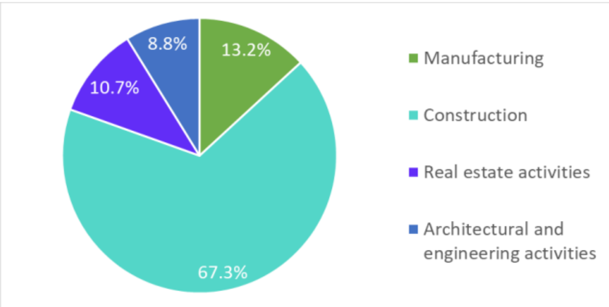
The narrow construction sub-sector employed 67.3% of the total workforce of the broad construction sector (Figure 6), followed by the manufacturing (13.2%), real estate activities (10.7%) and architectural and engineering activities (8.8%) sub-sectors. The number of persons employed in the narrow construction and manufacturing sub-sectors increased by 6.9% and 4.9% during 2010-2019, reaching 188,558 and 36,910 people respectively. Similarly, the number of persons employed in the real estate activities and architectural and engineering activities sub-sectors increased by 16.7% and 22.0% during 2010-2019, reaching 30,050 and 24,734 respectively. SMEs in the broad construction sector employed a large portion of workers with almost 99.9% share in 2017[20].

Number of people employed in the architectural and engineering activities sub-sector between 2010 and 2019 ↑ **22.0%**

As for **employment by specific occupation**, craft and related trade workers constitute the largest occupation (58.2%) in the narrow construction sub-sector, even though they declined by 5.9% between 2010 and 2019. The largest increase was registered for clerical support workers (+94.3%), followed by technicians and associate professionals (+32.1%) in the same period.

Similarly, in the manufacturing sub-sector, service and sales workers experienced the highest growth (+252.2%) between 2010 and 2019. This was followed by elementary occupations (+81.5%) and clerical support workers (+80.2%). Plant and machine operators and assemblers accounted for the largest occupation (31.9%) share, followed by craft and related trades workers accounting for 31.4% of the total employment in the sub-sector.

Figure 6: Percentage of people employed per construction sub-sectors in Slovakia in 2019



Source: Eurostat, 2020.

In terms of **regional employment**, *Západné Slovensko* had the highest number of persons employed in the narrow construction sub-sector (58,250) in 2017[21]. In the real estate activities sub-sector, *Bratislavský kraj* had the highest number of persons employed (13,530) in the same year.

In parallel, *Stredné Slovensko* recorded the strongest increase of employment in the real estate activities sub-sector (+33.4%) while *Bratislavský kraj* recorded the highest decline (-15.8%) in the narrow construction sub-sector over the 2010-2017 period.

The number of **self-employed workers** in the narrow construction sub-sector declined by 12.8% from 112,400 in 2010 to 98,000 in 2019. Self-employed workers in the narrow construction sub-sector represent 26.0% of the self-employed in the general economy, hinting at a highly fragmented construction market. This is more than double of the EU-27 average of 11.9%. Similarly, self-employment in real estate activities sub-sector increased by 46.4% between 2010 and 2019, representing 1.1% of all self-employed in the general economy in 2019 (slightly below the EU-27 average of 1.4%).

Self-employed workers in the narrow construction sub-sector between 2010 and 2019 **12.8%**

In parallel, **full-time employment** in the narrow construction sub-sector declined by 9.6% between 2010 and 2019. In contrast, an increase of 20.1% was recorded in the manufacturing sub-sector during the same period.

Similarly, in terms of **part-time employment**, narrow construction sub-sector grew significantly by 95.8% between 2010 and 2019, reaching 4,700 in 2019. The manufacturing sub-sector recorded an increase of 11.8% in the same period.

The ongoing COVID-19 pandemic is expected to have an adverse impact in the Slovakia's economy. According to the Finance Ministry of Slovakia, the unemployment rate is expected to rise up to 8.2% in 2020, before slowly falling to 7.0% next year. At the same time, 76,000 jobs are projected to be lost in Slovakia, primarily in the areas of tourism, catering, retail, transport, industry and construction[22].

2

Macroeconomic indicators

Economic development

Slovakia has witnessed a period of consistent growth since 2010 with GDP rising from EUR 70.2 billion in 2010 to EUR 89.3 billion in 2019. This economic expansion is primarily attributable to a rise in private consumption, low unemployment and increasing wages. Strong improvements in the labour market have contributed to the rise in individual household's disposable income[23].

In 2019, the GDP of Slovakia amounted to EUR 89.3 billion, a 2.3% increase compared to 2018.

Economic growth in Slovakia is expected to decline by 6.7% in 2020 mainly due to the slowdown in the global economy in the wake of the COVID-19 pandemic. Nonetheless, depending on the future developments of the current pandemic situation and early control over the pandemic in the second half of 2020, the Slovak GDP is expected to recover and grow by 6.6% in 2021[24].

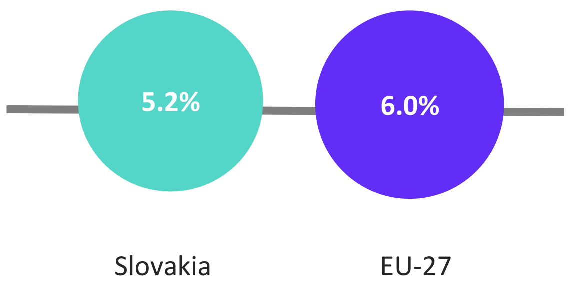
The **output gap** of 2.7% of potential GDP for 2019 indicates that resources were already working at more than full capacity. Such a positive output gap may in turn contribute to inflation because both labour costs and the prices of goods increase in response to the increased demand. Meanwhile, while the **inflation rate** remained on a deflationary trend between 2014 and 2016, it has been positive since 2017. In 2019, the rate increased to 2.8% from 2.5% in 2018.

Demography and employment

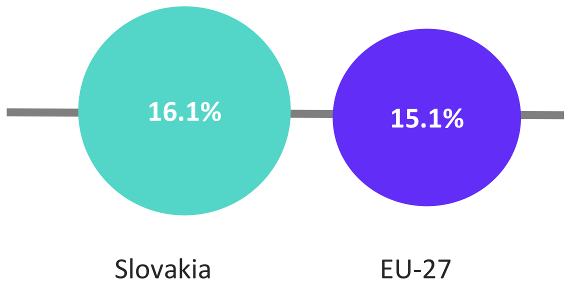
The overall unemployment rate (25-64 years old) in Slovakia improved to 5.2% in 2019, as compared to 6.6% in 2018, and is below the EU-27 average of 6.0%.

However, challenges with long-term structural unemployment persist. **Youth unemployment** (below the age of 25) has been declining continuously since the 2012 peak (34%), reaching 14.9% in 2018. It however increased to 16.1% in 2019, higher than the EU-27 average of 15.1%.

Unemployment rate in 2019



Youth unemployment rate in 2019



In terms of the **total population**, Slovak population amounted to 5.5 million in 2019. It is projected to shrink by 3.1% by 2050, reaching 5.1 million. Between 2010 and 2018, the net migration almost doubled from -4,929 to +3,955.

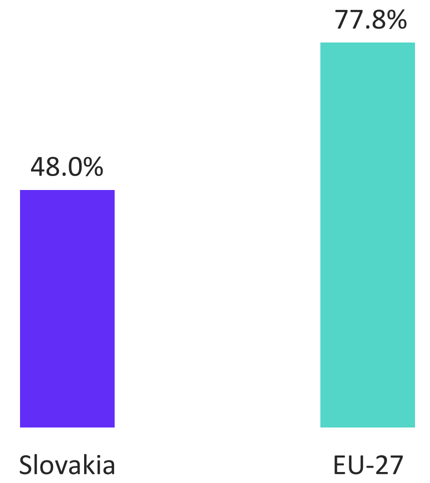
Furthermore, the **working age population (people aged between 15 and 64)** represented 68.2% of the total population in 2019, which is higher than the EU-27 average of 64.6%. The **elderly population** (65 years or over) stood at 16.0% below the EU-27 average of 20.3%. Nevertheless, the share of the working age population is projected to decrease by 21.0% by 2050 in comparison to 2019, while the share of the elderly population is forecast to rise by 72.8% in the same period. This projection shows a future need for elderly infrastructure facilities like hospitals and care homes. This in turn highlights potential opportunities for the construction sector and the need for long-term policy responses, such as ensuring the sustainability of the health and pension system and increasing employment opportunities for elderly[25].

In Slovakia, the old-age dependency ratio is expected to triple by 2060. Banská Bystrica region, one of the fastest ageing Slovak regions, has identified the lack of integrated care system for elderly as an investment priority under the Catching-Up regions initiative[26].

Public finance

In 2019, general **government expenditure** in Slovakia accounted for 42.8% of GDP, slightly above the 2010 level (42.2%) and below the EU-27 average of 46.7%. The same year, **general government deficit** accounted for -1.3% of GDP, above the EU-27 average of -0.6% of GDP. The deficit has been declining since 2015 due to positive economic outlook. The improving labour market strengthened the government revenues in recent years as labour income tax and social security contributions increased significantly. The **general government gross debt** amounted to 48.0% of GDP, well below the EU-27 average of 77.8%.

As per estimates, the government deficit is expected to be 1.2% of GDP in 2020. This will primarily be driven by the introduction of government fiscal measures decreasing the tax burden and introducing minimum pensions[27].



Government gross debt (% of GDP) in 2019

Entrepreneurship and access to finance

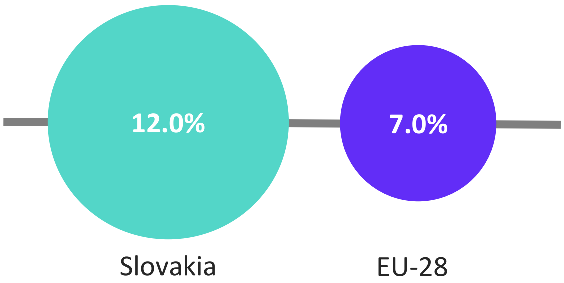
In terms of overall financial system development, Slovakia ranks 56th out of 141 countries according to the Global Competitiveness Report 2019 of the World Economic Forum[28].

