

IN E K O  
Institute for  
Economic and Social Reforms

**Dušan Zachar** (Ed.)

**E**VALUATION of  
**E**CONOMIC and  
**S**OCIAL  
**M**EASURES  
**2002**

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EVALUATION OF ECONOMIC AND SOCIAL MEASURES

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MEASURES**

**Bratislava  
May 2003**

*The Slovak Republic faces the task to secure conditions for a long-term economic growth. A crucial precondition for an efficient implementation of economic measures is the knowledge of the status quo and of the impacts on the economy and the society as a whole to be expected from the relevant measures. Foreign experience with economic policies can only be adopted when adjusted to the conditions of Slovakia's economy, and attention has to be paid to both short-term and long-term prospects of the economic and social development.*

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(division of the measures according to subject related topics)

*Most of the measures influence directly or indirectly more than one field at the same time, they have intersectoral character. Evaluated measures are arranged into several groups, according to the field, which they influence mostly and rather directly.*

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## **Acknowledgements**

HESO project (Evaluation of Economic and Social Measures) brings experts' opinions on the economic and social measures to the public. This survey originated thanks to many outstanding personalities who were taking part in quarterly evaluations. All members of the Experts' Committee (see list on page 95) were doing it without any claim on financial reward. We are very grateful for their participation.

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## Introduction

Slovakia and other post-communist countries face the task of securing the conditions for a long-term economic growth. Knowing what impact specific policies might have on the economy and the society as a whole is a crucial precondition for their efficient selection and implementation. Foreign experience with economic policies can only be adopted when adjusted to the conditions of the Slovak economy, and the attention has to be paid to both short-term and long-term prospects of the economic and social development. After a decade of transformation process, further reform progress requires sophisticated theoretical and practical background, high political acceptance as well as substantial financial means. As a result, the reforms have stagnated, such as those of the business environment, the pension and health care systems, the labor market, or the problem of the status of the Roma minority. Corruption and lack of transparency remain widespread in the public administration. Deficient knowledge and practical experiences, limited financial sources but also low political acceptance are the main reasons behind the lack of reform progress. To be implemented, many essential economic and social measures require acceptance on the part of the public, and this requires, among others, direct involvement of the citizens into economic processes.

Everywhere a citizen looks, there is a REFORM lurking. Whether he opens a newspaper, surfs on the internet, or listens to news on radio or TV, he is permanently exposed to the "magic" word REFORM! Is it only by chance that the word is used most frequently by politicians? No, it is not. For REFORM is engraved into the consciousness of the majority of people as something positive, as something evoking progress, a change for better. And politicians simply cannot let such an easy prey escape. For when they start constructing sentences presided over by the word REFORM, voters will simply not get angry: „We support a REFORM...“, „It is an important REFORM step...“, „Our party will always be pro-REFORM...“, „It is necessary to thoroughly REFORM the system...“, „In the session, we have set a REFORMist direction...“. All say so, and often, the rightists and the leftists, the conservatives, liberals, socialists, these and those. The word REFORM got devalued. Sometimes it looks as if Slovakia was ruled by the dictatorship of this word. Nevertheless, once a citizen begins to hearken to words and analyse their meaning, he finds out that a REFORM is not a REFORM. Everyone places a different emphasis, different motive. And how should a citizen know which REFORM is good and which is bad? How should one understand all these innumerable REFORMS? Public administration REFORM, pension system REFORM, army REFORM, state budget REFORM, lien REFORM, state funds REFORM, tax administration REFORM, tax REFORM, health care and education REFORMs, labor law REFORM, etc.

Non-profit organizations shall therefore spend efforts to make the public familiar with the nature of economic and social processes in the country and abroad, and to eliminate, through economic research and educational activities, hindrances to long-term economic growth of the country. One of the objectives of non-profit organizations should be monitoring of perspective measures/reforms in order to push forward the economic and social transformation, as well as trying to influence public awareness and to increase public acceptance of measures and policies, that speed up transformation toward a democratic, transparent political system buttressed by civil society and competitive market economy and lead to life quality improvements from a long-term perspective.

With this in mind, INEKO has launched the HESO (Evaluation of Economic and Social Measures) project, which creates a platform, where independent economists, analysts, journalists, academics, people from business community, representatives of trade unions, employers' associations and NGOs express their opinions on quality and importance of different proposed and passed economic and social measures of legislature, executive power, as well as on decisions of public institutions on a quarterly basis. Without the necessity of studying a number of details, Slovak citizens have thus an opportunity to acquire a reliable overview of what economic and social measures and reforms are being prepared and put into practice and what opinion in their respect has been adopted by renowned experts. From the beginning of the HESO project in April 2000 to the end of 2001, 71 specialists expressed their views upon 174 measures. In 2002 69 experts assessed 100 measures. From their standpoints, we can read out which measures significantly contributed and still contribute to the social and economic development of Slovakia and which just hindered and hinder this process. Hence, a citizen can make better quality decisions, and more conveniently, on which reform activities he/she wants or does not want to support. The ambition and the major objective of the HESO project is not to provide a comprehensive and detailed monitoring of the development in individual areas of our society, nor is it the provision of starting points for the action of competent authorities, but we aim at regularly providing our citizens with an opinion of professional community on often discussed, important, innovative, or unprecedented measures of economic or social character affecting the quality of their life. And thus we create better preconditions for political acceptance of structural measures - reforms - bringing forth systemic changes in the Slovak economy and society. The aim of the HESO project is also to disseminate information on social and especially economic reforms in

multiple countries, which are presently under transformation. In 2002 Institute of Economic Studies of the Faculty of Social Sciences at the Charles University in Prague, Czech Republic, Gdansk Institute for Market Economics in Poland and partners from Central European University in Budapest, Hungary participated in the HESO project.

The publication you are holding in your hands maps the 2002 results of the HESO project in the Slovak Republic. It liaises with the previous publication, which covered the project results for the period from April 2000 to December 2001 (Slovak edition only). The publication "Evaluation of Economic and Social Measures 2002" is structured on a time basis - quarterly, according to periods evaluated. Characteristics of measures and comments of the Experts' Committee map the state of measures only in the relevant evaluated period. The breakdown of measures by sectors, or their division according to similar topics, is included in the initial part of the publication on page 10.

## Methodology

### Selecting Measures to Evaluate

Four times a year a list of 20-30 measures, which took place during last three months, is prepared. Everyone can suggest through our web page ([www.ineko.sk/projekt\\_heso.htm](http://www.ineko.sk/projekt_heso.htm)), which measure he/she wishes to be evaluated. INEKO makes final selection. Emphasis is laid on measures widely discussed in the public as well as on measures, which are, according to INEKO, rare, innovative and/or important for the economic and social development of the country. Evaluated measures include, among others: acts proposed and passed by the Parliament, measures adopted by the government (acts, regulations, privatization decisions, strategy documents, policies) or decisions of public institutions (e.g. of the Central Bank, Antitrust Office, Telecommunications Authority or other market regulators).

### Evaluation Experts' Committee

The evaluation Experts' Committee consists of about 45-50 members for one quarter. The experts come from reputable economic newspapers, banks, consulting companies, business community as well as from academic institutions, trade unions, employers' associations and think tanks (see list of all members of the Experts' Committee on page 95). They represent leading or senior management positions in their organizations. The experts do not work in civil service and do not represent any political party. All of the experts attend the project for no reward. The opinions presented in the HESO-project represent solely those of the experts and do not necessarily reflect the views of their employers.

### Evaluation Criteria

Experts evaluate all the selected measures in two categories: Quality and Importance for the society and economy. These do not affect each other.

#### **Quality [-3; +3]**

Experts evaluate the effect of a selected measure and give it a grade (see the range below). Often, there is a crucial difference between the real effects of a measure and the effects proclaimed by its author or administrator. Therefore, no matter what the measure presents to solve or improve, experts evaluate the impact and the effects they think the measure will bring to life.

#### Range:

|    |   |
|----|---|
| -3 | absolute disapproval                              |
| -2 | moderate disapproval                              |
| -1 | minor disapproval                                 |
| 0  | no effect, status quo                             |
| +1 | approval despite significant defects of a measure |
| +2 | approval despite minor defects of a measure       |
| +3 | absolute approval                                 |

#### **Importance for the Society and Economy [%]**

Experts express opinion how essential and necessary the selected measure is for the society and economy, for the economic and social development. This category highlights the importance of reforming a given feature of a system in the country. The higher the score, the more important the measure is.

#### **Experts' Comments on Evaluated Measures**

Experts are invited to mention the pros and cons of the measures they evaluate. A summary of comments on each evaluated measure sums up the Experts' Committee Comments.

### Ratings

#### **Rating of the Measure**

To get the rating of the measure, the average quality grade of the measure is multiplied by a coefficient expressing the average value of the measure importance for the society and economy. Thus, the rating values of the evaluated measures come in range [-300; +300]. According to these rating values all measures are ranked in a chart. Rating of the measure indicates the contribution of the evaluated measure to the economic and social development of the country.

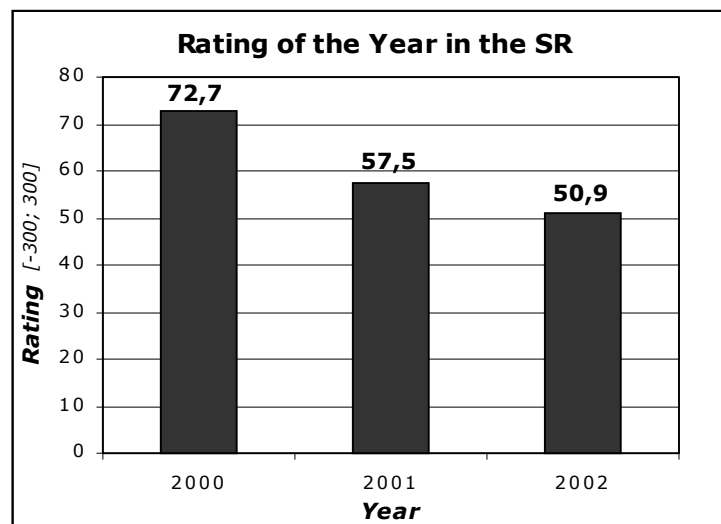
**Rating of the Quarter**

Only the ratings of measures, which have been implemented or passed by legislative body, executive power or public institutions, are used to complete the rating of the quarter. The rating of the quarter is calculated as an average of all ratings of measures, which have been passed in relevant quarter. Often, there might be a time lag between a proposal and a passed measure. If an evaluated measure was drafted or proposed but not yet passed, it will not influence the final rating of the evaluated quarter. It will count only in the quarter in which it is put into effect. The rating of the quarter reflects Experts' Committee's opinion on quality and importance of all evaluated measures passed in relevant quarter and indicates the reform atmosphere in the country.

## Summary

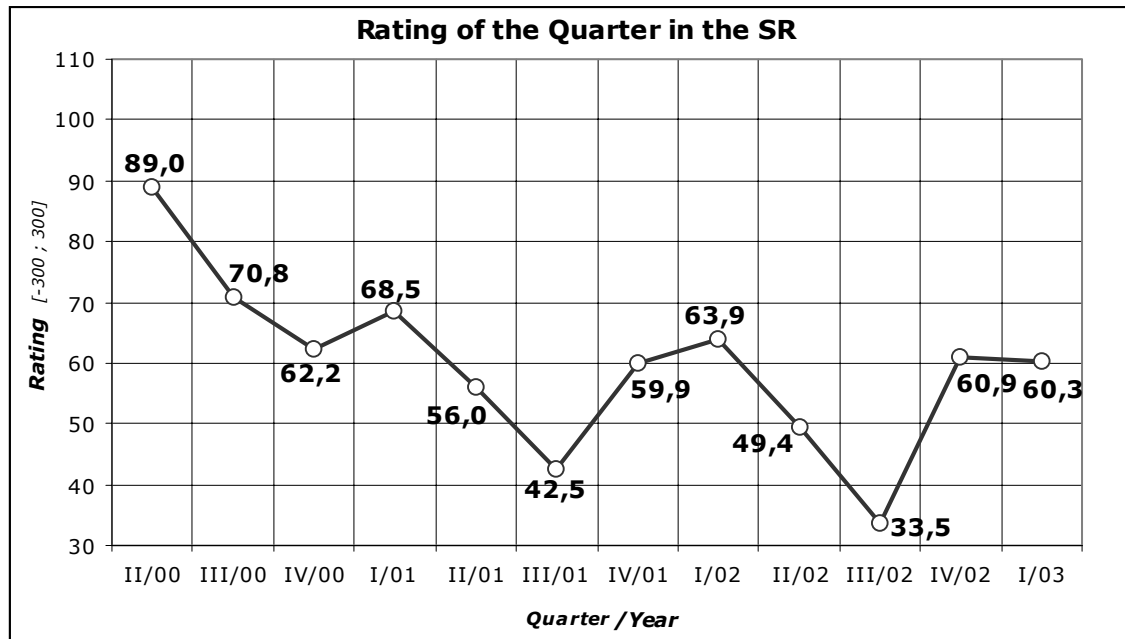
The year 2002 has to be divided into two parts. The first three quarters represented the end of the incumbency of the previous Government and Parliament. The parliamentary elections in September introduced a new governing constellation and a newly composed legislative body. Hence, the fourth quarter already reflected the measures of the current government coalition and parliament opposition.

The end of the term of the previous Government and Parliament was affected by the so-called political cycle, which means that in the second half of the incumbency and especially shortly before the elections there decreases the willingness to adopt painful, unpopular, but necessary reforms. There also decreases budget discipline and budget constraints soften. Instead, there are proposed and passed politically uncontroversial measures, or measures with populist flavour and negative impact upon the economy and the whole society. Such steps bring benefits to small interest groups and are to the detriment of other tax payers. As an example, let's mention proposals to compensate clients of bankrupt non banking financial entities ("pyramide schemes"), draft acts strictly regulating retail chains, draft Slovak Audio and Video Fund Act, introduction of substitute alimonies (the so-called Alimonies Fund), proposal to establish the Slovak Venture Capital Fund, minimum wages increase, postponing prices deregulation, etc. Affected by low likelihood of their re-election or high probability of their recall from the office, some ministers, deputies, civil and public servants and employees of public institutions supported measures which were to bring them personal advantages by the end of their functional period. This spirit entailed the amendment of the Act on Civil Service which granted tenure to top experts without passing qualification exam, the Collective Agreement for the Slovak TV offering, apart from other things, an immoral 10- to 12-month severance payments for top managers, proposals for severance payments and a range of benefits to the Members of the Slovak Parliament, postponement of the transformation of the News Agency of the Slovak Republic, the Collective Agreement of the Public Service granting above-standard working conditions and severance payments, non adoption of the Act on the Conflict of Interests, etc. The two graphs below show that the closer to the elections, the less pro-reform atmosphere there was in the country.



Note: Data for the Year 2000 – last 3 Quarters

**The Rating of the Year / the Rating of the Quarter** is an average of all ratings of measures passed in relevant year/quarter. It reflects Experts' Committee's opinion on quality and importance of all evaluated measures passed in relevant quarter and indicates the reform atmosphere in the country.