Loans to non-financial corporations in Slovakia have substantially increased over 2010-2019, growing from EUR 15.1 billion in 2011 to EUR 20.2 billion (+33.7%).

According to the Global Competitiveness report 2019, Slovakia performs moderate on most of the financial metrics. In terms of Venture capital availability, Financing of SMEs and Domestic credit to private sector, Slovakia ranks 42nd, 45th and 60th respectively. It performs well in terms of credit gap (1st) and soundness of banks (12th).

According to the Survey on the access to finance of enterprises (SAFE Report) 2019[29], access to finance is the most important concern for 7.0% of Slovak SMEs, in line with the EU-28[30] average. The survey further indicates that 12.0% of rejections were reported by SMEs which applied for a loan (compared to a 7.0% EU-28 average). In addition to this, 18.0% of companies that successfully applied received less than they applied for (against an EU-28 average of 10.0%).

Share of SMEs experiencing loan application rejection in 2019



Furthermore, around 5.0% of Slovak firms did not apply for a bank loan between April 2019 and September 2019 due to fear of rejections, as compared to 4% of EU-28 average[31]. In terms of access to finance, it is worth noting that lending to non-financial corporations has picked up in recent years[32].

Loans to non-financial corporations between 2010 and 2019 ↑ **33.7%**

The Slovak government has taken several measures to improve the access to finance. It has introduced public funds for innovation investments and a micro-loan programme to support micro firms and SMEs. Within the current programming period 2014-2020, allocation of EUR 400.0 million was made to support SMEs through a range of initiatives, including financial instruments (bank guarantees), venture capital, etc. to be distributed to beneficiaries through financial intermediaries/banks[33].

SMEs in Slovakia are an important element of growth and diversification of the economy and are at the centre of several policy reforms aiming to simplify the regulatory environment and reduce administrative burden. Despite support for entrepreneurship and rising R&D intensity, the limited spending in R&D reduces businesses' capacities to innovate and generate value added, and this can have negative impact on productivity[34].

3

Key economic drivers of the construction sector

Business confidence

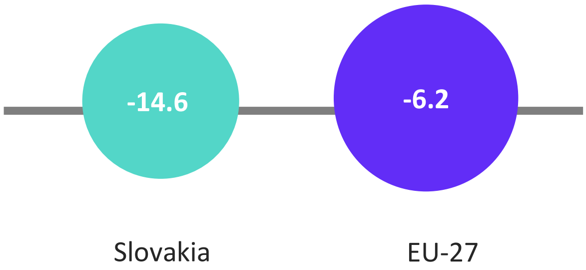
Between 2010 and 2019, confidence in the construction sector improved significantly, particularly regarding consumer and construction confidence indicators, mainly attributable to the broader economic development of the country.

The **consumer and construction confidence indicators** stood respectively at -8.4 and -14.6 in 2019 in comparison to -20.0 and -41.6 in 2010. Although these numbers are lower than the EU-27 average of -4.8 and -6.2 respectively, they indicate a renewed confidence in the broad construction sector. Growing business confidence suggests the improvement of market determinants and optimistic investment prospects in the broad construction sector. After remaining positive from 2014 to 2018, the **industry confidence indicator** worsened in 2019, decreasing to -5.0 from 1.9 in 2010, slightly below the EU-27 average of -4.8.

In parallel, in 2019, the Slovak **investment ratio** improved slightly from 20.7% in 2010 to 21.6%. Also, the **investment per worker** increased by 55.9% from EUR 20,459 in 2010 to EUR 31,897 in 2017[35].

The ongoing COVID-19 crisis has weakened the economic sentiment in Slovakia. In April 2020, the construction confidence indicator reduced by 40 points to -44.5, as compared with the previous month. The decline was mainly due to less favourable evaluations of the overall level of orders and the expected employment impacted by the pandemic[36].

Construction confidence indicator in 2019



Domestic sales

The ranking of the **most domestically sold construction products** in Slovakia has remained constant over 2010-2018. In 2018 the ranking shows that the most domestically sold construction products was “Ready-mixed concrete (group 235310)” instead of “Prefabricated buildings of metal (group 251110)” in 2017 which increased in value by 16.9% in a year. The top 5 most domestically sold construction products are presented in Table 1, including a comparison with the top 5 sold construction products in the EU-27. These represented almost half (48.1%) of the total domestic construction products sold in 2018.

Table 1: 5 most domestically sold construction products in Slovakia and in the EU-27 in 2018[37]

	Slovakia			EU-27
	Product	**Value (EUR m)**	**Share in construction product domestic sales (%)**	**Product**
1	Ready-mixed concrete (group 236310)	164.3	12.7	Other structures (group 251123)
2	Portland cement, aluminous cement, etc. (group 235112)	135.7	10.5	Doors, windows, etc. (group 251210)
3	Tiles, flagstones, bricks, etc. (group 236111)	134.4	10.4	Ready-mixed concrete (group 236310)
4	Prefabricated buildings of metal (group 251110)	110.5	8.5	Prefabricated buildings of metal (group 251110)
5	Other structures (group 251123)	78.0	6.0	Prefabricated structural components (group 236112)

Source: PRODCOM, 2019.

Export of construction-related products and services

Table 2 represents the **most exported construction products** in both Slovakia and in the EU-27 in 2018. The rankings of two products have changed in 2018 as compared to 2010. 'Mortars' (group 236410) and 'Quicklime, Slacked lime etc.' (group 235210) were replaced by 'Prefabricated buildings of Metal' (group 251110) and 'Other Structures etc' (group 251123), respectively. Together, the top 5 product groups made up 48.1% of all construction product exports in 2018.

Table 2: 5 most exported construction products in Slovakia and in the EU-27 in 2018[38]

	Slovakia			EU-27
	Product	**Value (EUR m)**	**Share in construction product exports (%)**	**Product**
1	Other structures (group 251123)	124.9	13.4	Ceramic tiles and flags (group 233110)
2	Portland cement, aluminous cement, etc. (group 235112)	122.8	13.1	Other structures (group 251123)
3	Particle board (group 162112)	103.5	11.1	Fibreboard of wood (group 162115)
4	Other plywood, etc. (group 162116)	88.6	9.5	Doors, windows, etc. (group 251210)
5	Windows, French windows, etc. (group 162311)	69.7	7.5	Marble, travertine etc. (group 237011)

Source: PRODCOM, 2019.

In terms of cross-border provision of construction services[39], in 2018[40], Slovakia exported services for a total amount of EUR 108.5 million worldwide, representing a 40.4% decrease in comparison to 2013. It is important to note that EUR 101.5 million were exported to the EU-28[41], showing the importance of the EU market.

Medium-sized companies exploit most of the construction service export-related opportunities, as micro and small companies would not have the necessary financial capacities, and multinational companies (who are mainly foreign) are mostly interested in the Slovak market. Export capacity of companies in Slovakia, like other countries, is limited by their financial situation. SMEs in Slovakia experience liquidity issues which do not allow them to enter the foreign markets easily.

At the same time, Slovakia **imported** a total of EUR 154.2 million in construction services in 2018[42] from the world, a 34.7% increase since 2013 (EUR 114.5 million), whereas EUR 151.9 million came from EU-28[43] countries (i.e. 98.5% of the total imports). The Slovak construction sector experienced a **trade deficit** of EUR 45.7 million in 2018.

Access to finance in the construction sector

In 2019, the **credit extended** to the narrow construction sub-sector slightly increased by 0.7% over 2018 reaching EUR 1.1 billion, indicating restored confidence in the sector. This represents an increase of 8.5% between 2010 and 2019. This rise comes after a moderate decline over 2010-2017, with **outstanding loans** to construction companies amounting to EUR 947.5 million in 2017[44], 7.5% below the EUR 1,0 billion reported in 2010.

Credit extended to narrow construction sub-sector between 2010 and 2019 ↑ **8.5%**

According to the Survey on the Access to Finance of Enterprises (SAFE) results 2019, bank loans are a relevant source of financing for 40.0% Slovak SMEs, below the EU-28 average of 45.0%. Also, 55% firms use credit lines and 53.0% find leasing relevant[45].

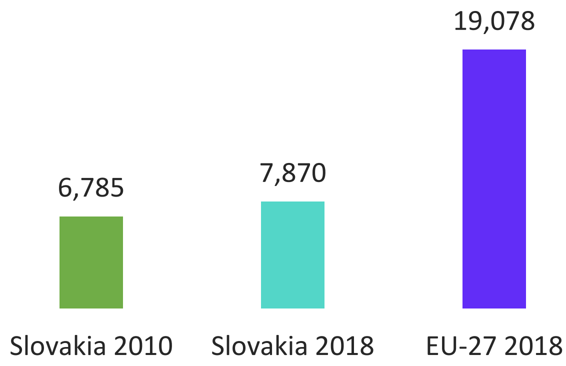
The EIB Investment Survey for 2019 shows that 69.0% Slovak firms in the construction sector consider availability of finance as a 'long-term barrier'[46].

According to the Survey, 78.0% construction firms in Slovakia depend more on internal funds and conversely, have the lowest share of external finance. Further, 15.0% firms in the construction sector are dissatisfied with the cost of their external finance, whereas 16.0% firms in the infrastructure sector are dissatisfied with the collateral required[47].

In order to improve access to finance for SMEs, the Slovak government has introduced several measures. These measures include provision of loan and guarantee to SMEs by specialised state banks (The Slovak Guarantee and Development Bank and Eximbank), and the Slovak Business Agency (SBA)[48].

Access to housing

The **number of households** in Slovakia has grown by 8.1% since 2010, reaching 1.9 million in 2019. At the same time, the **share of total population in cities and greater cities** has remained constant since 2011, standing at 20.5% in 2019. The **mean equivalised net income** increased by 16.0% between 2010 and 2018[49] from EUR 6,785 to EUR 7,870[50]. However, this is well below the EU-27 average of EUR 19,078.



Mean equivalised net income in EUR

Due to increasing number of households, growing urban population and income, supported by low interest rates and robust economic growth, housing demand in Slovakia has also grown. This rise is reflected in the **house price index** for dwellings, which increased by 32.4% during the 2015-2019 period. In real terms, in the third quarter of 2019, the house prices rose by 8.6% YoY, marking the second-highest growth rate since the crisis[51].

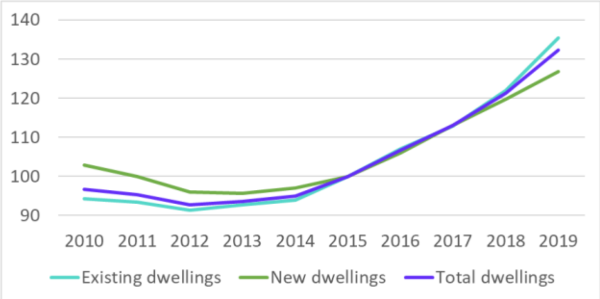
The real house prices (house prices adjusted for inflation) have been rising gradually due to supply constraints and robust demand, thus reducing affordability, although they are still below the pre-crisis peak.

House price index between 2015 and 2019 ↑ **32.4%**

According to the National Bank of Slovakia (NBS), the average residential property price grew by 7.02% to EUR 1,494 per square metre (m^2) during the year to the first quarter of 2019, following year-on-year increases of 7.6% in the fourth quarter of 2018, 3.99% in the third, 4.5% in the second and 4.8% in the first quarter[52].

The Bratislava region of Slovakia has the most expensive housing, where residential property prices grew by 5.6% year on year to EUR 2,053 per m² during the year to the first quarter of 2019, after growing by 3.8% a year earlier[53]. In 2018, the residential price in the Bratislava region stood at EUR 2,148 per m²' which means EUR 1,100 per m² above the national average[54].

Figure 7: House price index in Slovakia between 2010 and 2019 (2015=100)



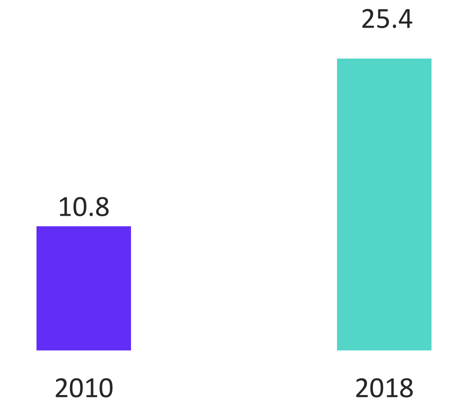
Source: Eurostat, 2020.

Despite an increase in construction, supply constraints continue to push prices up. In 2018, the number of completed dwellings grew by 10.6% year on year, reaching more than 22,000 dwellings, the highest level since the crisis. However, in March 2020, it stood at 4,587 units, marking a decrease from the previous number of 6,801 units for December 2019[55]. In addition, following the outbreak of COVID-19 and market related uncertainty, the preparation of the new projects for house (dwelling) buildings is delayed. Therefore, it is expected that there will be a significant gap in the outputs of the building sector in the next year.

The complicated construction permit process tends to slowdown the supply side responses. The number of **building permits index** for existing buildings declined marginally by 0.9% in 2019 over 2018, after a moderate growth of 11.4% between 2017 and 2018. Between 2015 and 2019, the number of building permits index for existing buildings increased by 15.5%.

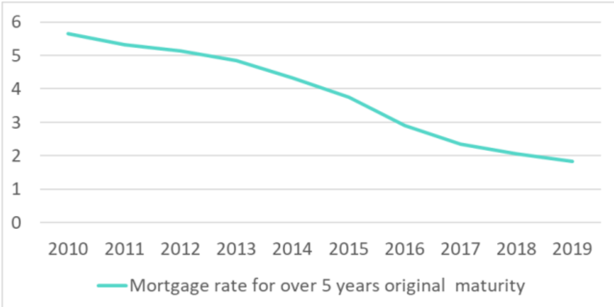
Building permits index for dwellings between 2015 and 2019 ↑ **15.5%**

As evoked earlier, the interest rates on mortgages are at their lowest level since 2010 (Figure 8). In fact, interest rates on mortgages (for over 5 years of original maturity) stood at 1.8% in 2019 compared to 5.7% in 2010. This As a result, **outstanding residential loans** to households grew from EUR 10.8 billion in 2010 to EUR 25.4 billion in 2018 (+134.5%).



Total outstanding residential loans in Slovakia, EUR billion

Figure 8: Mortgage rates for loans for over 5 years original maturity (%) between 2010 and 2019



Source: ECB MFI Interest Rate Statistics, 2020.

Since Slovakia's accession to the EU in 2004, the volume of household debt in the country has been slowly increasing. In the third quarter of 2019, household debt in Slovakia stood at its highest level, 43.4% of GDP. This is still below the European Commission's prudential benchmark of 55.0% but more than the fundamental-based one (28.0%). This growth is due to low interest rate, robust labour market performance and rising incomes, which drove households to take on credit[56]. However, in 2019, the growth slowed down, with year-on-year growth of household debt-to-GDP growing at an average rate of 2.7%.

The slower growth in household debt is mainly due to a moderation in the growth of loans for house purchase (due to macroprudential rules), which reduced its growth to 10.0% in 2019, compared to 12.0% in 2018[57].

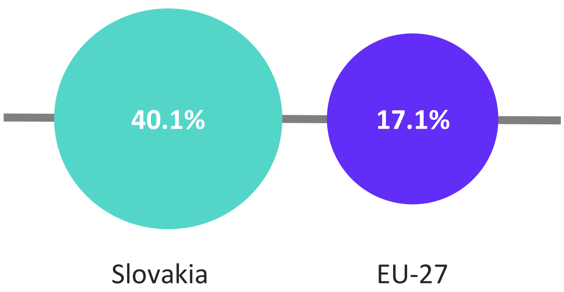
In terms of **home ownership rate**, 92.8% of the population earning above 60% of median equivalised income owned (or co-owned) their dwelling in 2018 as compared to 91.3% in 2010. In contrast, the population earning below 60% of median equivalised income shows a slight decline in ownership. It declined from 80.8% in 2010 to 80.4% in 2018.

The high home ownership rate in Slovakia is due to lack of public rental housing, a legal structure that supports ownership over renting, and the large sale of apartments into private ownership after the fall of the communist regime[58].

In addition, the **overcrowding rate**[59] stood at 35.5% in 2018 compared to 40.1% in 2018, above the EU-27 average of 17.1%[60]. This can be explained by the fact that 84.2% of Slovak people between 18 and 29 years old live with their parents, compared to 68.2% in the EU.

In parallel, the **housing cost overburden rate**[61] was 4.1% in 2018, below the 2010 level (7.6%) and EU-27 average of 9.6%[62], and above its level in 2016. Moreover, the **severe housing deprivation rate**[63] reached 3.7% in 2018 (against 3.8% in 2010), below the EU-27 average of 4.3%[64].

Overcrowding rate in 2018

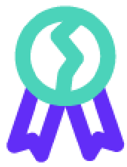


In this respect, better availability of affordable rental housing, social housing with public policies for access to housing could help alleviate such issues. The rental market in 2018 was very limited, with only 8.7% of the population living in rental housing. This below the 2010 level (10.0%).

According to the Slovak Statistical Office, the number of public housing dwellings built has been declining sharply, from 1,545 completed dwellings in 2012 to just 195 in 2018[65].

Investment or external funding in public housing and simplifying the legal structure could help develop the rental market. It could also ease supply shortages and help serve temporary workers. It would also help people with lower incomes insofar as it provides housing at a lower cost than on a pure market basis. Also, simplifying administrative process for municipalities and regions to obtain and dedicated funding may also help66. Due to COVID-19 pandemic, the property market scenario is changing in Slovakia. Property prices are expected to decline in the months ahead which may lead to a drop in the size of loans applied for. Nonetheless, it may also result into the postponing of property purchase decisions. Due to this, demand for housing loans could fall even further in the months ahead[67].

Infrastructure



Slovakia ranks 30th out of 141 economies in terms of its infrastructure, according to the Global Competitiveness Report 2019[68].

As per the report, Slovakia ranks 10th in terms of railroad density, 39th for efficiency of train services, and 45th for road connectivity. In terms of quality of road infrastructure, its performance deteriorated in 2019 (rank: 72nd) as compared to 2018 (rank: 67th).

The EU Structural and Investment Funds are contributing to major transformations of the Slovak infrastructure. By 2019, European Regional Development Fund and the Cohesion Fund provided funding for the building or modernisation of 123 kilometres (km) of roads, both at the regional level and in connection with the Trans-European Transport Network (**TEN-T)** network[69].

More efforts need to be made to make Slovakia's infrastructure, including transport, broadband access, waste management and energy efficiency, fully developed, sustainable and equally distributed within the country. These challenges hold back the country's productivity growth[70].

4

Key issues and barriers in the construction sector

Company failure

Between 2010 and 2017[71], the number of **company deaths** in the narrow construction sub-sector increased by 166.7%, while at the same time, the number of **company births** increased by 56.6%. On the other hand, in the real estate and architectural and engineering activities sub-sectors, company deaths increased by 29.4% and 63.7% respectively, while company births declined by 20.2% in the real estate sub-sector and increased by 53.1% in the architectural and engineering activities sub-sector over the same period.