The year 2002 is marked for the highest deficit of public finances over the past few years. Based on the Eurostat methodology (ESA 95), used in the EU, the deficit reached by public administration in 2002 amounted to SKK 77.805 bn, which represents 7.2% of GDP. Increasing the volume of public expenditures in the electoral year and exceeding their budgeted level is a significant token of the political cycle, which occurred in Slovakia last year. This phenomenon adversely affects the amount of the deficit of public finances and public debt. In 2000 and 2001 the Slovak Government granted the highest number of bank guarantees in the country's history. We have been warned by the OECD that by restricting state guarantees it is possible to better control public expenditures. Last year the volume of state guarantees decreased, nevertheless, the Government did not completely abandon their generous attitude to many entities. Beside traditional beneficiaries as, e.g., Railways of the Slovak Republic, the Railway Company, the Slovak Electricity Company (in the previous years also the state enterprise Water Engineering Construction), in 2002 state guarantees were also granted to, e.g., the Slovak Shipbuilding Company in Komárno (SLKB). Restrictions in granting state guarantees should be facilitated by the newly adopted Law on State Debt and State Guarantees. Another form of state assistance was the provision of the Government Loan to the Municipality of Košice, one-off write-off of the debt of the Slovak Television and the Slovak Radio, state acquisition of a stake in the assets of the Slovak Airlines, or the increase of Eximbanka's equity. Additional income of the state budget amounting to over SKK 9 bn, resulting in the mitigation of the budget deficit, was brought by the controversial cash repayments of the Russian debt, which slimmed the liabilities of the Russian Federation to Slovakia by over a half. Last year there began the creation of the State Treasury and the State Debt Management Agency, which are expected to contribute to better transparency of financial flows in public finances. Their task is to centralize the income, control expenditures, manage assets, cash and debt, secure payments, control accounting and finance as well as implement better financial planning. It still remains questionable however whether in the times of decentralization, when the subsidiarity principle strengthens, there should start to exist such a heavily centralized system, which can hinder flexibility in the organizations of state and public administration and further jeopardise the fulfilment of the aim of making the management of the public budget more effective. In its Memorandum, the current Government set economic aims of maintaining economic stability and making the management of the state budget and public finances more effective such that to the end of its electoral period Slovakia has achieved the level of Maastricht convergence criteria. One of these criteria sets the maximum deficit of public finances at the level of 3% of GDP. The 2003 State Budget, as adopted by the Parliament, already represents a token of a shift towards this aim. This year's deficit of public finances is forecast at the level of 5% of GDP. Expert community has appreciated the effort exerted by the Government in restricting the deficit and in converging with the EU methodology at reporting public finances deficits, which would show the state's finance more realistically. The 2003 State Budget could thus be described as more transparent and truthful. Nevertheless, it also predicts a high deficit and there still exists a risk that by the end of the year the real deficit will climb even higher. The budget cannot be labelled as pro-reform, as it does not reflect systemic measures in the full cross section of public expenditures and it focused on selected items only aimed at stabilizing the public

finances deficit. The whole 2003 fourth quarter - the first quarter of the new Government in power - could be named as "correcting" (dissolution of the Alimonies Fund, increase of regulated prices, amendment to the Act on Civil Service), bringing forth stabilization measures closely associated with the state budget aiming at decreasing public expenditures (a package of 20 Government's amendments, e.g. amendment to the Employment Act, amendment to the Social Assistance Act, amendments to the acts freezing the salaries of constitutional officials and state sector employees, amendment to the Child Allowance Act, cutting the state premium on construction savings scheme etc.), or at increasing revenues of the state budget (raising excise tax on tobacco and mineral oils, and reducing the gap between VAT rates).

Many measures adopted by the Government, Parliament or public institutions, whether intentionally or not, form business and investment environment. Positive steps forward were the adoption of the Electronic Signature Act and, in respect of circumstances in continental Europe, of a quite revolutionary reform of lien law, which enabled establishment of lien to movable assets, rights and other valuable property (e.g. machinery, technologies, means of transport, small assets, inventory, receivables, copyrights, future rights and revenues) without handing over the thing or property to the creditor (the so-called non possessive lien). Politicians liked using the necessity of the approximation of the Slovak law to the EU legislature as an excuse for passing various regulations. European directives however usually define the borders widely, so that they allow each country to choose solutions responding to its national interests. In Slovakia, this approach was frequently misused for passing measures, which followed interests of some specific groups, but were not beneficial to the whole society. This however was not the case of the new Law on Accounting, which harmonized the Slovak accounting system with the International Accounting Standards (IAS), of the new legislation concerning the system of payments, which cut down the deadlines for electronic banking operations, nor of the amendment to the Foreign Exchange Act, which liberalized the flow of capital. Furthermore, there were adopted measures that removed various business barriers and thus improved business environment (the abolishment of restrictions (customs duties and quotas) in trade with the Czech Republic, opening up the electricity market for imports - so far only for large customers, abolishment of the so-called tax on losses, abolishment of the restriction on PVC production). On the other hand, because of the duty to take deposits and buy back disposable packages (glass and PET bottles), Act on Packaging brought to the retailers nothing but headache. Despite being enforced by the EU, the abolishment of 100% tax holidays for investors was a positive measure, removing exceptions that deformed business environment and that limited perspectives of the future economic growth. A disappointment was the attitude of some of the Members of Parliament from the previous coalition, who barred the adoption of the amendment to the Telecommunication Act, which was to strengthen economic competition by facilitating and accelerating the access to the local telephone networks (the so-called last mile) of the dominant operator - the Slovak Telecom.

All entrepreneurs unisono claim that low effectiveness of Slovak courts and hence low enforceability of the law has a substantially adverse effect upon the whole business and investment environment. The steps reducing burden laid on courts and improving their work organization are therefore accepted very positively but often entail inadequately high expectations. However, for instance, the intention of the new Arbitration Act to reduce workload of courts and move cases that would be resolved by the parties out of court (by means of arbitration proceedings) has not been fulfilled yet. The new institute in the Slovak system of justice (Higher Judicial Officials) as well as the project of computerization of judiciary could realistically make the activities of Slovak courts more efficient. Especially progress in the promising project "Judicial Management", which receives a strong support from the current Minister of Justice, may help fulfilling the expectations.

In the area of maintaining transparency and fight against corruption, Slovakia did not manage to achieve any significant progress, even though the trend leading to improvement of the current situation is visible. It is however necessary to note that thanks to generally more transparent state administration there was more public attention and discussion about corruption and other "underhand" practises in public life than in previous years. There was more success in revealing various cases and persons concerned were named. Corruption was therefore more in view of the public, even though it may have actually been receding. A strong public pressure in the previous years had contributed in some cases to drawing political consequences. Last year, for example, the Minister of Transport, Posts and Telecommunications had to leave his office after mis-managing the tender for light trains by the Railway Company. Large reserves have however remained in applying criminal amenability. There was also dissatisfaction with the fact that, on one hand, there were often drafted various valuable green papers and acts (the Draft of the Constitutional Act on Conflict of Interests, Draft Act to Fight Overbearing and Insolence of State to Citizens, new Legislation Proposal for Citizens' Participation in the Legislative Process, New Model of Active Provision of Information Regarding the Grant Allocation Process, strengthening the control of state property management (Model Statutes for State-Owned Joint-Stock Companies, the draft amendment to the State Enterprise Act)), on the other hand, when their spirit was to be put into practise in the decision-making process of civil servants at public procurement and at



their management of state property, the transfer of values was not sufficiently consistent (tender for the State Treasury information system, the aforementioned tender for light trains for regional railroads, tender for the sale of the Slovak Shipbuilding Company, Bratislava, sale of VSŽ stocks from Transpetrol portfolio, repayments of the Russian debt, management of state material reserves etc.).

Over the past few years major international privatization projects have mostly been carried out transparently. This trend was also successfully maintained in 2002, when the largest privatization project, in respect of the amount of proceeds, in the history of Slovakia took place. A package of 49% of the Slovak Gas Industry (SPP) was sold to the joint-venture Gaz de France, Ruhrgas and Gazprom for over USD 2.7 bn. The huge volume of financial means at hand, with the potential of affecting the macroeconomic stability of the Slovak economy, was to be reasonably used, as for in future Slovakia will not necessarily have to have such unique sources available. The key aspect was that the money was not to be just frittered away. This was the reason why the compromise decision on the use of privatization proceeds for paying back the state debt and starting up a pension reform was regarded as acceptable. Several politicians were dissatisfied with the amount of privatization proceeds, neither with high exchange rate losses caused by weakening US dollar and strengthening Slovak crown. The sale of the Slovak Insurance Company to German company Allianz and the privatization of 49% of shares of the Energy Distribution Companies (ZSE to E.ON, SSE to Electricité de France, VSE to RWE), likewise the sale of Istrobanka to the third largest Austrian bank group BAWAG, were executed smoothly, without any major problems or scandals. The privatization of health-service institutions continued, the Government approved the sale of the majority of 17 Slovak Bus Transport Companies, and the chemical plant Istrochem Bratislava was re-privatized.

Only to the end of the functional term of the previous Government, there occurred a certain legislative progress in respect of the social security system reform. Despite the fact that the new Social Insurance Act adopted by the Parliament introduced some positive changes in the so-called first – pay-as-you-go - pillar of pension insurance (e.g. tying pensions to contributions throughout the whole period of paying social contributions, equalizing retirement age of men and women by increasing the women's retirement age to 60 years), these changes were insufficient and with major limitations. Therefore, the Ministry of Labor, Social Affairs and Family is preparing an amendment to the Social Insurance Act, which should reform the pay-as-you-go pillar of social security such that it better reflects merits. The decision to use over SKK 66 bn, acquired through the privatization of the SPP, for financing a part of the so-called transformation costs of the initial phase of the pension reform, characterized by the creation of the second, the so-called, capital pillar, made it possible to discuss real numbers. The previous Ministry of Labor, Social Affairs and Family did not prepare a draft act on the capital pillar of the pension insurance and its idleness was substituted by unsuccessful proposals from Members of Parliament. A month(!) before the September elections the Government approved the Legislative Intention to Draft the Act on Pension Insurance Capital Pillar, including two contradictory alternatives regarding the reform implementation in respect of the institutional organization of the asset management in the capital pillar, which was to decide who in particular will manage the assets. According to the more criticised alternative, as proposed by the Ministry of Labor, Social Affairs and Family, asset managers were to be chosen by a public body, the so-called Investment Committee, which would constitute a part of the Capital Pillar Administration - an organizational unit of the Social Insurance Agency. Personal pension accounts of the insured should be held with the Capital Pillar Administration, which would also implement the Central Register of all insured persons. The alternative proposed by the Ministry of Economy assumed decentralization of the capital pillar administration allowing citizens to choose a private asset management company, which would manage their personal pension accounts. The responsibility for investing the pension assets would be born by special financial institutions – pension funds. Every insured person would thus choose a pension fund himself or herself. After the elections, the new Government appeared, entailing a new Concept of the Pension Reform. A positive decision of the previous Government was that Slovakia did not become a party to the European Code of Social Rights, which would presently lay an inadequate burden on the Slovak economy and would worsen its performance and the country's growth in future. In 2002 the Government policy in terms of state social support and social assistance was marked with necessary rationalization measures connected with a more targeted provision of allowances (cuts in the flat amount of child allowance, payment of supplement allowance depending on family income, abolishment of substitute alimonies, cuts in social assistance benefits and their targeted provision). In 2002 the employment policy was heavily affected by the re-codified Labor code coming into effect, which offered employees with inadequate protection in labor and legal relations, granted Trade Unions with unusually strong rights, and thus decreased the flexibility of the labor market, made workforce too expensive and tied employer's hands in respect of further enhancement of production and hiring new employees. The increase in minimum wage did not contribute to the increase of employment, either. Even before the re-codified Labor Code became effective in April 2002, which arouse a wave of indignation among the business community, the Labor Code had been partially amended. The small amendment just removed the

most distinctive problems (relating to a very short worktime per week, over-time work, abolishment of agreements on work performance), which could result in the collapse in some sectors of economy. The next extensive amendment to the Labor Code was already adopted by the present Parliament in May 2003. The current Ministry of Labor, Social Affairs and Family also drew up an amendment to the Employment Act, which introduces stricter eligibility conditions for maintaining an applicant in the unemployment register (e.g. a mandatory visit to the Labor Office once every two weeks, or necessity to furnish evidence of actively searching for a job). The Act also entitles municipalities to employ the registered unemployed to carry out minor municipal work for their social benefits. Effects of this amendment, effective from January 2003, became visible almost immediately. During the first months of the year, a record number of persons was crossed out from the unemployment registers of the Labor Offices either upon their own request or due to their uncooperativeness. According to the preliminary data from the National Labor Office, in May 2003 the rate of registered unemployment reached the level of 14.85%, which represents an annual decrease by 2.82%-age points and which is the lowest level since November 1998. In 2002 the average rate of registered unemployment was 17.8%. In December 2002 it was 17.45%.

Over the nine months of the last year, the health care sector struggled with the same problems as in the years before - there was no vision, nor courage to push through painful, unpopular steps aimed at curing it. Frequently, only partial measures were adopted, not aiming at completely changing the ill system. A patch was substituted by a patch, but the hole was not smaller, just the opposite, the debt was rising by over SKK 700 m every month. Not causes, but consequences of the adverse situation in the health care sector were dealt with. Despite being accompanied by low transparency of some of the decisions, the privatization of health-service institutions, commenced in the previous electoral period, was one of very few positive steps. The most powerful change so far in how to deal with the situation in the Slovak health care sector, was introduced by the new Minister of Health, who began with stabilization measures aimed at barring the rise of the debt (e.g. introduction of flat payments for health-care related services, new initiatives in drug policy). In respect of the evaluation of the reform of the health care sector being implemented, which is, in the opinion of some experts, the most difficult one, the key systemic measures are yet to come (the amendment to the Rules of Medical Treatment, a new Act on Health Insurance Companies and the Office of Supervisory over Health Care, new Health Insurance Act; and also network measures: definition of individual entities, definition of the term and legal position of health-care providers, definition of professions, functions of chambers, shifting competencies to hospital managements, introduction of a differentiated system of remuneration of health professionals). According to its strategy, the new system should start functioning in 2004.

The most principal change in the education system last year was the re-codification of the University Act, which was expected to be a key legal regulation in respect of the reform as well as of the further development of the Slovak universities. A compromise character of the act however introduces incompatible principles in the area of university financing. On one hand, the act supported the competition environment of universities, fundamentally increased the responsibility of universities to their students, increased the level of economic and decision-making autonomy of universities through the statute of public institution, created grounds for raising funds from multiple sources, on the other hand, it rejected the economic autonomy of universities in terms of the fees for university studies. Several experts concluded that the Slovak university reform stopped in half way.

With no doubt, the successful events of 2002 included the integration process of Slovakia, which was fulfilled after the September parliamentary elections. Its result reiterated democratic and pro-west orientation of Slovakia. This was one of the reasons why we received an invitation to join NATO in the Prague Summit in November and why we managed to conclude accession negotiations in the EU Summit in Copenhagen in December. Hence, Slovakia reached the threshold of these institutions. The integration process itself fundamentally affected and affects the politics, economy, and the whole Slovak society. Through its membership in the EU and NATO, Slovakia will define its basic foreign-policy, military, as well as social and economic direction for long future decades.