Company births in the narrow construction sub-sector over 2010-2017 ↑ **56.6%**

Company deaths in the narrow construction sub-sector over 2010-2017 ↑ **166.7%**

According to Global Insolvency Report 2020, 1,959 companies became insolvent in Slovakia in 2018. This marks an increase of 123.6% over the previous year (876), and well above the 2010 level (782)[72].

The bankruptcy in Slovakia is expected to increase by 12.0% by 2020[73]. Nonetheless, improvement in firm exit policies and the insolvency framework could foster resource reallocation and productivity growth in Slovakia. Currently, the proportion of zombie firms (firms with at least three consecutive years of negative operating profits) has increased, in part due to an underperforming insolvency framework[74].

In May 2020, the Slovak Ministry of Justice approved a new tool of a temporary protection to safeguard companies from the fallout caused by COVID-19. These measures provide interim bankruptcy protections for business operators[75].

The temporary protection from insolvency can be allowed by an insolvency court determined by law at the request of an entrepreneur that was not insolvent as of March 12, 2020. Its duration is limited until October 1, 2020 and may be extended by the government until December 31, 2020[76].

Trade credit

According to Payment Practices Barometer Slovakia 2019, with one quarter of the total value of B2B invoices remaining unpaid at the due date, the construction sector in Slovakia shows the highest level of trade credit risk in the domestic market[77].

According to the survey, in Eastern Europe, Slovak firms are the most inclined to offer credit to their B2B customers domestically and abroad. The average proportion of B2B sales made on credit increased from 51.4% in 2018 to 91.5% in 2019. This is well above the 67.2% average for Eastern Europe, and the highest in the region. The key driver for the growth is favourable trends towards private consumption[78].

Trade credit was a relevant source of financing for 30.0% SMEs, whereas it was used by 14.0% of them between April 2019 and September 2019), according to the Survey on the Access to Finance of Enterprises (SAFE) 2019[79].

Late payment

According to a survey conducted by the Atradius Payment Practices Barometer in 2019[80], late payment condition in Slovakia improved in 2019. Days sales outstanding (DSO) for Slovak micro enterprises improved from 43 days in 2018 to 31 days in 2019. In contrast, SMEs took 46 days (up from 44 last year) and large enterprises 54 days (up from 41 last year) to turn past due invoices into cash.

76.2% Slovak B2B customers paid their invoices on time in 2019, compared to 72.1% in the previous year.

As per the survey, in 2019, respondents in Slovakia made their overdue payments three days earlier on average compared to the last year (at 41 days from invoicing, down from 45 days last year). In spite of this, 22% of the total value of B2B invoices issued by Slovak respondents over the past year remained outstanding at the due date.

While 54% of business reported no significant impact arising from late payments, around 25% respondents had to pay their own suppliers late or request a bank overdraft extension.

COVID-19 crisis has affected the payments landscape in Slovakia. According to European Payment Report 2020, the most concerning factors for European businesses in terms of late payment are a decline in liquidity and their ability to survive. As per the report, 38% respondents in Slovakia said that late payments have a high impact on liquidity squeeze during the COVID-19 crisis. Similarly, 79% Slovak respondents ranked "risk of a pan-European recession" as a main payment challenge of their customers making payment on time and in full over the next 12 months. This is above the EU[81] average of 57%. In addition, 52% respondents would like new legislations to be introduced as solutions for late payments[82].

The Late Payment Directive was transposed by a set of measures amending the Commercial Code, Civic Code, Code of Civil procedures, the Enforcement Code, Act n. 659/2007 on the introduction of the euro currency, other measures on the organisation of government activities and central public administration, as well as the Government Regulation no. 21/2013[83]. According to stakeholders, the new rules have not had a significant impact on payment practice, as similar rules were already in place. Indeed, only 10% of Slovak companies are aware of this directive[84], which is below the EU-28 average level of awareness (28%). Moreover, only 12% of the companies that are aware of the Directive make use of the provision to charge, in addition to interests, the flat rate compensation of EUR 40.0 to B2B and public sector clients.

Time and cost of obtaining building permits and licences

Slovakia ranked 146th in 2020 compared to the 143rd position in 2019 in terms of "Dealing with Construction Permits", according to Doing Business 2020[85], three places lower than the year before[86].

In 2020, completing administrative formalities to build a warehouse[87] in Slovakia requires 14 procedures, above the OECD high-income average of 12.7, and takes 300 days, well above the OECD high-income average of 152.3. This limits Slovakia's ability of supply to quickly adapt to shifts in demand. Implementation of the three packages of measures is expected to simplify and accelerate the acquisition of buildings permits and at the same time reduce administrative burden and legal/environmental risks borne by SMEs[88]. Last, the cost for completing the formalities to build a warehouse accounts for 0.2% of the warehouse's value, compared to the average of 1.5% (Table 3).

Table 3: Construction procedures timing and costs in Slovakia[89]

Procedure	Time to complete	Associated costs
Obtain a clearance for the investment project	30 days	No charge
Obtain a clearance from the Environmental Office at the Municipality	30 days	No charge
Obtain a fire safety clearance	30 days	No charge
Obtain a health and sanitation clearance	30 days	EUR 50
Obtain consent from water and sewage provider and request water and sewage connection	26 days	EUR 18
Obtain certificate of ownership of the land and a cadastral map	1 day	EUR 16
Request and obtain a location permit from the Municipality	90 days	EUR 100

Request and obtain the construction permit from the Municipality	80 days	EUR 600
Receive on-site inspection before construction	1 day	No charge
Obtain water and sewage connection	7 days	EUR 332
Request occupancy permit	1 day	EUR 400
Receive final inspection from the Municipality	1 day	No charge
Obtain an occupancy permit from the Municipality	29 days	No charge
Register the building with the Real Estate Registry	60 days	No charge

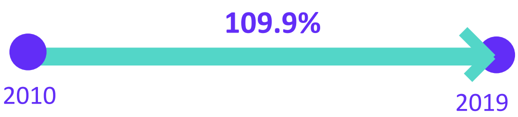
Source: Doing Business overview for Slovakia, Word Bank, 2020.

Skills shortage

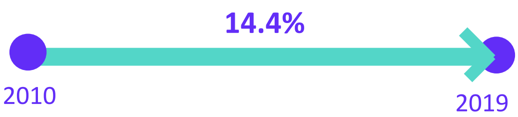
In 2019, the number of **job vacancies** in the narrow construction sub-sector jumped from 628 in 2010 to 1,317, representing a significant increase of 109.9% during the period. After a significant increase between 2016 and 2018, it reported a reduction of 25.0% in 2019 as compared to the previous year.

Similarly, job vacancies in the real estate activities sub-sector increased by 14.4% between 2010 and 2019 (from 106 in 2010 to 121 in 2019), after dropping to a bottom low of 12 in 2015. As compared to 2018, it grew by 106.0% in 2019.

Number of job vacancies in the narrow construction sub-sector in Slovakia



Number of job vacancies in the real estate sub-sector in Slovakia



A strict real estate markets also contribute to labour market shortages in Slovakia[90], as well as broader macroeconomic trends such as positive economic growth and demographic trends.

In 2018, short-term migration to work in foreign countries slightly decreased in Slovakia as compared to the previous year. Migrant workers worked in construction and industrial activities. Apart from European countries, Slovak citizens worked in the Czech Republic and Austria. In terms of regional migration, the maximum number of migrants came from eastern regions of Slovakia (around 60,000 people)[91].

The labour supply shortages have generated an increased demand for work migration to Slovakia. During 2017-2018, employers' associations also demanded immediate solutions to labour shortages in terms of employing foreigner nationals[92].

In this regard, the Slovak government revised the Law on Employment Services in the beginning of 2018. It has also introduced procedures to facilitate the employment of foreign workers. Since 2018, MPSVR (Central Office of Labour, Social Affairs and Family) is publishing occupations with labour supply shortage during the previous calendar year, in regions where the reported unemployment rate did not exceed 5.0%. For these occupations, foreign workers can be employed as per the simplified procedures[93].

The number of **tertiary students** in engineering, manufacturing and narrow construction[94] sub-sectors, and specifically in the architecture and building, amounted to 1,287 in 2018, which represents a 42.0% decline since the 2,219 reported in 2010. In parallel, life-long learning is still undeveloped. Adult participation in education and training in the narrow construction sub-sector[95] reached 2.4% in 2019 as compared to 1.6% in 2010.

Number of tertiary students in architecture and building over 2010-2018 ↓ **42.0%**

In order to map labour market demand and supply and address skill mismatch in the economy, the Slovak government introduced a national project '**Forecasting of Developments of Labour Market Needs**' (2014—2020). The project introduced a mechanism to observe and estimate labour market needs, skills mismatch and skills supply and demand. Further to get a clear view on job vacancies and skill mismatch, the government imposed a legal obligation on employers, as of January 2019 to publish all vacancies using one of the contracted online job portals[96].

Sector and sub-sector specific issues

Material efficiency and waste management

Waste management in Slovakia is governed by the Waste Act 79/2015, with effect from January 2016. Paragraph 40c of the Waste Act 223/2001 explains the Construction and Demolition Waste (CDW) as "wastes that arise as a result of construction, safety work as well as maintenance, refurbishment or demolition work".

The construction sector is the largest producer of waste in Slovakia. Therefore, there is a greater concern over effective waste management. Construction of building and reconstruction of private houses are the two activities that produce most of the waste. In addition, these activities' waste is most of the time illegally dumped[97].

In 2016, CDW accounted for 36% of waste generated in the EU[98]. Between 2010 and 2016[99], mineral waste from construction and demolition (hazardous and non-hazardous) in Slovakia increased by 21.9%, from 609,066 tonnes to 742,289 tonnes. This is well below the EU-27 average of 277.7 million tonnes in 2016[100].

In 2018, the recycling rate of municipal waste was 36.3%, below than the country's own target of 50% by 2020[101]. The Waste Management Plan for 2016-2020 showed that several objectives had not been reached, including the municipal waste recycling targets[102]. According to the Plan, municipalities that generate over 350 tonnes of municipal waste, including minor construction waste, are required to prepare a waste management strategy[103]. Amongst the obstacles to the sustainable management of CDW lie the lack of End of Waste (EoW) criteria for C&D waste, as well as limited capacity of recycling facilities for CDW [104].

Waste management is one of the country's key environmental challenges. The upcoming Slovak Envirostrategy 2030 aims to assist in integrated policy responses and identify investment priorities for the country over the next funding period 2021-2027[105].

Climate and energy

Emissions of greenhouse gases (carbon dioxide, methane and nitrous oxides) from activities in the narrow construction and real estate sub-sectors amounted to 2,097,877.5 tonnes and 260,644.1 tonnes in 2018, respectively. Emissions from activities in narrow construction sub-sector have experienced 10.3% increase since 2010 (1,902,312.9 tonnes), whereas emissions from real estate activities sub-sector declined by 18.1% (318,402.0 tonnes in 2010).

Air emissions in the real estate activities sub-sector between 2010 and 2018 ↓ **18.1%**

Overall, Slovakia's greenhouse gas (GHG) emissions have been declining over the period and it is below the EU per head average and its 2020 target.

5

Innovation in the construction sector

Innovation performance

According to the 2020 European Innovation Scoreboard, Slovakia is a Moderate Innovator[106].

According to the report, Slovakia scores high on Employment in fast-growing enterprises of innovative sectors, Sales of new-to-market and new-to-firm product innovations, Medium and high-tech product exports and New doctorate. Its strongest innovation dimensions include Employment impacts and Sales impacts. Finance and support, Innovators and Intellectual assets are the weakest innovation dimensions of Slovakia. As per the report, Slovakia scores low on some indicators including Venture capital expenditures, R&D expenditures in the business sector, lifelong learning and Opportunity-driven entrepreneurship.

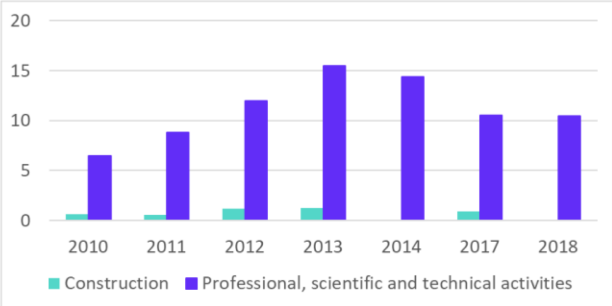
Currently, the R&D investment in Slovakia relies partly on European Structural and Investment Funds (ESIF). Around 39.0% of R&D investment in the country depends on foreign funding sources, 89.0% of which are EU funds[107].

Overall, R&D investment in Slovakia has grown from 0.5% of GDP since 2007 to reach 1.2% in 2015. However, it declined again to 0.8% in 2018, below the EU-27 target of 1.2% for 2020.

Slovakia's business expenditure on R&D is relatively low, especially among small and medium enterprises (SMEs). In 2017, the **Business Enterprise R&D Expenditure (BERD)** in the Professional, scientific and technical activities sub-sector amounted to EUR 10.5 million, representing a 61.9% acceleration over 2010. In 2018[108], it slightly declined by 0.6% over the previous year, reaching EUR 10.4 million. BERD in the narrow construction sub-sector increased from EUR 591,000 in 2010 to EUR 901,000 in 2017[109], representing a 52.5% acceleration over the period (Figure 9).

BERD in the professional, scientific and technical activities sub-sector between 2010 and 2018 ↑ **60.9%**

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Slovakia between 2010 and 2018[110] (EUR m)



Source: Eurostat, 2020.

At the same time, in 2017[111] there were 27 **R&D employees** (full-time equivalents – FTE[112]) in the narrow construction sub-sector as compared to 14 in 2010 (+92.9%). Conversely, in the professional, scientific and technical activities sub-sector, the number of FTEs stood at 207 in 2017, in comparison to 259 in 2010 (-20.1%). It further decreased to 170 FTEs in 2018[113], representing a decline of 17.9% over the previous year and a 34.4% decrease during the period 2010-2018.

Number of FTEs in the professional, scientific and technical activities sub-sector between 2010 and 2018 ↓ **34.4%**

These trends are reflected (to a lesser extent) in the decline in patenting activity in recent years. In 2019, the number of **construction-related patent applications** increased to two from one in 2010. This is below the 2015 level (five patents).

The government has taken several measures to improve the research ecosystem in the country.

According to the Slovak Credit Bureau 2019 report, in 2018, 260 Slovak firms benefited from the R&D tax deduction, which helped to save around EUR 72.0 million in income taxes (compared to 163 companies and EUR 8.0 million in 2017)[114].

In 2018, the Ministry of the Economy provided support to Slovak SMEs by investing EUR 167.0 million in the science and innovation programme. An additional support of EUR 100.0 million was provided to smart innovations and Industry 4.0 developments, to help Slovak businesses implement smart technologies in their production systems.

Eco-innovation and digitalisation

Slovakia scored 68, in comparison to the EU-28[115] average of 100, in the 2018 Eco-Innovation Scoreboard (Eco-IS)[116].

In the **European Commission Digital Economy and Society Index (DESI) 2020**, Slovakia is ranked 22nd among EU-28 countries. With a 45.2 score, Slovakia stands below the EU-28 average score of 52.6[117].

As per the Index, in 2019, Slovakia's performance slightly improved in terms of connectivity, the use of internet services and digital public services. Nonetheless, most indicators have not improved sufficiently to keep pace with the EU average. As a result, Slovakia's ranking dropped in the dimension of human capital and in the use of internet services to the 20th position and in digital public services to the 26th position.

In 2019, the Slovak government introduced a new 'Strategy for the digital transformation of Slovakia 2030'. It is a framework that explains the long-term vision to guide the economy, society and public administration through technological change. Its objectives are to encourage smart regional development and support researchers and innovators to keep pace with global trends[118].

The **Slovak Innovation and Energy Agency (SIEA)** is a national agency dedicated to energy efficiency and development of innovations. It provides free energy advice on energy-efficient measures and using renewable energy as part of its 'Live energy' project. Regarding innovation in the construction sector, SIEA has been involved in both national and international projects. Since 2018, SIEA has been providing technical assistance for guaranteed energy services (GES) in the public sector. The scheme provides for the compensation by the GES provider to the service recipient for the additional energy costs (adjusted for change in energy prices) incurred, above the guaranteed energy costs[119]. SIEA is also a partner in various EU funded projects: MaTrID project, aiming to promote the integrated energy design and market transformation for nearly zero energy buildings; Request2Action project, aiming to improve collaboration and the quality of reconstruction works to increase the energy performance of buildings; and StavEDU project, seeking to improve professional training of craftsmen and fitters in the construction sector[120].

Under the EUREKA SK scheme, a total of EUR 170,000 was allocated for the period 2019-2021 to support research and development, projects. These projects will receive funds based on an allocated annual amount of EUR 35,000 in 2019, EUR 45,000 in 2020 and EUR 90,000 in 2021. For each project, the maximum amount of financial support from the government is EUR 10,000 in 2019, EUR 15,000 in 2020 and EUR 25,000 in 2021, with a cap of EUR 50,000 overall for each project[121].

In terms of Building Information Modelling (BIM) adoption, interest is growing in Slovakia. Further to encourage its adoption, several measures are being taken through BIM education.

- BIM Challenge: The competition is organised every year by BIMAS (BIM Association Slovakia) for all civil engineering students in Slovakia. Participants are allotted 5 hours to create the design of the specific structure and appropriate level of student´s skills and the given time in detail which is needed for approval of the structure.
- BIM4FREE: It is a set of lectures prepared by the faculties for the students of the university in cooperation with BIMAS[122].

The BIM Association Slovakia, a non-profit organisation, is focused on the implementation of BIM in a professional practice on the level of all stakeholders in the project and construction process for the whole duration of the life cycle of the construction. The primary role of the association is to promote, popularise and develop the possibilities and the application of BIM within Slovakia[123].

In October 2019, the 5th National BIM Conference was organised by the BIM Association Slovakia in cooperation with the JAGA Publishing House, in Bratislava. More than 350 people attended the conference[124].

6

National and regional regulatory framework

Policy schemes

The Ministry of Transport, Construction and Regional Development (MTCRD) defines the National Housing policy in Slovakia.

The State Housing Policy Concept to 2020 is a framework document that formulates the priorities and strategic objectives of the State in the area of housing development. Its main objective is the sustainable development of housing.

Two main national priorities in the area of housing are presented in the Concept of State Housing Policy 2015-2020.The first priority is to strengthen and develop the public rental sector and the second priority is to promote thorough renovation of the existing housing stock[125]. Under this policy, state support to the housing sector is provided through direct and indirect economic instruments.

Direct support measures include **subsidies** (in the form of direct grants) by the MTCRD for the construction and renovation of the housing stock, covering rental dwellings, purchase of technical equipment and removal of system faults in existing residential buildings. The approved budget for this measure in 2017 amounted to EUR 40.0 million but was subsequently adjusted downwards to EUR 29.9 million[126]. The government of Slovakia approved an annual budget of EUR 610,000 for 2020, 2021 and 2022 to fund preparation of land-use (spatial) planning documentation for municipal areas[127].

For the years 2020 to 2022, the Slovak government has planned to allocate EUR 20.0 million to support housing. This is 50% less compared to the 2019 allocation (EUR 40.0 million)[128].

Reduced financial allocation from public sources may slow down the development of housing policy and thus negate the positive development resulting from more attractive setting of credit instruments.

The Ministry of Transport and Construction of the Slovak Republic amended Act no. 555/2005 Coll. The amendment provides contribution to the households for the insulation of a family house, so as to improve its energy economy by carrying out its building modifications. For this, technologies such as thermal cladding, roof cladding, interior cladding and separating structures between heated and unheated space are being implemented. The scheme provides a contribution of up to EUR 8,800 for one household[129].