The current center-right Slovak Government will have four years available for influencing the development of public policies in Slovakia. The Memorandum of the Government of the Slovak Republic was evaluated by the expert community as an ambitious project. If the Government manages to fulfil it within its functional term to 100%, in 2006 Slovakia will be substantially different, because the range of promised reforms is very extensive (let us mention at least the reforms of public finances, social system, health care sector, education system or judiciary). The highest risk implied in the Memorandum is regarded to be the extent of its promises, the fulfilment of which will affect the overall evaluation of the Government at the end of its functional term. The implementation of the Memorandum will be demanding, for it is a common practise in Slovakia that it is enough to point out the imperfections, and not to deal with them. Furthermore, the implementation of the reforms themselves will often have to be enforced by people who in past preferred superficial modifications to in-depth changes.

## Evaluation of Measures

### JANUARY - MARCH 2002

| <i>Evaluated Measures ranked by Rating Values<br/>(i.e. Contribution to the Economic and Social Development)</i> |  | <b>RATING</b><br>[-300; 300] | Quality<br>[-3; 3] | Impor-<br>tance (%) | Passed in:<br>quarter/year |
|--|--|------------------------------|--------------------|---------------------|----------------------------|
| 1.   | Privatization of SPP, a.s. (Slovak Gas Company)  | <b>173,1</b>                 | 2,02               | 85,6                | 1/2002                     |
| 2.   | Electronic Signature Act   | <b>159,9</b>                 | 2,53               | 63,1                | 1/2002                     |
| 3.   | Computerization of the Judiciary (Introduction to the Courts of a Case Management Software)                      | <b>152,0</b>                 | 2,49               | 61,1                | 1/2002                     |
| 4.   | Privatization of Slovenská poisťovňa, a.s. (Slovak Insurance Company)  | <b>138,4</b>                 | 2,19               | 63,2                | 1/2002                     |
| 5.   | Draft of the Higher Judicial Officials Act   | <b>133,0</b>                 | 2,25               | 59,1                | 2/2002                     |
| 6.   | Draft of the Constitutional Act on Conflict of Interests   | <b>121,2</b>                 | 1,93               | 62,8                | -                          |
| 7.   | Sale of Istrobanka   | <b>110,1</b>                 | 2,48               | 44,4                | 1/2002                     |
| 8.   | Act on Genetic Technologies and Genetically Modified Organisms   | <b>108,6</b>                 | 1,94               | 55,9                | 1/2002                     |
| 9.   | New Draft Arbitration Act  | <b>99,2</b>                  | 1,79               | 55,4                | 2/2002                     |
| 10.  | Draft Act to Fight Overbearing and Insolence of State to Citizens (Reduction of State Bureaucracy)               | <b>95,8</b>                  | 1,69               | 56,7                | -                          |
| 11.  | Draft Act on the Establishment of the State Treasury System  | <b>90,2</b>                  | 1,43               | 63,0                | 2/2002                     |
| 12.  | Regulatory Rules for Gas Distribution Utilities (Pricing of Gas)   | <b>89,0</b>                  | 1,59               | 56,0                | 1/2002                     |
| 13.  | Amendment to the Labor Code  | <b>80,0</b>                  | 1,34               | 59,7                | 1/2002                     |
| 14.  | Abolishing the Restriction on PVC Production   | <b>74,6</b>                  | 1,45               | 51,3                | 1/2002                     |
| 15.  | Science and Technology Act   | <b>70,7</b>                  | 1,52               | 46,4                | 1/2002                     |
| 16.  | Draft Social Insurance Act   | <b>42,9</b>                  | 0,56               | 76,9                | 2/2002                     |
| 17.  | Extension of the Deadline for Property Declaration   | <b>40,4</b>                  | 0,84               | 47,9                | 2/2002                     |
| 18.  | Act on the Slovak Academy of Sciences (SAV)  | <b>37,2</b>                  | 1,00               | 37,2                | 1/2002                     |
| 19.  | New University Act   | <b>34,5</b>                  | 0,56               | 62,0                | 1/2002                     |
| 20.  | Amendments to the Public Service Act   | <b>4,4</b>                   | 0,09               | 48,6                | 1/2002                     |
| 21.  | Cancelling the Tender for the Sale of Slovenské lodenice Komárno (Slovak Shipbuilding Company) (SLKB)            | <b>-10,3</b>                 | -0,27              | 38,7                | 1/2002                     |
| 22.  | Decision of Financial Market Authority on the Sale of VSŽ (a Steel Company) Stocks From Transpetrol Portfolio    | <b>-19,3</b>                 | -0,47              | 41,4                | 1/2002                     |
| 23.  | National Property Fund's (FNM) Suggestion for the Allocation of SPP (Slovak Gas Industry) Privatization Proceeds | <b>-36,7</b>                 | -0,48              | 76,8                | -                          |
| 24.  | Postponing the Transformation of the News Agency of the Slovak Republic (TASR)                                   | <b>-59,0</b>                 | -1,58              | 37,4                | 1/2002                     |
| 25.  | Government Loan to the Municipality of Košice  | <b>-69,0</b>                 | -1,61              | 42,8                | 1/2002                     |
| 26.  | Proposal to Increase Social Benefits for Members of the Slovak Parliament  | <b>-76,7</b>                 | -2,21              | 34,7                | -                          |
| 27.  | Proposal to Compensate Clients of Bankrupt "Pyramid Schemes"   | <b>-124,1</b>                | -2,42              | 51,2                | -                          |
| <b>RATING of the 1st Quarter 2002 (Passed Measures)</b>  |  | <b>63,9</b>                  |                    |                     |                            |

### 1. Privatization of SPP, a.s. (Slovak Gas Company)

#### Comments of the Experts' Committee:

The sale of SPP (Slovak Gas Industry) to the consortium of companies Gaz de France, Ruhrgas and Gazprom has been perceived as the most important privatization decision of M. Dzurinda's government. The majority of evaluators was convinced that a change in the ownership was necessary, being the basic prerequisite for the elimination of political pressures, opportunities for corruption and their negative impact on the quality of management and its decisions. Experts

considered the selling price as adequate to the conditions of the tender, although many of them admitted that the final price could have been negatively influenced by the proposals aiming at changing the privatization, by the divergence of opinions on the domestic political scene, as well as by the urgent need to obtain funds from SPP-privatization to pay off debts and to finance the reform of the pension system, as declared by the government. The sale itself was carried out in a transparent way, and it has been regarded by many evaluators as a success and also as a good signal for foreign investors.

**Characteristics of the measure:**

*At the end of February 2002 the consortium of companies Gaz de France, Ruhrgas and Gazprom submitted the only final bid to purchase 49 per cent share of the government-owned joint stock company SPP. The Consortium offered USD 2.7bn (approx. SKK 130bn) for the 49 percent share. This offer was less than the expectations of analysts at about USD 3 bn. The President of the Slovak Republic as well as some political parties did not hide their disappointment. Financial analysts were surprised to see a single bid but considered the price as adequate in the view of the conditions of the tender. The government appointed a privatization consultant – Credit Suisse First Boston – to negotiate with the Consortium an increase in the bid price. The Consortium regarded the purchase price as the maximum but accepted several changes in the transaction documents. There will be seven members on the Board of Directors, four of whom will represent the Consortium and three the government. The government will have a majority on the Supervisory Board, and its consent will be required whenever a head cut of more than 10 per cent and any transaction worth more than USD 150,000 is suggested. To cover all possible risks, the government put aside 20 per cent of the purchase price (approx. SKK 26bn). In May 2002 the government decided to sell to the Consortium at the offered price. The Consortium was also granted option rights to further stocks. The Consultant set the value of the selling package of the stock within the range from USD 1.83 to 2.35bn.*

## **2. Electronic Signature Act**

**Comments of the Experts' Committee:**

In the opinion of the majority of the Committee of Experts, electronic signature is a basic pillar of the modern society and a necessary precondition for economic development based on information technology. Electronic signature will simplify the communication of citizens and business entities with state authorities, municipalities and with other public institutions. The extent of its utilization in Slovakia will, however, mainly depend on the speed of Internet expansion.

**Characteristics of the measure:**

*In March 2002, the Parliament of the Slovak Republic passed the Electronic Signature Act, which puts digital and manuscript signatures at an equal level. As a result of the Act, paper and electronic documents will be treated as equal, and business and other relationships under electronic communication, especially the Internet and electronic mail, will be secured. The regulation is expected to facilitate communication between citizens, government establishments and businesses. The National Security Authority will be responsible for the security of electronic signature. The widening of the scope of its competencies to include electronic signature will be associated with one-time costs of about SKK 120 million and yearly costs of approx. SKK 70 million. Having been granted authorization from the Authority, so-called certification authorities will be able to start operating (as commercial entities) to provide basic certification services; they will be authorized to issue notary approved documents by electronic means.*

## **3. Computerization of the Judiciary (Introduction to the Courts of a Case Management Software)**

**Comments of the Experts' Committee:**

The experts consider the project of computerization of the judiciary as a conceptual step within the reform of the latter, without which the effectiveness of the Slovak judiciary cannot be improved. A positive example has been the implementation of the Judicial Management Project, which – due to the computer system as well as to the reorganization of court work – has cut time required for the processing of judicial agenda. The system of allocating files to judges by random selection is a significant positive step towards the transparency of legal proceedings and also an important anti-corruption tool. The pressure aimed at speeding up court activities was also expressed in the

project named Computers for All Judges. Publishing on the Internet of the full wording of legal acts, decrees and statutory orders as well as case law-decisions represents a benefit in keeping the general public informed. The committee experts have also welcomed the publishing of bankruptcies list (entities in liquidation).

**Characteristics of the measure:**

*Modernization of the judiciary is a priority of the Ministry of Justice. Since 1998, six times more funds have been invested into IT under the justice sector budget than before. One of the reasons to increase IT investments to justice were the rather traditional conditions under which the Slovak courts operate. The "Computers for Judges" Project, partly financed under the budgetary chapter of the Justice sector and partly from the European PHARE fund, covers equipment of all courts with computers, some 1300 in total. Some computers are already used by courts, and all judges are expected to have Internet access by the end of May 2002. By the end of April, all courts and the Slovak Ministry of Justice should be interconnected in a computer network. An automated system of legal information (JASPI) will be introduced as an information system to enable citizens, via the Internet, free of charge, fast and easy access to legal information. The database of this system contains the electronic form of the legal codes, full text acts with amendments, court trials resolutions and courts' opinions, as well as other documents necessary for the exercise of rights and duties of every individual.*

#### **4. Privatization of Slovenská poisťovňa, a.s. (Slovak Insurance Company)**

**Comments of the Experts' Committee:**

Most experts share the view that state should not be involved in entrepreneurship, and have perceived the sale of Slovenská poisťovňa (Slovak Insurance Company) positively. Allianz – the new owner – is a prime strategic investor and the achieved selling price was adequate to the assets and the share of SP on the insurance market. The evaluators considered the sale itself as transparent and appreciated its coordination by minority shareholders, and also the implementation of the process without major problems.

**Characteristics of the measure:**

*In January, the Slovak Government sold a 66.79 per cent share of Slovenská poisťovňa (SP) to the German company Allianz for EUR 144.925 million (approx. SKK 6.1bn). The price was influenced by revenues from the sale of Istrobanka (SKK 1.6 bn) and SKI Jasná (SKK 345 million). Apart from Allianz, the Dutch insurance company Aegon also submitted a bid for SP. Allianz also bought 24.27 per cent of the shares of the company Penta which, before evaluating the tender, made an agreement with both participants to sell them its share for same price as the government, estimated at EUR 50 million. In this way, the whole SP was sold at about EUR 217 million (SKK 9.1 bn), i.e. 2.2 times more than its equity (SKK 3.5 bn in June 2001). At the time of the sale, SP accounted for an approximately 50 per cent share of Slovakia's insurance market. During the first 9 months of 2001, insurance premiums made up SKK 12.4bn were received (SKK 3.5bn in life insurance, SKK 8.9bn in non-life insurance).*

#### **5. Draft of the Higher Judicial Officials Act**

**Comments of the Experts' Committee:**

In the opinion of the Committee of Experts, the introduction of the institution of Higher Judicial Officials, who are to act mostly in unquestionable matters, is an opportunity to ease the burden of everyday administrative agenda and less serious legal proceedings that the judges have to bear now. This measure can be expected to ultimately contribute towards the so much desired speeding up of legal proceedings and to the improvement of decision-making, hence improving the enforceability of law – one of the major problems of the Slovak economy.

**Characteristics of the measure:**

*In March 2002 the government negotiated and passed with (with some objections) the draft of the Higher Judicial Officials Act. The aim of this draft is to regulate the position and the activities of higher court officials. The main intention of the draft is to speed up trials and make them more effective, allowing judges to concentrate more on resolutions in court cases rather than to deal*

*with technical and formal issues. To reach this goal, a new institution of higher court officials was established. The officials should act in matters that are not subject of dispute. In civil trials, they should check and correct incorrect or incomplete drafts, issue court copies, copies of records with Commercial Register of the SR, make decisions about fines, payments to witnesses, experts, interpreters, etc. They might perform certain activities in court trials. Higher court officials will be carrying out their duties based either on law (in which case the rule of independence and obligation by law shall apply); or based on written appointment by jury chairman with the way a certain task to be handled being decided by judges. Such an instruction will be an obligation imposed upon the higher court officials. Some 600 higher court officers are expected to start working at Slovakia's courts, especially at the busiest county courts. The institution of the higher court officer is common in many European countries. Their work has proved to be an asset and they have become irreplaceable. By stating the position and the competencies of higher court officers, the drafters drew inspiration from the court practice in Austria and Germany, and especially from the law of 1995, which was successfully implemented in the Czech Republic. Funds to finance the act come from the 2002 fiscal budget, and will amount to SKK 47 million.*

## **6. Draft of the Constitutional Act on Conflict of Interests**

### **Comments of the Experts' Committee:**

The experts appreciated the parliamentary draft of the Constitutional Act on Conflict of Interests, which is to set up stricter conditions under which conflicts of interest arise and to broaden the scope of public officials subject to it. The proposal intends to minimize the opportunities for individual enrichment as well as for misusing other benefits connected with the holding of public offices, and it also intends to eliminate parallel holding of several elected positions. All this is hoped to establish better conditions to fight cronyism and corruption within the public administration sector.

### **Characteristics of the measure:**

*In March, the government approved the draft of the constitutional act on public interest protection during the performance of public representative functions (so-called Conflict of Interests Act). The draft proposes stricter rules concerning the conflict of interests and extends the scope of public officials to whom conflict of interests applies: all judges, state attorneys, self-government officials of both levels, directors of state, municipal and local government establishments, agents of state establishments pursuant to the Public Service Act, state, municipality, county and National Property Fund representatives, and representatives of companies with business interests in these entities. The Act will apply to President of the SR, members of the Slovak Parliament, the government, the chairman and the vice-chairman of the Supreme Control Authority, members of the Board of the National Bank of the SR, judges of the Constitutional Court, the chairman, the vice-chairmen and the judges of the Supreme Court of the SR, members of the Court Board of the SR, Attorney General, Ombudsman, as well as State Secretaries. Property declarations of public officials should become available to every citizen while officials will also have to file disclosure of the property of their spouses and persons living with them in one household. Pursuant to the draft, the obligation to disclose property will not apply to relatives in direct line (parents, siblings and children). The new law also bans parallel holding of the office of mayor or chairman of a local government and that of Member of Parliament. The drafters accepted several suggestions made by non-governmental organizations, such as the possibility to impose financial fines upon elected officials for violation of law. The drafter do not see the introduction of the so-called survival clause as a problem: this is a means to prevent public officials from misusing information gained during the holding of a public office. The currently applicable constitutional act on prevention of conflict of interests during the holding of public office by constitutional officials, adopted in 1995, has proven ineffective, as no single action has been taken in this matter during the 6 years of its existence.*

## **7. Sale of Istrobanka**

### **Comments of the Experts' Committee:**

No objections were raised against the sale of Istrobanka to the Austrian bank BAWAG. The smooth and transparent implementation of the privatization process was positively perceived and considered as extraordinarily effective with regard to the selling price, which was a multiple of the bank's basic capital despite the fact that bad debts were not transferred to state. The sale of this small bank to a prestigious foreign owner was considered by many as a successful completion of the process aimed at the recovery of the Slovak bank sector.

**Characteristics of the measure:**

*At the end of 2001, Istrobanka, a.s. Bratislava was bought by Austrian BAWAG. For the 82 per cent share from the portfolio of Slovenská poisťovňa (owned by the government at that time) and 18 per cent of the Bratislava municipality share, the buyer paid almost SKK 2.2bn (EUR 51 million), which is about 2.25 times the bank's equity. The tender for the sale of Istrobanka was opened in June 2001. Apart from BAWAG, a bid was received from Bank Austria Creditanstalt of the HVB Group, and Austrian Volksbank. The sale exceeded the expectations of the shareholders, and Deloitte & Touche (sale consultant) stated that this was one of the most effective bank sales in Central Europe. By the end of 2001, the bank was making profit of SKK 65.2 million at the balance amount of approx. SKK 24.8bn.*

**8. Act on Genetic Technologies and Genetically Modified Organisms****Comments of the Experts' Committee:**

The Act on Genetic Technologies and Genetically Modified Organisms is the very first regulation in Slovakia tackling issues of the marketing of genetically modified products. The Expert Committee considered the passing of this legal measure as a logical step, being a part of the approximation of our law to EU legislation. According to some evaluators the act mainly provides for the protection of customers, by making their choice easier and at the same time also protecting manufacturers of unmodified products.

**Characteristics of the measure:**

*In February, the Parliament passed the government Act on Genetic Technologies and Genetically Modified Organisms (GMO). The new act regulates the market in products genetically modified or consisting of organisms altered by the use of genetic technologies. The act introduces the obligation to mark genetically modified food products or products consisting of genetically modified materials. It does not address manipulation of human genes, nor does it regulate medicines. The act will prevent free imports of genetically modified organisms and their products to Slovak market and will, at the same time, enable exports of such products from Slovakia by specifying rules of legal research, production and distribution. The standard lays down inspection bodies supervising the compliance with the law. A period of one year was set for companies dealing with GM organisms to bring their activities in compliance with the law. The act on the use of genetic technologies and genetically modified organisms is the very first law in Slovakia addressing GMO issues.*

**9. New Draft Arbitration Act****Comments of the Experts' Committee:**

Settlement of disputes by means of arbitration as an alternative to legal proceedings offers lots of advantages. Arbitration award has the same effects for the parties to arbitration as an enforceable judgment by a court. It is a more flexible and faster action that saves money, and is a simple and flexible way of resolving disputes. The new Arbitration Act creates ample opportunities for informal settlements and for speeding up the decision-making process mainly when it comes to commercial disputes. This may be expected to relieve the burden on the courts and hence to strengthen enforceability of law.

**Characteristics of the measure:**

*The new draft Arbitration Act passed by the government in December 2002, extends the possibilities of arbitration to replace court trials. The aim of the new act is to eliminate resolving of disputes by courts if arbitration or out-of-court settlement is possible to satisfy the parties. All kinds of disputes can be principally resolved by arbitration, even some types of civil trials. This act will enable commercial entities to arrive at the resolution of their cases within a shorter period of time. If both parties agree on an acceptable arbitrator, he/she can, within a short time, award the matter with final effect. The arbitrator can be any private person acceptable to both parties provided he/she has reached 18 years of age, has full legal competence, has adequate education and skills to carry out the function of the arbitrator, and has no record in criminal register. The draft law extends the possibilities of establishing standing arbitration courts for every type of disputes. No other authority will be authorized to proceed with a case with respect to which*

*arbitration proceedings were opened. A served arbitration award will have the same effect to arbitration participants as an enforceable court judgment would have. The number of arbitration cases processed in 2001 was between 15 and 20; they numbers can be expected to grow to hundreds or even thousands as soon as the new act takes effect.*

## **10. Draft Act to Fight Overbearing and Insolence of State to Citizens (Reduction of State Bureaucracy)**

### **Comments of the Experts' Committee:**

The experts have welcomed the draft Act to Fight Overbearing and Insolence of State to Citizens, which prohibits public authorities to require from applicants documents available at other offices or to which they have access themselves. The Committee members considered the objective of this parliamentary proposal as being sound. It tries to exert pressure upon rationalization and modernization of state administration; they however, voiced doubts regarding its practical implementation. In their opinion the government could be more effective not only with respect to the citizen-state relationships but also with respect to that between the individual state authorities.

### **Characteristics of the measure:**

*The Parliament of the SR presented the draft Act on Fighting Overbearing and Insolence of State to Citizens for second reading. According to this act, overbearing and insolence includes requesting of documents already submitted to state bodies by citizens or which state bodies may access themselves. Also, if a body of public power requests a document while another body of public power has access to it, it is considered overbearing and insolence; in such cases, state institutions are obliged to request such documents from other institutions rather than from the citizen. A fine amounting to SKK 500 up to SKK 500,000 may be imposed upon a public institution that overbears a private person or a commercial entity. The individual subject of overbearing and insolence will be entitled to receive 50% of the amount paid in fine, the remaining portion will represent national budget revenue. As stated by the drafters, the act regulates the relationship between the citizen and the state or the institutions of the latter. It is expected to exert pressure to rationalize government power. According to the drafters, many of the 330 existing registers could be abolished based on a discussion concerning the actual need for them. The registers frequently administer redundant information about the citizens. Therefore, the effect on the national budget should be positive. The government did not accept the draft.*

## **11. Draft Act on the Establishment of the State Treasury System**

### **Comments of the Experts' Committee:**

The State Treasury System that aims to centralize the records of revenues & expenditures of state and public administration is expected to make a contribution towards better transparency of fiscal flows within public finances. A better effectivity can be expected in the area of liquidity management and debt services. Many experts, however, fear that public treasury will at the same time reduce the flexibility of organizations within this system.

### **Characteristics of the measure:**

*According to the draft Public Treasury Act, a system will be established which will centralize financial control of about three thousand organizations of Public Administration. The function of State Treasury System will be to centralize revenues, control of expenses, administration of assets, cash and debt, financial planning, securing payments, accounting and financial control. Clients of State Treasury System will be almost all entities of public administration financed from the public budget but also commercial entities involved in programs financed by the EU. Municipalities, Slovak television and Slovak Radio were previously included in this project, but they will not become clients of State Treasury System. Based on this act, State Debt Management Agency will be established. Its function will be allocating excess liquidity or securing short-term loans. The Agency, according to the draft, will be founded as a public budgetary organization and will operate as an independent joint stock company.*



## 12. Regulatory Rules for Gas Distribution Utilities (Pricing of Gas)

### **Comments of the Experts' Committee:**

In the opinion of several evaluators, the introduction of the formula for maximum gas price calculation or the regulation formula that is to limit the maximum revenues of gas suppliers was badly needed. This measure sets up a standard approach towards the regulation network industries and eliminates the necessity of making yearly decisions on the level of gas price regulation. This formula may bring about a situation where SPP will be motivated to cut costs.

### **Characteristics of the measure:**

Office for Regulation of the Network Industries (ÚRSO) drafted and published a decision concerning the method of calculation of maximum prices of gas supplies to customers. The key this decision introduced is the so-called regulation formula, by which the supplier calculates maximum tolerated revenue/m<sup>3</sup> of delivered gas (not involving transit). The revenues include controllable and non-controllable costs in SKK/m<sup>3</sup> that are used to derive a correlation factor in SKK/m<sup>3</sup> to compensate for excess or lack of income of supplier in the preceding year. Costs of gas purchase are considered as uncontrollable position. Controllable costs are corrected using the so-called factor X, which is derived from consumers' prices index. Factor X reflects regulator's expectations concerning the ability of regulated entities to increase effectiveness. The formula applies the PBR (Performance-based Regulation) method. The formula will be used from 2003 onwards, and will remain in force through the end of 2005.

## 13. Amendment to the Labor Code

### **Comments of the Experts' Committee:**

According to respondents, the original wording of the Labor Code encompassed a number of shortcomings. Its Small Amendment removes only a fraction of those (increasing the weekly working hours from 48 to 58, allowing 18 overtime hours per week, re-introduction of Agreements on Work Performance). The Labor Code still restricts the voluntary contractual relationship between employees and employers by various means while decreasing workforce flexibility, which will have a negative influence on both economic growth and employment.

### **Characteristics of the measure:**

Having passed amendments to the Public Service Act of March 20, 2002, with several suggested changes, the Parliament indirectly amended the Labor Code as well. Weekly work hours were increased from 48 to 58, allowing 18 overtime hours. The Code enables performance of work based on Agreements on Work Performance. This legislation will only remain in force until the end of March 2007. Overtime hours in emergency life or health-threatening situations and in case of urgent work, are not counted towards the set overtime limit. Artists will be allowed to work on weekends as they can take their two days off any time during the week.

## 14. Abolishing the Restriction on PVC Production

### **Comments of the Experts' Committee:**

The measure that abolished the ban on PVC production has been viewed positively, even though PVC is a waste material very hard to eliminate with long-lasting effects on the environment. If the ban on PVC production and sale remained in force, Slovakia would be ahead of time and would become a world rarity. In the opinion of some members of the Expert Committee, it would be more appropriate to focus on separated waste collection and on imposing sanctions on unauthorized waste disposal.

### **Characteristics of the measure:**

During negotiations of the draft of the Prevention of Serious Industrial Accidents Act, in March 2002 the Slovak Parliament adopted an amendment, which abolishes the restrictions on production of polyvinyl chloride (PVC) and products made of it in Slovakia. According to the regulation adopted last year in connection with the Waste Act, Slovakia probably was to become the first country in the world where production, import, storage and recycling of this material and its products would be outlawed. Even Department of Environment and several environmental

organizations declared this Act as inconvenient, impracticable and unrealistic. EU representatives noted that this regulation was stricter than usual in EU countries.

## 15. Science and Technology Act

### **Comments of the Experts' Committee:**

The Science and Technology Act, which is to introduce a new system of financing of research with greater emphasis on objective use of funds, met with a cool attitude of the experts. One can regard the move towards objective financing and the introduction of competition with respect to funds allocation as a positive step. According to several evaluators, however, this act will not help eliminate ineffective research, since the major part of the funds will be distributed through the respective government departments again, which fail to judge properly their effective utilization.

### **Characteristics of the measure:**

*In February 2002, the Slovak Parliament passed a new Science and Technology Act whose aim is to replace the sectoral system of financing by a purpose-driven system that is not limited to a single sector. Purpose-based financing is supposed to provide more funds for a particular objective. The most important tool of financing should be government programs of science and technologies with theme character. The second tool of financing of science and technologies will be, as before, government orders approved at the recommendation of a particular sector. Suppliers will be selected in public tenders. The third tool of financing will become the Science and Technology Promotion Agency founded in 2001. Innovation Fund will be an independent tool for financing science and technology focusing on industrial innovations, and it will report to Ministry of Economy of the SR. The last financing tool will be international cooperation. In the next few years, the share of institutional finances should be reduced and purpose-driven financing should grow. The law attempts to introduce competition with respect to the raising of funds for science.*

## 16. Draft Social Insurance Act

### **Comments of the Experts' Committee:**

Apart from continuous financing, economic stability and success of the reformed social security system will most of all depend on the introduction of the second (capitalization) and third (supplementary) pillar of the pension security system. However, the draft Social Insurance Act does not mention them, and this was perceived rather negatively by the experts. In the opinion of several evaluators, the long-awaited regulation does not bring about a system change of the whole social insurance system in the SR. The fact that retirement age cannot be freely decided upon and that the money saved within the social insurance scheme will not be subject to inheritance came also under criticism. According to experts the draft Social Insurance Act can be viewed as the first sign of potential reforms within the unsustainable pension system.

### **Characteristics of the measure:**

*In February, the government approved the new draft Social Insurance Act, which should enable the social insurance reform. The act should enable a step-by-step switch from social security to social insurance, which means that only those who pay will be entitled to receive financial support. This should strengthen the principle of contribution, while compulsory contribution and the present principle of solidarity remain unchanged.*

*Social insurance will fulfill the function of a central insurance institution, which will administer medical, pension, accident and unemployment insurance. The basic social insurance is divided into three subsystems (medical, pension and accident insurance). Department of Labor, Social Affairs and Family suggests to grant persons unable to work on medical leave (PN) support at a flat rate of 55 per cent of their gross wages. This should prevent abuse of the system by employees with low salaries to whom it was convenient to stay home. At present, medical support is calculated from the maximum daily amount of SKK 350; payments for the first three days equal 90 per cent of this amount, dropping to 70 per cent thereafter. Under the new system, the calculation of pension will change. The pension level will be dependent on the wages that were used as the calculation base of the insurance premium, as well as on the length of employment. Currently, the pension level is calculated based on the best five years within the last ten years of employment.*

*Adjustment of old-age pensions will also be changed: it will be based on the real economic development (living expenses, average wages) automatically as of 1 July of the year. This is*

*expected to prevent parliamentary debates about the rates old-age pensions should be adjusted by. The government has repeatedly reviewed the Social Insurance Act and also made a decision about the speed at which the retirement age of men and women should be unified. Entitled to old-age pension will be all women aged 60 years regardless of the number of brought up children; this new system will be fully applied from 2027 onwards.*

*The new draft act only defines the first pillar of the progressive financing (pay as you go) in which the economically active citizens will be making contributions to old-age pensions of the present pensioners. According to critics, the act itself can not be called a reform, as it does not create conditions for a transit towards multi-pillar financing. It does not state the second pillar – capitalization of resources by establishing personal accounts for each client. The degree of social solidarity with respect to the redistribution of the funds collected will remain too high. The draft of the social insurance act pays but insufficient attention to the analysis of alternative earlier retirement. The draft does not take into account that each client will independently chose at which age he/she wishes to retire, according to his/her own personal preferences. One of the most serious objections to the draft concerns the absence of a universal system of social insurance for all employees; this reduces the flexibility of the labor market. Civil servants employed by some strong sectors (the military, Police, customs, Information Agencies) will have their own insurance systems, and this raises the question of equality before law and mutual transferability of the insurance schemes in case of a change of employment from public to private sector.*

## **17. Extension of the Deadline for Property Declaration**

### **Comments of the Experts' Committee:**

The measure concerning the extension of the deadline by which property declaration had to be filed to October 10, 2002 and abolishing the obligation to file a declaration if not in possession of property worth in excess of SKK 1.5 million was accepted by the evaluating committee as a reasonable step in response to the justified concerns of the citizens. The obligation to file a declaration even if owning few assets has been viewed as a scandalous overbearing of citizens by state. The very existence of property declarations is perceived very critically. According to experts, property declarations should apply to civil servants and their relatives only.