An additional key instrument in the delivery of direct support to the housing and construction sectors is the **State Housing Development Fund (*Statny Fond Rozvoja Byvania-SFRB*)**, which provides low-interest loans for the construction of rental dwellings and refurbishment of the housing stock. It was established by law in 1996 and is currently governed by Ministry of Transport and Construction of the Slovak Republic. Since 2018, the SFRB has supported the procurement of technical equipment for the financed apartments and for legal persons and entrepreneurs, and the purchase of related land. By 2019, a total of 83 applications for the procurement of a rental apartment were delivered to the SFRB, out of which 76 applications have been positively evaluated. The procurement of a total of 76 residential buildings with 1,487 apartment units have received support under this scheme. The worth of loans granted was EUR 176.7 million[130].

As for indirect support measures, instances include:

- Boarding house: In order to support workforce mobility, a new purpose of support consisting of the procurement of a boarding house, was introduced within the SFRB in 2019. The Boarding house is a building providing long-term accommodation mainly for the employees of the companies that employ people from distant regions of Slovakia or for foreign workers[131]. However, this measure has not yet translated into practice as the specific schemes and/or (financial) instruments as well as the total government investment amount are still to be defined. In addition, the period of depreciation of the investments into "boarding" flats currently stands at 40 years making the (economic) return on investment relatively long.
- Effective from January 2020, conditions for a loan from the SFRB to fund procurement of rental apartments has been amended for business operators. It will mainly consist of the increase in the maximum credit line and the average floor area, and the removal of the total maximum eligible costs per m^2 of the floor area of an apartment[132].
- **Social housing enterprises:** Its objective is to ensure adequate and human dignified housing for a specifically defined circle of natural persons after fulfilment of legal conditions. This creates space for the development of rental housing according to a rental housing model in Austria[133].

Slovakia provides supports to the public rented housing sector through direct subsidies from the state budget and low-interest loans through SHDF[134].

The provision of subsidies for purchase of rented dwellings are done according to the Act No. 443/2010 Coll. on subsidies for housing development and on social housing, as amended by the Act No. 134/2013 Coll.

The act explains the scope, conditions and method for providing subsidies which can be given for purchase of a rented dwelling and related technical infrastructure.

The Building savings scheme is a state-subsidised saving scheme in specialised commercial building societies/saving banks, aiming to finance the acquisition, reconstruction and modernisation of housing[135]. It consists of an obligatory saving period, followed by the issuing of a loan at a preferential interest rate. In 2019, an amendment (277/2018 Z.z.) limited the state premium from 5% to 2.5%, with an increased amount of EUR 70.0 (against EUR 66.4 previously)[136, 137].

The issues of homelessness and housing exclusion are partly addressed by the National Framework Strategy for Support of Social Inclusion and Fight Against Poverty (2014) and by the State Housing Policy Concept to 2020 (2015)[138].

In 2018, the Ministry of Labour, Social Affairs and Family asked the Institute for Labour and Family Research to create a background document for a concept for preventing and controlling homelessness. The document has been prepared and it contains all the elements of the strategy, including an analytical part, an identification of the weaknesses of existing measures, a proposal for a new global approach, specific measures, a description of funding mechanisms and proposals for regular evaluation activities[139].

Currently, the national strategy for preventing and ending homelessness is still pending, despite growing evidence of policy action being necessary[140].

With respect to EU funding, the Fund for European Aid to the Most Deprived (FEAD), with a total allocation of EUR 64.8 million for the period 2014-2020, focuses on the homeless population specifically. According to the mid-term evaluation of the FEAD for the period 2014-2020, Slovakia has improved its performance in several respects with regards to homelessness[141].

Building regulations

In Slovakia, Building Act (Act No. 50/1976 Coll. on territorial planning and building order, as amended) is the main base of legal regulation for construction law. The Act, which is implemented through several governmental orders, deals with the public relationships between private parties and local authorities[142]. Contractual relationships between parties are regulated by the following Acts:

- **The Commercial Code**: It explains the general rules related to contracts and basic provisions of individual contracts. For example, a contract for work between two or more businesses. Most of the provisions of this code which regulate a contract work can be modified or adjusted by the parties in a mutual agreement.
- **The Civil Code**: It regulates the general concepts of contractual law and the contract for work typically used for doing building works. These provisions will be implemented, if a business or a physical person (consumer), who do not opt for the Commercial Code, enters into the contract.

In addition, the **Act on public procurement** which regulates the procurement of Public-Private Partnership (PPP) projects and other relevant issues in the field of carrying out building works, is also a useful source.

In 2017, the Slovak Ministry of Construction proposed to replace the existing Building Act with two new laws on Construction and on Land-use planning. The new laws would reduce two procedures per building, making the overall process efficient and streamlined[143].

Under this concept, the urban planning would be decentralised to respective cities and municipalities, involving the participation of its citizens[144]. Furthermore, new Act was planned to include a building plan. However, due to criticisms, the legislative proposal was withdrawn during the legislative process.

Furthermore, new Act was planned to include a building plan. However, due to criticisms, the legislative proposal was withdrawn during the legislative process. The government introduced working versions of the Act in February 2018. Beside this, another law will also be drafted focusing on urban planning[145].

By October 2020, the Slovak government is planning to prepare and submit for approval new building regulations that will have effect on its position in the Doing Business ranking[146].

The proposed new regulation is expected to reduce the administrative burden in the business environment. Its objective is to increase project preparation processes and reduce public investment preparation costs[147].

Insurance and liability-related regulations

The building-and-assembly insurance requires Slovak contractors to obtain a particular type of building insurance cover[148]. This is applicable to all parties involved in the construction project, such as investors, developers, owners, contractors and sub-contractors, and deals with the potential risks arising from the construction process (including natural catastrophes, accidents, negligence, etc.). It is currently a prerequisite for financial institutions to provide funds for a construction project. Additionally, architects and engineers are legally required to be covered by **professional liability insurance**, as stipulated in the Act No. 138/1992 Coll. on Authorised Architects and Authorised Civil Engineers[149].

Liability of construction actors is governed by two regimes, depending on whether it arises due to failure to meet contractual duties, or duties stipulated by law[150]. Under the **Commercial Code** (Act No. 513/1991 Coll.), if the contractor builds, reconstructs or adjusts a building on property belonging to the client, the latter bears the risk of damage. However, these provisions can be amended by the parties involved. Under the **Civil Code** (Act No. 40/1964 Coll.), the contractor bears the risk of damage or destruction to the building until its handover to the client. The general limitation period depends on the regime. Under the Commercial Code, it amounts to five years and can be freely determined in the contract, as opposed to three years (and in some cases, 18 months) in the case of the Civil Code[151].

Guarantee insurance benefits an employee in the event of an employer’s insolvency and incapacity to settle the employee’s entitlements. It is a one-time benefit available to an employee. The concerned employee can claim the benefit for a period of maximum three months in the last 18 months of the employment duration. The relevant period shall be preceding the commencement of insolvency, or as of the employment termination date resulting from the employer´s insolvency[152].

7

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

The total investment by the narrow construction sub-sector reached EUR 404.0 million in 2019, as compared to EUR 294.6 in 2010.

The total **investment by the broad construction sector**[153] fluctuated significantly between 2010 and 2018 (Figure 10). Investment by the narrow construction sub-sector increased by 37.1% during the 2010-2019 period, after a peak reached in 2016 (EUR 449.6 million). Likewise, investment by the real estate activities sub-sector increased by 77.0% over the 2010-2019 period, from EUR 1.9 billion to EUR 3.4 billion. However, it is 2.2% below the 2018 levels.

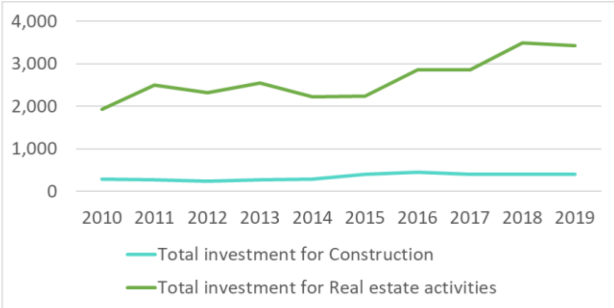
Investment in intellectual property products by the narrow construction sub-sector declined by 66.1% over 2010-2019 period, reaching EUR 4.2 million. This is 81.0% lower than the EUR 22.1 million peak in 2011. In contrast, investment by the real estate activities sub-sector in this category increased significantly by 189.6% over the same period, reaching EUR 13.9 million.

Investment in intellectual property products by the real estate activities sub sector between 2010 and 2019 **189.6%**

Similarly, investment in machinery and equipment by the real estate activities sub-sector increased significantly by 151.6%%, from EUR 9.7 million in 2010 to EUR 24.4 million in 2019. At the same time, investment by the narrow construction sub-sector in this category moderately grew by 8.7% during the same period, reaching EUR 146.2 million in 2019 from EUR 134.2 million in 2010.

Investment in machinery and equipment by the real estate activities sub-sector between 2010 and 2019 **151.6%**

Figure 10: Investment by the Slovak broad construction industry between 2010 and 2019 (EUR m)



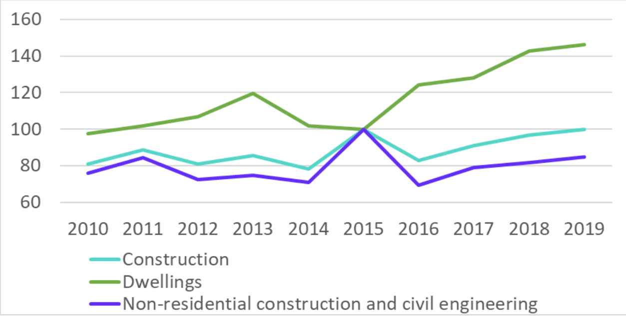
Source: Eurostat, 2020.

The investment index in the broad construction sector[154] experienced a slight decline since 2015, decreasing by 0.2% over 2015-2019 (Figure 11).

In line with the development of the housing market, investment index in dwellings increased by 46.3% over 2015-2019. Conversely, investment index in the non-residential construction and civil engineering experienced a decline of 15.4% during the 2015-2019 period.

Investment index in dwellings between 2015 and 2019 **46.3%**

Figure 11: Investment index in the Slovak construction sector between 2010 and 2019 (2010=100)



Source: AMECO, 2020.

The share of total inland infrastructure[155] investment in the GDP has increased slightly since 2010, from 0.9% to 1.2% in 2017[156].

Reflecting this trend, investment in road infrastructure surged from EUR 342.0 million in 2010 to EUR 1.1 billion in 2015 (+231.5%) and then decreased by 33.9% between 2015 and 2017[157] to reach EUR 749.9 million. The 2017 level was 119.3% above the 2010 level showing a clear focus of the government on the road infrastructure. Conversely, investment in rail and road infrastructure reached EUR 231.1 million in 2017[158], 15.3% below the 2010 level (EUR 273.0 million). As for infrastructure maintenance, it increased from EUR 12.0 million in 2010 to EUR 13.1 million in 2017 for rail infrastructure (+9.2%), and from EUR 175.0 million in 2010 to EUR 230.0 million in 2017 (+31.4%) for road infrastructure. In contrast, investment in air infrastructure maintenance declined by 46.0%, from EUR 5.0 in 2010 to EUR 2.7 million in 2017[159].

In 2017, the Government approved the **Strategic Transport Development Plan till 2030** (*Strategický plán rozvoja dopravy SR do roku 2030*), a long-term strategic document that sets the framework for the effective development of the transport sector and determines the implementation of its development vision. It sets strategic priorities and measures that are evaluated and prioritised in terms of their potential benefits and economic efficiency[160].

However, the infrastructure in Slovakia in terms of sustainable transport facilities, access to broadband, energy efficiency and waste management, remains underdeveloped and is unevenly distributed. Lack of proper planning, low capacity in administering EU funds, inefficient and non-transparent public procurement procedures and complex land-use and construction permit processes have negatively impacted investment[161].

Renovation spending as a share of total household disposable income in Slovakia has registered negligible variation since 2010. In 2018 and 2019, it stood at 0.7% compared to 1.0% in 2010. This is below the EU-27 average of 0.9% in 2018. In 2019, households were investing annually EUR 390.6 million in maintenance and repair of dwellings. This is 9.3% below the 2010 levels (EUR 430.5 million).

In absolute terms, Slovakia benefits from the EU supports in terms of investments. In the current Multiannual Financial Framework, the financial allocation from EU Cohesion policy funds for Slovakia stands at EUR 17.23 billion, which is equal to 2.8% of the country's GDP annually[162].

By the end of 2019, around EUR 14.6 billion (around 85.0% of the total amount planned) was allocated to specific projects. Around EUR 5.2 billion were reported as spent by the selected projects.

Low spending by the projects reflects a limited level of implementation, which is mainly due to the low absorption capacity of the Slovak public sector.

Between 2014 and 2019, investments driven by the European Regional Development Fund and the Cohesion Fund led to building or modernisation of 123 kilometres of roads, both at the regional level and in connection with the **TEN-T** network[163].

The Cohesion Policy programmes for Slovakia have made an allocation of EUR 2.8 billion for smart growth, EUR 6.7 billion for sustainable growth and sustainable transport and EUR 3.4 billion for inclusive growth[164].

TO 2 – Skills

The employment rate of VET graduates in Slovakia increased from 81.6% in 2017 to 84.7% in 2018[165]. This is above the EU-28[166] average of 79.5%[167].

In 2017[168], total enrolment in upper secondary VET in Slovakia stood at 68.9%, above the EU-28 average of 47.8%. Also, students enrolled in VET had some exposure to work-based learning (12.0% in 2017). Most educational programmes include the provision of practical elements in the curriculum[169].

The notable increase in the employability of VET graduates is mainly due to the removal of entry barriers, which made the Dual Education more attractive for schools and employers[170].

In this regard, the Ministry of Education eased the 'entrance quotas' for learners in VET programmes, launched by the 2018 amendment of the VET Act, due to the dissatisfaction of VET schools and families. The revision of quotas is based on the results of the Skills Governance project run by Cedefop.

The development of professionally oriented bachelor education and the introduction of dual VET into tertiary education are progressing gradually. Currently, the NPDE is intended to connect education and training with the labour market, primarily through funding for employers' organisations involved in dual VET (an annual estimated budget of EUR 987,062 for 2018-2027) and by increasing financing for VET schools (estimated EUR 76.9 million over the same period)[171].

Adult participation in learning remains low in Slovakia. In 2019, adult participation (18 to 64 age group) in education and training in the narrow construction sub-sector stood at 2.4%, well below the EU-27 average of 8.7%. This is mainly due to the lack of both labour market intelligence and interest from adults.

The Slovak government is making efforts to improve the adult learning at regional level. According to the guidelines for programmes for underdeveloped regions, there is a special focus on upskilling and reskilling. Some of the priorities of the programme include providing support to low-skilled workers, young people and marginalised Roma to acquire labour-market relevant skills; creating a training centre focused on IT and electrical engineering to attract young learners and retrain jobseekers in Bardejov; and establishing a regional VET campus in Kežmarok offering initial and continuing training, and career guidance[172].

The Strategy for Digital Transformation of Slovakia 2030 is aimed at reforming the education system to improve the employability of graduates, introducing lifelong learning programmes and ensuring that people gain relevant digital skills at school[173]. In turn this may help the construction sector digitalisation process on the long-run.

Furthermore, in order to offset the declining interest of students in construction apprenticeships, the **State Vocational Training Institute** (*Štátny inštitút odborného vzdelávania* - ŠIOV) and the **Association for Development of Slovak Architecture and Construction** (*Združenie pre rozvoj slovenskej architektúry a stavebníctva* – ABF) organise a yearly competition of construction crafts known as **SUSO** (*Súťažná prehliadka stavebných remesiel*)[174]. The initiative aims to raise the popularity of these professions among young people and involve both the business community and VET providers in the creation of a solid base for the long-term training of skilled professionals.

A set of autonomous training modules has been created as part of IngREeS, a Horizon 2020 project. The project includes partners from Slovakia, the Czech Republic and Austria and targets middle and higher-level construction professionals such as engineers, architects, planners, site supervisors and site managers, and assessors of energy efficiency post construction[175].

These modules have been developed for integrating LEC (Low Energy Construction) into VET and identifying core KSC (Knowledge, Skills and Competences).

TO 3 – Resource efficiency / Sustainable construction

The Energy Policy of the Slovakia outlines the energy sector's primary goals and priorities to 2035 with a view to 2050. The Ministry of Economy, which is responsible for the energy sector, prepares and updates it every five years, to keep it on track with the country's national economic strategy[176].

The country's Energy Policy is consistent with the European Union (EU) goals for energy and is also translated in the fourth National Energy Efficiency Action Plans (NEEAPs) to systematically improve energy efficiency. The NEEAP 2017–2019 (with projections for 2020) established the targets for energy savings[177].

Slovakia's target is to annually renovate 3.0% of the total floor area of buildings owned and occupied by all public buildings, at least to a level of the minimum building energy performance requirements. In terms of building energy savings, Slovakia's target for 2020 is 52.2 gigawatt-hours (GWh) per year (365.2 GWh by 2020)[178].

In order to stimulate homeowners to renovate their dwellings and improve the energy performance in the residential sector, the Ministry of Transport, Construction and Regional Development have put in place a few initiatives, which include:

- a **scheme to support thermal insulation**. The scheme provides a contribution of up to 40% of the expenses incurred for the insulation works, for a maximum of EUR 8,800[179].

- a **financial support to the thermal performance of residential buildings** is also ensured by the State Housing Development Fund (SHDF) which, among other activities, provides soft loans for the thermal insulation and modernisation of single- and multi-family dwellings, as well as subsidies for the removal of their structural defects. Moreover, the SHDF supports the insulation and modernisation of facilities providing social services[180].

In accordance with the National Energy Efficiency Plans, Slovakia plans to improve energy efficiency in buildings to ensure economic and environmental benefits. The plan aims to cut energy waste and its negative impact on environment by insulating most of the buildings by 2030. Since May 2019, a contribution of up to EUR 8,000 is being granted for the insulation of family houses and also for those houses with nearly zero energy requirements. The government also promotes the application of Energy Performance Contracting. EU funds of EUR 780.0 million are utilised to finance the renovation of public buildings and dwellings and modernisation of heating and power systems[181].

Since January 2017, an amendment of Decree 324/2012, which offers a new mechanism for the energy certification of building units, became effective. The implementation of the Energy Performance of Buildings Directive (EPBD) in Slovakia has resulted in a phased tightening of the minimum requirements for the energy performance of buildings. This tightening is based on the rate of construction of high energy performance buildings. These will be followed by NZEB (Nearly Zero-Energy Buildings) prerequisites for all new buildings starting in 2021. Renovated existing buildings need to meet the requirements for new buildings to ensure they are technically, functionally and economically feasible[182].

According to the National Energy and Climate Plan (NECP) estimates, by 2030, Slovakia would require EUR 3.0 billion to renovate non-residential buildings, out of which EUR 1.2 billion would be needed for public buildings[183].

Furthermore, as per the Eurostat's new rules, Slovakia has adopted the energy performance contracts and prepared enabling legislation and model contract to be followed by all public bodies. Nonetheless, building owners' low income, low awareness about energy renovation and a lack of advisory services are the impediments to change[184].