### **Characteristics of the measure:**

*On January 16, 2002, the government advised the Minister of Finance to draft an amendment to the Tax and Fees Administration Act regarding the filing of property declarations. On January 22, a group of Parliament Members presented to the Constitutional Court of the Slovak Republic a request to investigate the constitutional justification of the legislation regulating property declarations. On January 24, the Constitutional Court of the SR ruled that the legislation did not correspond with the provisions of the Constitution. The corresponding provisions lost effectivity upon the publishing of the ruling of the Constitutional Court. On January 28 the government passed an amendment to the Tax and Fees Administration Act, which extended the deadline for the filing of property declarations to April 30, 2002. The amendment was passed by the Parliament in the first reading. The aim of the amendment was to extend the deadline for the filing of property declarations. The amendment also states that individuals with property worth less SKK 1.5 million will not be obligated to file a declaration.*

## **18. Act on the Slovak Academy of Sciences (SAV)**

### **Comments of the Experts' Committee:**

The new Act on the Slovak Academy of Sciences (SAV) reinforces the self-governing principle of the Academy and introduces an independent budget scheme. According to several evaluators a real transformation of the SAV is still lacking, and the new Act will only preserve the current situation. A partial decentralization and its opening towards other institutions can nevertheless be viewed positively. The new Act, however, deserves criticism because of the unclear definition of relations between the SAV and universities.

### **Characteristics of the measure:**

*In February, the Parliament unanimously passed the government draft Act on the Slovak Academy of Sciences. The aim of the new law is to continue the transformation of the SAV, to strengthen independence and democracy within the Academy, and to avoid conflict of interests. The law lays down and develops the present principles of SAV transformation, especially simple hierarchy (two-*

tier structure), scheduled work contracts, openness towards universities and other research institutions. The law provides for an independent budgetary chapter of the SAV, making all Academy institutions legal entities. The implementation of this new law, according to an official report, will not require any additional expenses from public finances.

## 19. New University Act

### **Comments of the Experts' Committee:**

The new University Act, which made a number of concessions and had the ambition to start a principal reform of higher education in Slovakia, on the one hand formally strengthens competition between and within schools, significantly increases the responsibility of universities towards their students, by means of changing their status to public institutions strengthens their economic and decision-making autonomy, creates space for raising funds from various sources as well as from own activities; on the other hand, however, it denies the universities economic autonomy with respect to setting tuition fees. The parliamentary ruling that denies even partial self-funding of (distance) studies deprives the schools of financial resources and exerts further pressure upon the economic potential of universities, which will be forced to reject many of their applicants. The so-called „free of charge“ education is socially unjust as the university studies are to be financed from contributions of all taxpayers.

### **Characteristics of the measure:**

*From the viewpoint of the reform and the further orientation of Slovak universities, the key legal standard will be the extensive University Act, recodified in February. The Act introduced substantial changes into the system of universities. Pursuant to the new act that was drafted by Ministry of Education, universities will no more be state owned entities; rather, they will turn into public legal institutions (public universities), becoming owners rather than administrators, and will be authorized to involve in business activities. If indebted, they will be subject to forced administration imposed upon them by Ministry of Education. The government will no longer guarantee their liabilities. This measure is expected to reinforce economic and legal independence. The new Act stipulates several means of controlling effective use of funds – on the part of Ministry of Education of the SR, the academic senate, and the faculties. A new body, University Administration Board, will be a safeguard against ineffective management of property acquired from state. A new type of institutions of higher education of non-university type are expected to be established, so-called Specialized Schools of Higher Education, which did not exist in Slovakia before. They should provide education mainly within bachelor-level study programs. Apart from universities, there should also be the so-called Research Universities. Internal competition in education should be secured by the new position of key educators within the educational system. New functional positions of Lecturers and Professors were created, which will be filled for a specified period of time. The act also implemented the credit system, and schools will be obliged to start using it from September 2004. The new University Act will limit the independence of faculties and assign the taken competencies to the chancellor and the university, which was negatively perceived by the majority of the academic public. The drafters of the Act argued that a higher rate of centralization will strengthen the internal integrity of school. According to them, the Act will allow for a higher mobility of students within universities, for a better effect from the credit system, and for a more effective management of the institution. Abolishing of legal subjectivity of faculties should be compensated by the provision of the so-called guaranteed rights of faculties. Faculties will have competencies in matters concerning the university system, and deans will have rights awarded by chancellors. Pursuant to the University Act, Ministry of Education intended to create conditions for multi-source financing and proposed to introduce tuition fees in three alternatives. The first alternative concerns payments for both regular and external studies, the second one leaves regular studies free of charge, with fees paid for additional years of studies and for external studies only. The third alternative, which was also recommended by Ministry of Education, relies on the financing under the national budget, the only fees paid would be for failed years of studies.*

*The government approved the paid external studies scenario. By the majority of a single vote, Members of Parliament decided to take out provisions of the new Act, which provide for paid external studies. This was followed by passing an amendment that lays down payment of tuition fee in the case of extending the duration of studies without serious reasons. The Act provides for salary raises from 1 May, 2003 for higher education teachers, and this will cause for the second time the wages of teachers to increase faster than those of other civil servants.*

## 20. Amendments to the Public Service Act

### Comments of the Experts' Committee:

According to the vast majority of the evaluation committee members, public service needs higher flexibility of remuneration based on quality and work performance rather than a flat raise of salaries. The remuneration system pursuant to the Public Service Act as well as the 13<sup>th</sup> and the 14<sup>th</sup> salary represent an element of levelling, lacking motivating power for employees in public administration.

### Characteristics of the measure:

*Members of the Parliament of the SR have passed 3 amendments to the Public Service Act. Employees in public service will be paid 13<sup>th</sup> and 14<sup>th</sup> salary if they will have worked at least 75 days or 600 hours. In 2002 it adds up an estimated amount of SKK 3.2bn to the expenses of the national budget, and will cost local governments more than SKK 400 million. Municipal and state fire fighters were made equal. Also, salaries of employees of cultural institutions have also increased, they will be paid (including especially increased benefits) by the tariff chart applicable to pedagogical and scientific workers. The amendment also excluded artists from having to meet the qualification criteria to perform public service since if this condition was maintained, several top artists would not meet the qualification criteria and would have to leave theaters.*

## 21. Cancelling the Tender for the Sale of Slovenské lodenice Komárno (Slovak Shipbuilding Company) (SLKB)

### Comments of the Experts' Committee:

The tender for the sale of Slovenské lodenice Komárno (Slovak Shipbuilding Company), cancelled by the National Property Fund due to poor quality of bids, was perceived critically by the evaluators. Many of them pointed out the lack of transparency and FNM's tendency to yield to various pressures.

### Characteristics of the measure:

*The National Property Fund of the Slovak Republic (FNM) was supposed to sell its company Dlhopis, o.c.p. (a broker company), which controls 100 per cent of the shares of the company Slovenské lodenice Komárno, a.s., Bratislava (SLKB). Interest was shown by four investors. First, the tender was postponed twice only to be cancelled entirely in February. According to published information, the tender committee evaluated the offer by the Hungarian company Equinox as the best but the Executive Board recommended the tender to be awarded to the consortium of Penta Group and the Dutch investment company OEP. As put by FNM, the reason for the canceling of the tender was low quality of single offers as potential investors required high guarantees for future losses. Penta Group (PG) which stands for OEM, publicly accused FNM that the tender had been cancelled because of a wide media coverage, as FNM wanted to award the tender to the Hungarian Equinox whose offer was less generous. A new tender is supposed to be called in three months when only the purchase price and guarantees to increase the capital will be taken into account as criteria. In this tender, FNM does not want to look for a financial investor, instead it looks for a strategic investor.*

## 22. Decision of Financial Market Authority on the Sale of VSŽ (a Steel Company) Stocks From Transpetrol Portfolio

### Comments of the Experts' Committee:

The sale of VSŽ (a steel company) stocks from Transpetrol portfolio following the series of stock exchange dealings resulting in a significant drop of their price, raised suspicion of the so-called insider trading among the Committee members. The responsibility for the whole transaction was assumed by the Ministry of Economy and, according to some respondents, the sale was a scandal, which significantly acts against the declared objectives of the government regarding transparency and fight against corruption.

**Characteristics of the measure:**

*Financial Market Authority (ÚFT) stopped January 8 the financial clearing of Východoslovenské Železiarne Košice (VSŽ) stock sale from the portfolio of the state owned company Transpetrol. In December 2001, stock market transactions took place that caused the price of the VSŽ stock to drop substantially. The unusual development of the VSZ stocks and the circumstances of the deals raised suspicion that some of the deals might have been made with the aim to manipulate the price. Also, ÚFT checked whether losses may have been incurred by third parties in consequence of these actions. A buying member of the stock market – Stredoeurópsky makléřský dom (SMD) sold more than a half of its shares to Poštová banka, a.s. at a time. SMD is also close to Istrokapitál group, a company that is a shareholder of Poštová banka. On February 6, ÚFT announced that Transpetrol can not be considered as a market participant without the necessary experience, and allowed the final clearing of these deals. According to several experts, ÚFT could not take the necessary action because of inconsistencies in the Securities Act, which does not enable them to fully control all persons operating on the capital market.*

### **23. National Property Fund's (FNM) Suggestion for the Allocation of SPP (Slovak Gas Industry) Privatization Proceeds**

**Comments of the Experts' Committee:**

The original proposal by FNM for the allocation of SPP privatization proceeds, according to which only SKK 20 billion out of the total privatization proceeds amounting to 130 billion are to be used to repay the state debt, is considered by the committee of experts as rather unacceptable, and it was unanimously rejected by all. The evaluators shared the opinion that privatization proceeds should be used exclusively to pay off state debt and to launch the pension reform, both being presently of utmost importance with regard to macroeconomic stability and reforms. The use of individual privatization proceeds for development projects has been criticized. Debt settlement within the unreformed sectors (e.g. health, railway transport) would be wastage of money, as this step could delay the implementation of the necessary systematic changes, which are to prevent further accumulation of debt.

**Characteristics of the measure:**

*According to the National Property Fund of the Slovak Republic (FNM), the revenue of SKK 130 billion from the sale of SPP should be used to finance reforms of social Insurance (SKK 65 billion), to pay off state debt (SKK 19.667 billion), to pay off the loan of Konsolidačná banka to Slovenská Sporiteľňa (SKK 1.073 billion), to cover state debt (SKK 3 billion), to realise state guarantees (SKK 5.1 billion), to cover price differences of heat (SKK 689 million), to purchase FNM's bonds (SKK 9.1 billion), to address old debts of the Railways (SKK 4.4 billion), to address debts of health-service institutions and health insurance funds (SKK 3.685 billion), old environmental debts (SKK 2 billion), to pay off the debts of FNM amounting to approx. SKK 8.8 billion, to cover costs of municipal gas facilities (SKK 4.073 billion), to remunerate privatization consultant (SKK 792 million), and to spend the remaining amount on development projects. Ministry of Finance did not agree with this suggestion as it intends to use the proceeds to pay off state debt. According to FNM, the draft copies the government resolution to pay off this debt.*

### **24. Postponing the Transformation of the News Agency of the Slovak Republic (TASR)**

**Comments of the Experts' Committee:**

The government's negative decision regarding the transformation of the News Agency of the Slovak Republic (TASR) has been rejected by the experts. According to the original plans of the Ministry of Culture this non-for-profit organization should have been transformed to a joint stock company with 100% government stake with the possibility of its gradual sale. The system of management and financing of the agency was also to be changed. In the experts' opinion, maintaining TASR as a „quasi state“ institution is unsustainable from a long-term perspective, and the best solution with respect to the democratic future of Slovakia with a plurality of views would be to take out the press agency from state ownership and to base its transformation on the principles of private ownership. The transformation of TASR is above all a political problem. For any government it is advantageous to have direct influence on the media and how they picture its activities, this being particularly obvious during the pre-election period.

**Characteristics of the measure:**

*The government acknowledged the information about Solutions of the TASR Transformation Project and decided to leave this state-owned information agency established by law untransformed until elections. The Ministry of Culture (MK) of the SR submitted a draft government act recommending TASR to be transformed from a state subsidy-based organization to joint stock company with 100 per cent government share and with the possibility of step by step sale to other entities. This change is expected to substantially increase the flexibility of the management and the economy. During the negotiations concerning the 2002 national budget, transformation of TASR was made a precondition for an increase in the subsidies allocated to TASR by SKK 55 million. The government, however, failed to implement the transformation, and decided to leave additional funds with TASR, which was strongly criticized. This year, more than SKK 77 million was allocated for TASR activities. In EU countries, all national press agencies are private, with the only exception of the French AFP.*

**25. Government Loan to the Municipality of Košice****Comments of the Experts' Committee:**

Although financial support to the city of Košice in the form of a loan is more acceptable than the originally proposed purchase by state of Košice's municipal forests, it still remains a dangerous precedent creating loose budget constraints for towns and municipalities while suppressing motivation towards responsible management of their own property and funds. Municipalities can get to the idea that even if managing their assets irresponsibly, they can still rely on a guaranteed state support. The evaluators have regarded this state aid to the indebted town of Košice as a non-standard and unsystematic measure, which will burden all taxpayers and which is in contradiction with the declared efforts directed towards decentralization of public administration.

**Characteristics of the measure:**

*After the government turned down, at the end of the last year, the criticised proposal of buying municipal forests (14 700 ha – two thirds of Košice forests) at SKK 980 million to help Košice to get rid of its debts (at the end of 2001, the total municipal debt reached more than SKK 2 billion), the government took an alternative decision to provide a long-term loan to the city of SKK 580 million in the first half of January. The government will provide funds from state financial assets with a tenure of 15 years at the interest rate of 5 per cent p.a. Ministry of Finance (MF) of the SR should provide further funds to pay off liabilities due in the form of a bound account. These funds will be provided by the Ministry the contract between Prvá Komunálna Banka (PKB) and the municipality is signed, based on which Košice will be obliged to take measures to restructure its liabilities and to reach financial stability. The bank will, in cooperation with Paris-based Dexia, restructure the liabilities of the municipality. Košice will have to guarantee the government loan by its high-credit assets and by performing a real recovery financial program. The performance of the recovery program was listed as a condition of PKB before providing the city with the SKK 700 million loan. At the end of March representatives of the city passed a fiscal recovery budget which should avoid the threat of compulsory administration by MF SR. The decision of the city representatives is expected to reduce public expenses by several million. According to the Minister of Finance, the government had to make a fast decision about the bad financial situation of Košice because the creditors, Credit Suisse First Boston, threatened to sell its receivables to anybody if Košice would not pay off its debts. The amount of the debt of Košice was about SKK 1.7 billion in February 2002.*

**26. Proposal to Increase Social Benefits for Members of the Slovak Parliament****Comments of the Experts' Committee:**

The parliamentary proposals aimed at increasing social benefits which Members of the National Council of the Slovak Republic (NR SR) are entitled to, such as free air transport or an increase of severance payments, have met with sharp criticism. According to experts' warning, MPs should not be favoured to other citizens. The argument that better social security of the MPs might make them less corruption - proae has been rejected by the Expert Committee. The fact that the majority of proposals of various privileges to be enjoyed by MPs did not pass the Parliament, was qualified by the evaluators as a result of the pre-election period rather than as a proof of the responsible attitude of MPs.