TO 4 – Single Market

In terms of the **EU Single Market Scoreboard[185]** in 2019, Slovakia's performance deteriorated in comparison to 2018. However, it is above the EU-28[186] average. Slovakia's performance regarding the transposition of EU directives such as transportation deficit (0.2%; EU-28 average 0.6%), average delay (8.8 months; EU-28 average 11.5 months), and conformity deficit (0.9%; EU-28 average 1.2%) has worsened in 2019 compared to the previous year. In terms of Internal Market Information System, Slovakia performed well, with four out five indicators above the EU-28 average.

Since December 2018, Slovakia managed to resolve five cases whose average duration was three years. In parallel, the 'number of pending infringement proceedings' stood at 27 in 2019, same as 2018, below the EU-28 average of 29 cases.

Slovakia's performance in terms of public procurement was average in 2019. The complex nature of the public procurement verification procedures is a blocking factor in Slovakia for potential beneficiaries to draw EU funds[187]. In addition, corruption in public procurement is still a serious issue for companies operating in Slovakia. Slovak firms feel that bribes and irregular payments are common during the process of awarding public contracts. Apart from these, there are issues in public contracts awards like favouritism, tailor-made specifications for companies, collusive bidding, conflicts of interest and unclear selection or evaluation criteria[188].

The government's measures to amend the Slovak Public Procurement Act to simplify control procedures of EU funded projects have been stopped. However, the government has approved the legislative intent to regulate the profession of certified public procurement officers[189], which may support the professionalisation of the sector.

The Public Procurement Institute provides consultancy services to contracting authorities to unify the interpretation of the public procurement law.

The Public Procurement Office has planned to open eight regional offices by 2020 to support with legal interpretation and training activities at the local level.

Also, in September 2019, the Public Procurement Office published a handbook on recurrent errors recognised in its control activity and the Guidelines on conflict of interest.

The Public Procurement Office is in the process of setting up e-procurement. The new e-procurement platform, SVO, will connect all e-procurement, contract register and e-invoicing modules in order to optimise processes and generate accurate analytical data[190].

To support SMEs within the single market concept, there is a single point of contact in place – SOLVIT centre[191]. According to the Regulation EU 305/2011 on construction products, the Ministry of Transport, Construction and Regional Development serves as the main **Product Contact Point for Construction (PCPC)**[192]. The PCPC gives access to national technical rules related to construction products in Slovakia and provides free information and advice on provisions aimed at fulfilling basic requirements for construction works applicable for the intended use of construction products. Furthermore, to strengthen the European Digital Single Market, Slovakia approved the European declarations in 2018. This aims to improve cross-border cooperation in Europe in areas such as artificial intelligence, block chain and innovation radar, which in turn would stimulate growth opportunities in Slovakia[193].

Regarding the implementation of **Eurocodes**, Slovakia has published all Eurocode parts as National Standards and translated over 90% of Eurocode parts in the national language, except for EN 1993-1-12, EN 1998-3, EN 1999-1-4, and EN 1999-1-5[194]. Moreover, National Annexes to all Eurocode parts have been published, though only in Slovak. Even though the use of Eurocodes is voluntary, it is the only recognised system of standards for structural design, as of 2010. All other National Standards that were in conflict with the Eurocodes were repealed. However, the country does allow the parallel use of Eurocodes and national regulations. Indeed, three other national standards are used in parallel with Eurocode EN 1997-1 on Geotechnical design as complementary documents. Conversely, there is no legal framework for the enforcement of all Eurocodes in public procurement, but some of them are legally binding[195].

TO 5 – International competitiveness

According to Global Competitiveness Index 2019, Slovakia ranks 42nd out of 141 economies in terms of its performance, representing a decline from its 2018 rank of 41st among 140 economies[196].

In terms of **internationalisation**, Slovakia's performance remains below the EU-28[197] average. According to SBA (Small Business Act for Europe) Fact Sheet 2019[198], Slovakia has the lowest proportion of SMEs with both imports (1.9%, EU-28 average: 9.8%) and exports (2.8%, EU-28 average: 11.6%) of goods from outside the EU.

Furthermore, the proportion of SMEs with extra-EU online exports stood at 2.8% in 2017, below the EU-28 average of 5.0%. Conversely, Slovakia performs well on several trade facilitation indicators. In terms of advance rulings and formalities, its performance is better than the EU average, at 1.9% (EU-28 average 1.8%) and 2.0% (EU-28 average 1.7%) in 2017 respectively.

In 2018[199], **exports value of all construction-related products** in Slovakia stood at EUR 935.2 million, representing an increase of 28.6% over 2010. Furthermore, Slovakia's share of exports of all construction-related products in 2018[200] stood at 63.4% of the total production value, well above the EU-27 average of 11.4%.

Exports value of all construction-related products between 2010 and 2018

↑ **28.6%**

Similarly, value added at factor cost in the narrow construction sub-sector, in the context of **inward FATS**[201] (Foreign affiliates statistics), increased by 66.6% between 2010 and 2017[202]. At the same time, turnover in the sub-sector grew by 50.4% in the same period. Conversely, turnover in the narrow construction sub-sector, in terms of **outward FATS**[203], declined by 13.1% between 2010 and 2017.

The Slovak government has taken some initiatives over the years to provide support for SMEs in internationalisation and export.

In 2018, the Slovak government designed '**National Support for the Internationalisation of SMEs**' with a budget of EUR 31.0 million. It aims to provide support services and a single point of contact for SMEs planning to expand into foreign markets, such as information around foreign markets along with financial and legal aide[204].

During 2019, the Ministry of the Economy of Slovakia introduced the 'Support scheme for export of Slovak franchise concepts' (*Podpora exportovania franchisingových konceptov*). The scheme provides counselling and support services for businesses to export their franchise concepts, including help on how to adjust business models and maximise value creation[205].

The **Slovak Investment and Trade Development Agency** (*Slovenská Agentúra pre rozvoj investícií a obchodu* – SARIO) plays an important role in supporting the internationalisation of SMEs by providing comprehensive information, advice, assistance and educational services for Slovak exporters, under the framework of the Strategy for Foreign Economic Relations for the period 2014-2020 (*Stratégia vonkajších ekonomických vzťahov Slovenskej Republiky na obdobie 2014-2020*)[206].

SARIO also organises a yearly series of cooperation events for export promotion, known as Business Link, which also focuses specifically on construction SMEs[207]. Lastly, SARIO organises business missions for construction SMEs, helping them secure opportunities in construction and infrastructural projects through the cooperation with third countries, including Russia, Kazakhstan and Iran[208,209].

8

Outlook

The economic growth in Slovakia is projected to slow down in the coming years, notably because of COVID-19 related impact (due to the shortfall of foreign demand and the effect of social distancing measures) which is expected to lead to a 6.7% annual GDP decline in 2020.

However, the GDP growth is expected to rebound in 2021 (+6.6%), driven by a rise in domestic and foreign demand. Lower uncertainty is expected to drive investment activities in Slovakia.

Mirroring the overall economic trend, the outlook for the Slovak broad construction sector is moderate. The **volume index of production** of the narrow construction sub-sector, construction of buildings and construction of civil engineering are projected to decline by 7.9 ip, 5.1 ip and 8.3 ip respectively in 2020 over 2019. These trends will be confirmed in 2021, where 5.8 ip, 3.9 ip and 6.0 ip are forecasted for the narrow construction sub-sector, construction of buildings and construction of civil engineering.

Following these trends, the **turnover** is also projected to decline by 18.6% in 2020, compared to 2019. In contrast, it is expected to grow by 14.8% in 2021 over 2020. At the same time, the **total value added** of the broad construction sector is expected to reach EUR 23.3 billion in 2020, declining by 26.0% over 2019. However, it is expected to recover in 2021 and grow by 12.0% to EUR 26.1 billion.

Similarly, the **number of workers** employed in the broad construction sector is projected to decrease by 20.5% in 2020, and then grow by 12.5% in 2021, reaching 250,794 in 2021.

Number of employees in the broad construction sector between 2019 and 2021 ↓ **10.5%**

Due to COVID-19 pandemic, the outlook of property market is changing in Slovakia. Property prices are projected to fall in the coming months, resulting into a decline in the size of loans applied for. Nonetheless, it may also result into the postponing of property purchase decisions. Due to this, demand for housing loans could decline even further in the months ahead[210].

Furthermore, the Slovak civil engineering and infrastructure sector is forecasted to have a positive outlook in the long-term following an important pipeline of infrastructure projects, housing and R&D in the coming years, which are expected to be supported by EU funds.

However, the broad construction sector continues to face several challenges. These include increase in construction costs, i.e. significant rise in construction material and labour wage costs, which will make profitability more challenging for businesses. The sector also faces a rising number of business bankruptcies. Moreover, the ongoing COVID-19 pandemic has impacted the construction sector adversely.

In addition, the shortage of labour proves to be a key impediment to the sector's growth, which was felt harder in the wake of COVID-19. Therefore, more remediation efforts need to be undertaken.

The Slovak broad construction sector has a mixed outlook. Activities related to infrastructure and civil engineering are expected to drive its growth in the coming years. Nevertheless, the sector is projected to witness a resurgence by early 2021, primarily driven by the measures, being taken by the government.

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2 European Commission, Country Report Slovakia 2020. February 2020. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0524&from=EN

3 Ibidem.

4 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.

Please note that there is a structural break in the data between 2009 and 2010. Hence, data for 2010 onwards cannot be compared to data prior to 2010.

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9 Please note that the share of each sub-sector in the value added of the broad construction sector should not be compared to the shares of the Gross Value Added in the GDP, since the GDP also includes taxes and excludes subsidies.

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203 Outward FATS explains the activity of foreign affiliates abroad controlled by the compiling country. A foreign affiliate within the terms of outward FATS is an enterprise not resident in the compiling country over which an institutional unit resident in the compiling country has control.

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