**Characteristics of the measure:**

*During the negotiations of the amendment to the Salaries of Selected Constitutional Executives Act (passed in March 2002), Members of Parliament suggested an increase of severance payment to Members of Parliaments not elected for the subsequent term from the current five months' salary to eight (former MPs were even suggested to get life time payments). The proponents claimed this would increase independence and strengthen the social security of MPs. The suggestion failed. The passed amendment provides that the salary of MPs is three times the average salary of industry employee in the SR applicable during the first 6 months of the current year and the previous year. Another suggestion concerned the right of MPs for free of charge air transport by any carrier when attending sessions of the Parliament or its commissions. This suggestion was turned down by the Parliament. A suggestion was approved that allows medical services to be provided to MPs at the place where NR SR meets or negotiates.*

**27. Proposal to Compensate Clients of Bankrupt "Pyramid Schemes"****Comments of the Experts' Committee:**

The parliamentary proposal to indemnify the clients of "pyramid schemes" that went bankrupt was unanimously regarded as irresponsible and harmful. As a matter of fact, the clients of those financial institutions became co-entrepreneurs who are to share not only profits but also losses; consequently, there is no reason why the state should provide them with any compensation. According to several members of the Expert Committee it would be immoral to collect money from other citizens through taxes in order to cover losses of those who had invested in these institutions. The experts appreciated the rejection of this populist proposal by the government.

**Characteristics of the measure:**

*In connection with the government report about the situation of "pyramid schemes", MP Pavol Hamžík suggested that the government pass a regulation under the expedite legislation procedure to compensate clients of three non-banking institutions, to raise assets that would cover the compensation, to secure the property and further resources of non-banking investment entities and their owners. The provision concerning the compensation was not passed by the Parliament. Compensation of clients was refused by the government as well.*



**APRIL - JUNE 2002**

| <b>Evaluated Measures ranked by Rating Values</b><br>(i.e. Contribution to the Economic and Social Development) |  | <b>RATING</b><br>[-300; 300] | Quality<br>[-3; 3] | Impor-<br>tance (%) | Passed in:<br>quarter/year |
|---|--|------------------------------|--------------------|---------------------|----------------------------|
| 1.  | A New Law on Accounting (Harmonization of the Slovak Accounting System with the International Accounting Standards IAS)                                    | <b>142,0</b>                 | 2,37               | 59,9                | 2/2002                     |
| 2.  | New Legislation Concerning the System of Payments (Cutting Time Limits for Electronic Banking Operations)  | <b>130,9</b>                 | 2,46               | 53,3                | 3/2002                     |
| 3.  | Lien upon Movable Assets (Amendment to the Commercial Code)  | <b>125,9</b>                 | 2,22               | 56,8                | 3/2002                     |
| 4.  | Amendment to the Foreign Exchange Act (Liberalization of Capital Flows)  | <b>125,3</b>                 | 2,37               | 52,9                | 2/2002                     |
| 5.  | Amendment to the Telecommunication Act (Liberalization of Telephone Services since 2003)   | <b>122,4</b>                 | 2,18               | 56,2                | -                          |
| 6.  | New Model of Active Provision of Information Regarding the Grant Allocation Process  | <b>120,9</b>                 | 2,30               | 52,5                | 2/2002                     |
| 7.  | Privatization of Electricity Distribution Companies  | <b>118,8</b>                 | 1,83               | 65,1                | 2/2002                     |
| 8.  | Strengthening the Control of State Property Management (Model Statutes for State-Owned Joint Stock Companies, Draft Amendment to the State Enterprise Act) | <b>87,3</b>                  | 1,83               | 47,8                | 3/2002                     |
| 9.  | National Bank of Slovakia Raised Interest Rates by 0.5 Percentage Points   | <b>86,0</b>                  | 1,48               | 58,2                | 2/2002                     |
| 10.   | Slovak Bus Transport Companies (SAD) Privatized  | <b>83,8</b>                  | 1,58               | 53,2                | 2/2002                     |
| 11.   | Assigning 1 Per Cent of Corporate Income Tax of Legal Entities for Community Purposes (Tax Assignment)   | <b>83,2</b>                  | 1,87               | 44,6                | 2/2002                     |
| 12.   | Decision by the Antimonopoly Office of the SR to Stop Internet Provision by the Slovak Telecom Using ADSL Technology                                       | <b>75,1</b>                  | 1,66               | 45,1                | 2/2002                     |
| 13.   | New Legislation Proposal for Citizens' Participation in the Legislative Process  | <b>65,7</b>                  | 1,52               | 43,2                | -                          |
| 14.   | Slovak Republic not Becoming Party to European Code Of Social Rights   | <b>64,0</b>                  | 1,38               | 46,5                | 2/2002                     |
| 15.   | Law on State Debt and State Loan Guarantees (Establishing the State Debt Management Agency)  | <b>55,1</b>                  | 1,12               | 49,2                | 2/2002                     |
| 16.   | Use of the Privatization Proceeds from SPP (Slovak Gas Industry) and Energy Distribution Companies   | <b>39,3</b>                  | 0,57               | 69,5                | 2/2002                     |
| 17.   | Amendment to the Supplementary Pension Insurance Act (Mandatory Insurance of Employees with Hazardous Jobs)  | <b>37,6</b>                  | 0,87               | 43,2                | -                          |
| 18.   | Five Per Cent Raise in Pensions  | <b>28,3</b>                  | 0,63               | 44,7                | 2/2002                     |
| 19.   | Repayment of a Part of the Russian Debt in Cash  | <b>18,3</b>                  | 0,48               | 38,3                | 2/2002                     |
| 20.   | Act on Packaging (Mandatory Reserves for Packaging Materials)  | <b>11,5</b>                  | 0,26               | 44,1                | 3/2002                     |
| 21.   | Ban on Imports of Czech Meat as a Way of Slovakia's Retaliation  | <b>4,1</b>                   | 0,14               | 29,8                | 2/2002                     |
| 22.   | Ordering of Medical Services: Contracts between General Health Insurance Company (Všeobecná zdravotná poisťovňa) and Hospitals                             | <b>-1,3</b>                  | -0,02              | 56,6                | 2/2002                     |
| 23.   | Cancelling the Tender for State Treasury System  | <b>-14,8</b>                 | -0,34              | 43,3                | 2/2002                     |
| 24.   | Act on Substitute Alimonies (Establishment of Alimonies Fund)  | <b>-26,1</b>                 | -0,84              | 30,9                | 2/2002                     |
| 25.   | State Guarantee of SKK 11.7bn Extended to the Slovak Railways  | <b>-41,1</b>                 | -0,93              | 44,0                | 2/2002                     |
| 26.   | Act on Retail Chains (a Stricter Regulation of Hypermarkets)   | <b>-47,4</b>                 | -0,96              | 49,6                | -                          |
| 27.   | Write-off of the Debt of the Slovak Television and Slovak Radio Amounting to SKK 711m  | <b>-47,8</b>                 | -1,35              | 35,4                | 3/2002                     |
| 28.   | Tender for Light Trains Run by the Railway Company (Železničná spoločnosť, a.s.)   | <b>-55,2</b>                 | -1,40              | 39,6                | 2/2002                     |
| 29.   | Adjustment of the Planned Deficit of Public Finances for 2002 from 3.5% to 4.5% of GDP   | <b>-60,3</b>                 | -0,93              | 64,5                | 2/2002                     |
| <b>RATING of the 2nd Quarter 2002 (Passed Measures)</b>   |  | <b>49,4</b>                  |                    |                     |                            |

## 1. New Law on Accounting (Harmonization of the Slovak Accounting System with the International Accounting Standards IAS)

### **Comments of the Experts' Committee:**

The harmonization of the Slovak accounting system with the international accounting standards (IAS) was highly appreciated especially because of its substitution of the tax view of accounting with the principle of a true and truthful accounting image of the entity. A better readability and comparability of disclosed information will have a positive influence on the confidence in investments into the Slovak economy, it will support the wretched public capital market, and it is also important with respect to the establishment of the document collection pursuant to the amendment to Commercial Code. There is a majority support to the planned obligation of public trading companies and financial entities to keep books according to IAS; some evaluators suggest that this obligation be also imposed upon other business entities, i.e. to completely replace the Slovak accounting standards by the IAS system. Financial statements would provide clear information corresponding to the real standing of companies; they would not depend upon qualitative accounting standards but also upon ethics of the managers, since even most perfect formal rules can always become circumvented.

### **Characteristics of the measure:**

*A new law on accounting adopted by the National Council of the SR in June creates room for international accounting standards (IAS), thus providing for readability of financial statements of Slovak entities and comparability with foreign entities. The legal standard should follow the principle of a "true and truthful picture of the accounting entity"; until now it was the tax viewpoint of the accounting that was primary. Using IAS principally changes the approach to the evaluation of individual economic operations and the tax viewpoint becomes secondary. Also the ways of evaluating property, obligations and their differences link up to the "true and truthful picture". Accounting is done at the time of procurement or on the day of the closing of the account. The law broadens the opportunities to use computers and other technologies in bookkeeping and it introduces a way to use so-called real value for valuation. Real value is defined as the market price, qualified valuation or the price determined by an expert opinion. The way of valuation using real value will be used in specified cases only (selected securities, derivatives, financial positioning and technical reserves in insurance companies and the like). Regulations regulating the possibility to determine the accounting period, such as the business year (which doesn't need to correspond with the calendar year) will be effective from the beginning of 2004.*

## 2. New Legislation Concerning the System of Payments (Cutting Time Limits for Electronic Banking Operations)

### **Comments of the Experts' Committee:**

The new legislation concerning the system of payments representing the most comprehensive amendment to the system of payments in Slovakia so far has pushed us in the direction of more developed European banking. The law introduces benefits to bank clients as it improves the quality of services and decreases bank transaction-related costs. The law is expected to encourage electronic system of payments made by the public and to reduce cash payments (carrying money "in briefcases"), the latter representing a rather dangerous form of payments, even if being the fastest one so far. Some evaluators pointed out that when it comes to the optimum time limits for effecting cashless orders, it should be the market to generate them. As for the banks, they should seek to offer quality services to their clients, including fast money transfers. This would then eliminate the need to regulate trivialities such as those which are contained in this in law.

### **Characteristics of the measure:**

*In June, the National Council of the Slovak Republic approved the new law on the system of payments, which aims to harmonize Slovakia's legislation with the EU standards in the area of domestic and cross-border system of payments. In its various articles, the law provides for transmittal of funds (within the country as well as abroad), issue and use of electronic means of payments, development and operation of payment systems, supervision of payment systems, and steps to be taken upon complaints or out-of-court settlement of disputes concerning the system of payments. The new law cuts the time limit for effecting domestic bank-to-bank cashless payment orders down to 2 days and transfers within one bank to 1 day. Should the rules not be obeyed, clients will be entitled to receive interest on delayed payment, at twice the basic interest rate*

announced by the Central Bank. Cross-border transfers within the EU Member States have to be effected not later than by the end of the fifth banking day.

### 3. Lien upon Movable Assets (Amendment to the Commercial Code)

#### **Comments of the Experts' Committee:**

Experts assume that the recent introduction of the possibility to establish lien upon movable assets has improved the business environment. It will result in more flexibility and space thus providing for an increase in the efficiency of the utilization of assets. Movable property can be used as collateral without the need to hand it physically over to the creditor, thus enabling their continuous use in the production process. The measure could contribute to the development of entrepreneurship as an easier access to bank loans is expected for small and medium enterprises. Whether this is going to happen or not will largely depend on the willingness of banks to accept movable assets as collateral. Experts appreciated the abolishment of the tax authority's preferential treatment when claiming the collateral. A rule of preference for the earlier established lien was introduced thus eliminating inequality existing between the state, represented tax authorities and other creditors- business entities.

#### **Characteristics of the measure:**

*In June, the National Council of the Slovak Republic adopted an amendment to the Commercial Code, which brought about the most comprehensive reform of the lien law in Slovakia so far introducing the possibility to establish lien upon movable assets, rights and other property assets (e.g. machinery, technologies, vehicles, inventory, stock, procurements, author rights, future rights and returns) without the need to hand the articles or property physically over to creditors (so-called non-possessory guarantee right). Lien upon movable property will be registered by the Slovak Chamber of Notaries, which will keep their on-line central register. The amendment abolished the preferred guarantee right of tax authorities thus making equal all lien creditors: the rule of preference for the earlier lien has been introduced. Preferred tax-related guarantees caused many problems to the remaining creditors, preventing them from making exact assessments of their future risk with respect to loans.*

### 4. Amendment to the Foreign Exchange Act (Liberalization of Capital Flows)

#### **Comments of the Experts' Committee:**

The amendment to the Foreign Exchange Act that liberalizes the flows of capital, is a right step towards the open market economy that could have been introduced even earlier. The amendment is in accordance with the obligations of the SR under the OECD membership and those entered into in connection with the schedule of liberalization agreed with the EU under the chapter Free Flows of Capital. In the opinion of some evaluators, the possibility of opening bank accounts abroad only legalizes the current state, since this restriction was often violated. From the practical viewpoint the amendment is not assumed to have any considerable influence on the behavior of individuals and firms.

#### **Characteristics of the measure:**

*The amendment to the Foreign Exchange Act of last June is expected to complete the legislative adjustments in the process of liberalization of the flow of capital, and it gradually supersedes the individual arrangements stipulated by law. From the beginning of 2003 all transactions with financial derivatives will be allowed and at the same time limits of export and import of banknotes and coins in cash in Slovak or other currency will be abolished. From 2004 onwards, residents will be allowed to legally open accounts abroad. Pursuant to the amendment, as of 2004 residents will be allowed to buy, sell or change funds in foreign currencies and gold abroad, to buy real estate or to invest into financial assets abroad even without permission. After Slovakia's joining the European Union, non-residents will be allowed to acquire real estate in the home country except land that is part of the agricultural land stock, beyond the built up area of a village or representing forest land; in the latter mentioned cases, Slovakia will apply a seven-year transitory period. This law takes effect on 1 January, 2003, except for some arrangements, which will take effect on 1 January, 2004, or upon Slovakia's joining the EU.*

## 5. Amendment to the Telecommunication Act (Liberalization of Telephone Services since 2003)

### **Comments of the Experts' Committee:**

Opening of local lines (the so-called last mile) of the dominating operator, the Slovak Telecom (ST) that establishes connections between operator and end customer, to competing firms was in unison welcomed as the necessary liberalization step in the telecommunication market. Competition in the telecommunication sector is important for the raising of quality and lowering of prices in the sector as experiences from all over the world suggest. Prices cannot be expected to immediately drop as soon as the amendment comes into force, but the opening up of the telephone service to competition is the necessary precondition for it happening the near future. Also, the opinion was voiced that the negative attitude of the ST is understandable since the amendment allows alternative operators access to its attractive clientele, while the ST will remain with the legal obligation to provide unprofitable or less profitable services.

### **Characteristics of the measure:**

*The National Council of the SR approved in June 2002 an amendment to the Telecommunications Act that introduces future liberalization of the telecommunication environment in Slovakia in accordance with the European Union rules. The amendment, in its entirety coming into force as of 1 January 2003, enables, among others, access of competitors (especially Internet providers) to local lines of the leading operator, the Slovak Telecom, that establishes connections between operator and end customer. This also extends competencies of the Telecommunications Authority of the SR to participate in negotiations between individual players in this market. Also, an alternative proposal was drafted by MPs (that did not pass the 2nd reading), which unlike the government proposal considered transferability of telephone numbers (upon a switch of the operator, the subscriber would retain the original telephone number) as early as from 1 January 2003. The amendment passed requires that the entity with a considerable influence in the market provides other providers of telecommunication services with local lines and connection with their networks. The amendment shortens the period during which the Telecommunications Authority of the SR has to approve or reject the reference offer from 90 to 45 days.*

## 6. New Model of Active Provision of Information Regarding the Grant Allocation Process

### **Comments of the Experts' Committee:**

Experts consider the new model of active release of information regarding the process of grant allocation as an attempt to introduce transparency into the system. In their opinion, the model should spread onto all parts of public administration that grant subsidies. However, they remind that the very allocation process rather than information on the allocation alone is the important aspect of reduction in corruption and cronyism connected with the allocation of grants. Therefore, there is a need to reassess and revise the whole grant system. Subsidies should be gradually eliminated. Many evaluators kept asking the question why such a simple project had to wait for so long for its application, being introduced as late as towards the end of the term of the current government.

### **Characteristics of the measure:**

*In April, the government approved the new model of active release of information regarding allocation of grants, which binds all ministries to publish information regarding all subsidies granted in a uniform format on their web pages, and to update them at least quarterly. The material suggests that a legally binding standard be adopted including all rules concerning release of information. It is also suggested that generally binding rules be developed for programmes of grant allocation, etc. The submission report states that subsidy allocation is not sufficiently transparent with respect to the raising, allocation, conditions and use by beneficiaries and the feed-back. As a result, such an environment favors corruption and cronyism. The authors of the model believe that active publishing of the whole process of grant allocation is the key to provide for a more transparent and effective system. Subsidies principally distort the market efficiency. It is therefore necessary to document the existence of any subsidy and to provide active information regarding the process of allocation.*

## 7. Privatization of Electricity Distribution Companies

### **Comments of the Experts' Committee:**

The sale of 49% shares in the power distribution companies (ZSE, SSE, VSE) was viewed by the majority of evaluators as a successful deal. The privatization tender was transparent; all three companies were acquired by prestigious strategic investors, and the yield achieved were good in the view of the sale conditions. The investors are expected to provide for the modernization of the distribution networks, establish a better corporate culture, raise the comprehensive profitability of the enterprises and prevent bribery. Also, a positive fact will be that, after a more extensive liberalization of imports of electricity, the distributors will force domestic producers to produce more cheaply. Some evaluators expressed concerns with respect to pressure upon the Slovak power plants, but most of them welcome it since they can see in it the means for speeding up of their restructuring and privatization.

### **Characteristics of the measure:**

*The privatization of 49% shares in all three distribution companies, ZSE, SSE and VSE, was approved by the government of the SR on 22 May, thus accepting in all the cases the recommendations of the selection commissions. The shares in the ZSE will go to E.ON, that in the VSE to the German RWEplus. The shares in the SSE were purchased by Electricité de France (EdF). The stake of the state in all the transformed electricity firms of at least 51% is a condition laid down in the Big Privatization Act. The proceeds from the sale of the shares are expected to reach approximately SKK 25bn.*

*For the 49% in the ZSE, E.ON Energie will pay EUR 330m. ZSE supplies electricity to approximately 1 million customers, delivering 6.9 TWh electric energy annually. The revenues of ZSE reached SKK 4.605bn in the first 3 months of 2002. The value of the ZSE's fixed assets is SKK 5.934bn. EDF is expected to pay EUR 158m for the 49% stake in SSE. SSE (fixed assets worth SKK 3.516bn) has approximately 686 thousand customers, and it delivers approximately 6.5 TWh electricity yearly; its last year's revenues amounted to SKK 18.07bn. RWEplus will pay EUR 130 m for the 49% stake in VSE. As a result of the deal, it will acquire managerial control in the VSE (fixed assets worth SKK 3.363bn, 600,000 customers), as well as preemption rights for the acquisition of the remaining 51% shares. Last year, VSE's revenues amounted to SKK 12.375bn based on the volume of sold electricity of 4 TWh.*

## 8. Strengthening the Control of State Property Management (Model Statutes for State-Owned Joint Stock Companies, Draft Amendment to the State Enterprise Act)

### **Comments of the Experts' Committee:**

The administration of state property and the exercise of shareholder's rights are the weaknesses of the state. Model statutes that impose new responsibilities and restrictions upon the bodies of state-owned organizations, as well as the suggestion to amend the State Enterprise Act are welcomed. Several evaluators however attribute little practical significance to the strengthening of the control of the management of state property with respect to the advanced process of privatization. The poor functioning of state enterprises is not a result of weak statutes; rather, the reason should be sought in the mere fact of state ownership since state lacks motivation to be efficient owner and capable manager). Such changes should thus be viewed as the right step, but in a system that is now functional.

### **Characteristics of the measure:**

*As of 1 July, 2002, the exercise of shareholder rights and the administration of assets in joint stock companies will be assumed by state pursuant to model statutes of joint stock companies with 100% stake of state. General assembly will have a strong position in the control of the organization; in other words, the only shareholder, the state, whose interests is represented by a mostly politically appointed representative of the founding sector will have the major say. Any property transactions worth more than SKK 5m will be subject to approval by general assembly, the Supervisory Board will be authorized to approve lower value transactions. Any sale of enterprises will be subject to prior approval by the Slovak government. The statutes strengthen the personal property-related responsibility of the members of statutory bodies. Compensation received by members of such bodies must not exceed 10 times the average wages in the national economy. The suggestion of the amendment to the State Enterprise Act provides for the obligation upon directors of state enterprises and members of the Supervisory Board to present written*

*statements about their own business activities and their and their close persons' stake in other legal entities. Directors will make so-called managerial contracts directly with the founder of the state enterprise. Upon enterprise director violating his/her commitments through holding such an office, he/she will be liable to pay damages for the loss incurred by the enterprise.*

## **9. National Bank of Slovakia Raised Interest Rates by 0.5 Percentage Points**

### **Comments of the Experts' Committee:**

With respect to the development of public finances and the deficit of the trade balance, the raising of principal interest rates by the National Bank of Slovakia (NBS) is viewed as a necessary and understandable response, which however had mainly a signalling function. Most evaluators viewed the raise in interest rates as an appeal to the government for a more stringent fiscal policy. The state with its expansive consumption with respect to high import demands of the Slovak economy considerably contributes to the deficit of the trade balance, and if budgetary discipline is not improved more stringent monetary policy can be expected which may result in the reappearance of two-digit interest rates. The Commission unison agreed that the current trend of the deficit is not sustainable in the long term, and that reduction of public expenditures and the need for a change towards a balanced budget is increasingly required.

### **Characteristics of the measure:**

*At the end of April 2002, the National Bank of Slovakia (NBS) raised principal interest rates by 0.5 percentage points. The two-week transaction rates were raised to 8.25% p.a., one-day sterilization rate to 6.5% p.a., and one-day repo rate increased to 9.5% p.a. These were the first raises since 2000, when these interest instruments were established, while the majority of the analysts of commercial banks at that time believed in NBS lowering the rates again. The decision of the NBS was prompted by the growing current account deficit of the balance of payments, increasing domestic demand, to which also state contributes with its expenditures, and it thus outlined the discontent with the management of public finances. In the worst case, according to the Ministry of Finance, the deficit of public finances can reach 5.01% of the GDP (SKK 52.5bn) instead of the expected 3.5% (SKK 36.8bn). With the costs of revitalizing of banks included, the deficit could reach 6.5% GDP.*

## **10. Slovak Bus Transport Companies (SAD) Privatized**

### **Comments of the Experts' Committee:**

Privatization of seventeen state-owned companies of the Slovak Bus Transport (SAD) was welcomed by the majority of experts. Privatization of public transport represents a desired step and was at the same time necessary because state failed to manage it well as evidenced by the condition of the coaches owned by SAD. Some evaluators would favor a delay of the privatization and sale of all shares to private investors. Mixed ownership and the system of subsidies may represent problems to which a solution has not yet been found. Opinions were occasionally voiced SAD privatization carries the risk of failing to ensure public interest thoroughly, of intense fractionalism and subsequent excessive growth of fare prices.

### **Characteristics of the measure:**

*Under the first phase of privatization of 17 state-owned companies of the Slovak Bus Transport (SAD), selling to pre-defined investors of 49% of shares of all transformed joint stock companies of SAD are expected this year in tenders opened by the National Property Fund (FNM) of the SR. The government will have the final say as to the individual sales. The majority shares of 51 per cent will, in the second phase, be transferred to regions, and the investors will have an option for the purchase of the remaining 17 per cent after the period of six months has elapsed. Price negotiations will depend on each investor's commitment to raise the equity of the privatized companies by paying in capital. Almost the total purchase price of the 49 per cent shares is payable within four years through modernization of coaches. So far, companies of the SAD in Bratislava (by Connex), Dunajská Streda, Košice, Prešov, Nové Zámky, Banská Bystrica, Humenné and Nitra have been privatized. Public bus transport accounts for 85 per cent of the public transport in the territory of Slovakia. Almost all Slovak villages are interconnected by a network of bus lines. The SAD companies regularly make losses through operating subsidized urban and suburban transport. Profits made from home and foreign coach transport balance them, and at the*

*end of the day, the companies normally end up making slight profits. Estimate figures show that the 17 state-owned SAD companies reached book profits of Sk 51m last year, the revenues being Sk 7.7bn. The assets of the carriers entering privatization amounts to approximately Sk 3.7bn. The sale of 66 per cent share of SAD is expected to bring around Sk 1.8bn.*

## **11. Assigning 1 Per Cent of Corporate Income Tax of Legal Entities for Community Purposes (Tax Assignment)**

### **Comments of the Experts' Committee:**

Allowing 1 per cent of tax to be assigned to organizations by firms is a step towards the strengthening of the civil society. Experts stated that the more space there is for free decision-making as to the use of money generated, the better. Therefore, they hope that future will bring an increase in the percentages that both companies & individuals are allowed to assign. Higher assignment rates would then represent a guarantee of sustainable financing by the private sector and independence from state for non-for-profit organizations. With the institution of the tax assignment in effect, measures will have to be taken preventing enterprises from financing non-governmental organizations linked with political parties. According to many experts, tax assignment is a sub-optimal solution. As a matter of fact, they do not understand why state takes money from its citizens first and offers it generously thereafter to them to use its symbolic portion for community purposes as they wish. Tax reduction would be the optimal solution.

### **Characteristics of the measure:**

*As of the next year, legal entities will also be allowed to use 1 per cent of their income tax to support a particular non-for-profit organization involved in community activities. The contribution cannot be smaller than Sk 250. The amendment specifies the scope of beneficiaries of such tax-related contributions, as well as the purpose on which such funds may be spent. No institution financed under the National Budget will be eligible to apply for grants (i.e. state schools, hospitals, theatres, etc.). The full list of institutions will be set up by the Slovak Chamber of Notaries, which is entitled to keeping the central register of recipients. Any non-for-profit organization, which receives more than Sk 100,000 will be obliged to publish the use of the grant in the Commercial Bulletin. Should a non-governmental organization receive more than Sk 1m, it will have to have its financial statements audited and publish it in the Commercial Bulletin. This year, individuals were allowed to make use of the tax assignment scheme for the first time. A proposal to increase the proportion that can be used at the discretion of the entities to 2 per cent was turned down by the Parliament.*

## **12. Decision by the Antimonopoly Office of the SR to Stop Internet Provision by the Slovak Telecom Using ADSL Technology**

### **Comments of the Experts' Committee:**

The decision by the Antimonopoly office of the SR, by which it ordered the Slovak Telecom (ST) to abstain from providing access to the Internet using ADSL, was evaluated as the right one. ST was abusing its monopolistic position due to especially the delayed announcing of the conditions of provision of services using ADSL, and to the discriminating price conditions vis-à-vis the other providers of Internet services. Provision of Internet access using ADSL in the original form, as well as its discontinuation harms the customer; it is therefore to be regretted that a third option was not found, namely provision of this technology without abusing of the dominant position. Steps leading to the weakening of the monopolistic position of ST and protection of competition are necessary, said the evaluators, since growing competition leads to reduced prices of Internet access for the end-customer.

### **Characteristics of the measure:**

*The Antimonopoly office of the SR (AMO) ordered with its preliminary order of June 2002 the Slovak Telecom to abstain from providing broad-band access to the Internet using ADSL technology. The aim was to keep the status quo of a restricted relevant market until a final decision is issued. The ST started trial operation of high-speed connectivity to the Internet via ADSL technology on 1 June this year. The monthly fees for the access to ADSL services alone increased, depending on the provided speed, from SKK 1,699 to 9,999, VAT excluded. The monthly fee for using Internet services through the Internet telecommunications provider, ST*

*Online, will be between SKK 999 and 10,999. For competing Internet providers who wanted to provide Internet access via ADSL, the installation fee for a 34 megabit line for Internet providers was fixed at SKK 390,000, and monthly fees at SKK 295,000; such connection allows to connect a maximum of 102 users, representing a monthly fees of SKK 2,950 per one user only.*

### **13. New Legislation Proposal for Citizens' Participation in the Legislative Process**

#### **Comments of the Experts' Committee:**

The new proposal for legislation regarding citizens' participation in the legislative process promises to strengthen the society and will possibly have a positive influence upon the quality and acceptance of legal standards by the public. Experts welcomed that the new law would not include only central state administration but also all levels of self-government. Should the Act be implemented it will be a step towards e-government. Citizens' participation in the preparation of laws carries inherent risks, such as enforcing lay, populist and subjective opinions to the detriment of unpopular but necessary measures, delays in the legislative process or increase in administrative costs. One serious weakness of the legislative proposal for citizens' participation in the legislative process is the absence of any sanctions or appeal mechanisms against those who would choose to ignore citizens' comments. Opinions could be heard that the adoption of an act on lobbying would be seen as an efficient move. Experts do not expect mass participation of the public in the legislative process after the act is adopted. Its success would depend on how the public's comments on laws would be accepted by their drafters, sponsors of the laws and, after all, by the very law-makers.

#### **Characteristics of the measure:**

*The Central Co-ordination Unit for the Fight against Corruption suggested proposes to replace the current regulation of the government enabling the general public to participate in the interdepartmental commenting procedure by a regulation of a higher legal strength, an act of the Parliament. Currently it is mostly different professional and special-interest groups that have the possibility to influence the preparation of legislative standards. The new law would provide similar chances to all legal entities and natural persons. The proposal envisages commenting on generally binding regulations norms issued by state administration bodies as well as self-governments. It would be mandatory to publish draft laws or regulations 15 days before their review (so-called notification principle), to deal with all comments raised by citizens or organizations, and to publish them. If the administrators reject so-called collective comments put forward by more than 300 individuals, a conflict procedure must be opened between sponsors of the act and those who submitted the comment. According to the authors of the measure, the Slovak proposal is unique in the world because there is no other place where opportunity for citizens to influence the legislative process would be treated on such a wide basis. A number of countries treat such relationships under the legislation on lobbying.*

### **14. Slovak Republic not Becoming Party to European Code Of Social Rights**

#### **Comments of the Experts' Committee:**

The prevalent majority of experts supported the government's decision that the SR is not going to become party to the European Code of Social Rights. The SR should not blindly accede the European standards if they are not advantageous or if there are not sufficient resources for their implementation. Taking into account the strength of the economy in transition, subscribing to excessive social obligations would represent a risk with respect to the revitalization of the economy, limitation of possibilities of economic growth, and an increase of unemployment. By adopting the legislation, social state would be preserved. However, no community-wide discussion has taken place yet as to what the state's nature should be like. Opinions, though in minority, were voiced by some experts of the committee supporting subscription to social values following the example of Austria, which signed the Code as early as 1970 and has not ratified it yet. In this way, we would declare our will and effort towards social justice.

#### **Characteristics of the measure:**



*The Government of the SR refused to approve the signing of the European Code of Social Security and its Protocol. The Code lays down the minimum level of security as for social, health and old age benefits, outlines insured events, the scope of persons concerned, conditions, amounts of allowances, their time limits, etc. Its preamble states that the Code should contribute to social progress, one of its goals being harmonization of expenses between European countries. The document was drafted by the Council of Europe (CE) in 1964. Until today, it has been partially ratified by 18 countries. Its Protocol, which updates some parts of the Code, has been fully adopted by only seven CE member states so far. Only 4 European countries- The Netherlands, Luxembourg, Belgium and Germany- ratified all its provisions and the Protocol. Other developed Western European countries decided to adopt as binding only some of its parts. As for the East-European states, only the Czech Republic ratified it in part in 2000. The signing of the European Code of Social Security is not a prerequisite for joining the European Union. According to the Deputy Prime-Minister for Economy, Slovakia should not try to pledge to anything that is not required because it could result in decreasing economic efficiency of the country in the future. In his opinion, the Code could become an obstruction to reforms, and would be too demanding as for public finances and the labor market. The fact of Slovakia's not becoming party to the European Code of Social Security caused that members of the Democratic Left Party (SDL) threatened to resign from the government.*

## **15. Law on State Debt and State Loan Guarantees (Establishing the State Debt Management Agency)**

### **Comments of the Experts' Committee:**

The idea of the volume of the state debt and the loan guarantees being managed by a professional institution was accepted. Besides less funds being needed to cover the state debt, the commission expects also a general improvement in the transparency control of state debt, as far as the provision and administration of state guarantees are concerned. Also the opinion was voiced, however, that the new institution does not have to be established and that the administration of debt and guarantees could be transferred to the central bank which has sufficient experience in the field of managing liquidity preference. Also, a restriction of the volume of new state guarantees was welcomed, since they only represent a hidden form of future debts, and most of the previously extended guarantees may be expected to turn into trouble for future budgets and will increase the overall deficit of public finances. The majority of the evaluators agreed, however, that apart from professional administration, the total volume of state debt has to be reduced and the amount of state guarantees must be limited.

### **Characteristics of the measure:**

*In June 2002, the National Council of the SR approved a new law on state debt and state loan guarantees that should increase the transparency in the field of borrowing and state guarantees. Pursuant to this law, Ministry of Finance (MF) of the SR should establish a state State Debt Management Agency. The administration of state debt (developing a strategy of state debt financing, an annual balance of the needs and resources of financing, making loan agreements on behalf of the Slovak Republic, issuing state bonds, paying off the principal and yields from state bonds, etc.) will be the responsibility of the MF of the SR and of the State Debt Management Agency. According to the new law, the responsibility for the handling and the administration of state guarantees will be with the MF of the SR. The aim of the new law is to prevent provision of guarantees for risky projects. Guarantees can only be received for the financing of programs approved by the government, provided that they are profitable. According to the new law the total volume of new guarantees is not allowed to exceed the volume of those paid off. It should ensure at minimum not increasing the overall volume of guarantees. Since 1991, the Slovak government has provided guarantees for loans amounting to SKK 261.7bn in total. Debtors have so far paid off approximately SKK 2.5bn. The state debt to GDP ratio in 2001 was approximately 40%; if all state guarantees became payable, this figure would reach approximately 54%.*

## **16. Use of the Privatization Proceeds from SPP (Slovak Gas Industry) and Energy Distribution Companies**

### **Comments of the Experts' Committee:**

The use of the privatization proceeds from the sale of the Slovak Gas Industry (SPP) and the energy distribution companies solely to pay off state debt and to finance the pension reform would be optimal, but also the final decision concerning their use made by the current Government

Coalition was viewed as an acceptable compromise. The Expert Commission assessed the launching of development projects that should, according to the original proposal, be also financed from privatization proceeds, as well as the rejection of suggestions to establish revitalization fund for the business sector positively. Coverage of debt of the sectors which did not undergo reform met with criticism, since it only postpones the restructuring or implementation of systemic changes, which should prevent new debt from arising. Most evaluators would prefer the pay-off of foreign debt, since a significant depreciation of the Slovak currency, continuing public finances deficit in the presence of an insufficient inflow of foreign investments in the future may result in significant macro-economic instability making the foreign debt more difficult to service.

**Characteristics of the measure:**

*In June 2002, the National Council of the SR approved the allocation of USD 2.7bn from the sale of 49% of the shares of the Joint Stock Company Slovak Gas Industry (SPP), Bratislava, and it also made a decision about the use of EUR 618m from the privatization of 49% of the shares in the energy distribution companies (ZSE, SSE, VSE). The investors will pay in hard currency; the total proceeds will depend on the exchange rate applicable on the day of the payment. Representatives appointed by the government proposed allocations of SKK 146.5bn. The original budget of the fund reckoned with SKK 179.9bn. Proceeds from the sale of approximately 25% of the shares of SPP (approximately SKK 66bn) will be used for the launching of the pension reform. The International Monetary Fund did not recommend to use the incidental funds from privatization for purposes other than paying off state debt and financing of the pension reform. But Ministry of Finance (MF) of the SR will be able to settle state guarantees for bank loans which became payable, amounting to SKK 5.1bn. Thanks to the privatization of SPP, villages and towns again will receive a compensation of more than SKK 4 bn for the costs arising due to gasification within the period of May 1991 - June 2000. Along with other proceeds from the sale of SPP the state will pay off the debt of the health sector, which will consume nearly SKK 3.7bn. The government earmarked SKK 4.1bn on the settling of old obligations of the railways. To reduce the state debt of SKK 50bn, the majority of which MF plans to use to settle domestic obligations. Since interest rates in the world may be expected to rise and because of the exchange rate exposure which could increase the costs of new foreign state debt, the National bank of Slovakia (NBS) and also the International Monetary Fund (IMF) prefer to reduce the foreign debt.*

## **17. Amendment to the Supplementary Pension Insurance Act (Mandatory Insurance of Employees with Hazardous Jobs)**

**Comments of the Experts' Committee:**

Supplementary pension insurance is the voluntary third column of the income insurance system. The obligatory insurance of employees with hazardous nature of jobs is viewed as the result of the lobbying activities of supplementary pension funds (SPF) that introduced in this law a non-systemic entity and a new load upon employers. Positively assessed was the conciliation of the restriction of investing in EU and OECD markets, that represented an unjustified "pseudo-support" of the domestic capital market, as well as the establishing of the possibility to pass income demands from SPF to a similar system within the EU. Also, voices appeared stating that this opportunity is only formal, because the SPF Act does not provide for such transfer be enabled even within SPF in Slovakia. The amendment to the SPF Act fails to resolve the principal shortcoming, i.e. supervision of SPF investments (SPF being the only financial institution that is not subject of control by the Financial Market Authority), several evaluators pointed out.

**Characteristics of the measure:**

*The amendment to the Supplementary Pension Insurance Act, approved by the Parliament in June 2002, imposes the obligation upon employers employing people carrying out high-risk work to make contracts with a supplementary pension fund, based on which contributions will be paid to the pension fund by the employer. For the supplementary pension funds, this means a substantial increase of the numbers of clients, since there are about 120,000 of such employees and approximately 30% of them are insured only for the time being. Upon Slovakia's joining the EU, the amendment opens up the possibility to assign contributions and entitlement under the participation of the supplementary pension insurance scheme from supplementary pension funds to similar systems existing in the EU countries. For the supplementary pension funds, the amendment reduces restrictions with respect to investments in the capital markets of EU and OECD countries.*

## 18. Five Per Cent Raise in Pensions

### **Comments of the Experts' Committee:**

Valorization of pensions is one form how the standard of life of pensioners can be sustained. Some analysts believe that this year's raise of 5 per cent is too high regarding the rate of inflation. The timing of the decision was suspected of pre-election populism, and may have negative impact on the management of state and especially this year's finances of the Social Insurance Agency. The new system of automatic valorization promises to improve the current state next year as pension raises and their rates will no more be dependent on political decisions. It has already become a tradition that experts urge a radical reform to become implemented as it would resolve persistent problems in this field.

### **Characteristics of the measure:**

*The Government of the SR did not wait with the valorization of pensions until the conditions (growth of nominal wages of more than 5 per cent or overrunning a 10 per cent growth in the cost of living since the last valorization) is met; this meant that the rise in pensions had to be stipulated by law. It approved a 5 per cent raise in pensions, and the Parliament adopted it. An alternative proposal for valorization assumed a 7.1 per cent growth in pensions. The average old age pension will increase by Sk 290, and will be significantly above Sk 6,000, an amount that represents less than half the average monthly wages of employees in the economy of the SR. The Social Insurance Agency (SP) warned that this year's budget had only assumed a 3 per cent rise. Higher pensions will mean growth of this year's expenses by almost Sk 2bn. To balance the deficit in the pension fund SP will have to use its internal reserves throughout the year or will be forced to ask state for financial aid, as it is state that guarantees its solvency. Starting next year, according to the new law on social insurance pension allowances will be valorized automatically by July 1 every year. The rate of increase will no more be decided by ministers and MPs. It will depend on the rate of inflation or growth of average nominal wages in the national economy always for the past calendar year. Accounted, however, will always be the smaller growth index of the two indicators. Such a valorization mechanism laid down in the law in such an exact manner, should slow down the growth rate of pensions.*

## 19. Repayment of a Part (USD 230m) of the Russian Debt in Cash (USD 88m)

### **Comments of the Experts' Committee:**

Writing off a chunk of the Russian debt in exchange for cash payments worth 38 % of the debt's value was viewed as relatively successful compared to the Czech Republic (less than 23 per cent). On the other hand, some evaluators considered the yield as too low in comparison with barter settlement. However, the value of the barter is difficult to measure (e.g., the problem of exaggerated prices of goods). Often, the goods acquired in this way are worthless, and the barter process is unstable. Moreover, it makes room for corruption and cronyism. If, on the other hand, the proceeds were invested rather than consumed, the profitability of the more secure financial payments would get to equal that of the riskier barter payments (60 to 80 per cent). Criticism concerned the self serving decision that was aimed at a swift settlement of one fifth of the Russian debt to be credited to the revenues of the National Budget to keep the deficit of public finances at the scheduled level. Some critics of the approved financial procedure point to the non-transparent mediator of the transaction and a potentially high commission.

### **Characteristics of the measure:**

*In April, the Government of the SR approved writing off of one fifth (USD 230m) of the Russian debt through an instant payment in cash amounting to USD 88m. The profitability of the transaction is thus 38 per cent. The financial scheme negotiated with Moscow is additional to this year's agreements. In 2002, Slovakia was expected to receive goods worth USD 135.2m, and together with the cash deal a record amount of USD 223.2m should arrive to the National Budget this year. Last year, the Russians unofficially proposed to settle all their debt by paying 22 per cent of its total value. In 2001, the Czech Republic agreed upon a final financial settlement of a majority of the Russian debt and sold its receivables from the Russian Federation worth 2.5bn dollars to the non-transparent Falcon Capital company. The Profitability of the deal, widely*

*criticized in the Czech Republic, was less than 23 per cent. The Slovak government initially decided not to follow "the Czech path" of writing off the debt in exchange of reduced cash payments since barter repayments with yields of 60 to 80 per cent were seen as more advantageous. However, representatives of the government eventually changed their mind claiming that, thanks to the relatively high yield, the approved financial deal was advantageous in economic terms, and unlike the barter agreement which is often accompanied by corruption, was less risky in this respect.*

## **20. Act on Packaging (Mandatory Reserves for Packaging Materials)**

### **Comments of the Experts' Committee:**

The Packaging Act was referred to as a wrong realization of a good idea. The basic idea to address the expenses connected with environmental protection is a progressive one but the whole process is extremely complex and unclear as to the practical aspects. In the face of the treatment of packaging remaining unresolved, incentives to producers and recycling enterprises, the very regulation and the establishing of mandatory reserves for incidental packaging will not solve the problem of environmental pollution; rather, it may substantially burden the retail sector. Several evaluators viewed the Act as an attempt to become more "green" than the EU itself, and they criticized it as limiting the freedom of doing business. The majority agreed that the financing of the recycling, as well as the reserves will be part of the costs, and will thus unavoidably raise the consumer prices of goods.

### **Characteristics of the measure:**

*The government-drafted Act on Packaging approved by the National Council of the SR in June transposes the Directive of the European parliament and the Council No. 94/62/EC on Packaging and Packaging Wastes. It establishes mandatory reserves also for incidental packaging that so far were not subject of recycling, imposing upon the retail network the obligation of a charge. The Act establishes the obligation of the seller and distributor in shops with an area of over 100 m<sup>2</sup> to offer, in addition to products in incidental packaging also products packaged in reusable packaging. The Act requires producers or exporters of packaging to also provide for the recycling of some percentages of the packaging of specified commodities, and it imposes upon them the obligation to develop preventive programs to minimize packaging wastes. The major point of the act is the determination of the responsibility for the ensuring of packaging waste to be collected, used and recycled. Through this packaging and packaged products are made subject of the market. Manufacturers of PVC packaging materials or goods packaged PVC will be obligated to also incorporate into the prevention program measures to gradually reduce and replace PVC with other kinds of plastics or other materials. The limits for use and recycling of wastes will become increasingly more stringent, and responsibility will be identified for their keeping, including business entities that generate wastes from packaging. The Act does not establish however how obligated entities should take care of the recovery of wastes from packaging to meet set limits. The Act on Packaging will come to effect as of 1 January 2003.*

## **21. Ban on Imports of Czech Meat as a Way of Slovakia's Retaliation**

### **Comments of the Experts' Committee:**

Ban on imports of meat from the Czech Republic as a way of Slovakia's retaliation in connection with the CR imposing embargo on Slovak beef after repeated occurrence of BSE in Slovakia was seen as a commercial war intended to result in the distorting the market and consequently worsening the situation for both Czech and Slovak consumers. Whatever is used to restrict free market acts counterproductively and against the well-being of the citizens. Experts believe that rather than the declared veterinary reasons it is the war of meat producers to achieve restriction of trade, i.e. protection from competition and thus a better position in the market that is underlying the bilateral ban on imports of beef. Many think that the acts represent but a fraction of a big problem, which distorts and over-regulates the agriculture in Europe. There was a positive response to a potential mutual agreement on the lifting of the bilateral ban on imports of beef and beef products.

### **Characteristics of the measure:**

*In early April, after BSE has been repeatedly confirmed in Slovakia, the Czech Republic prohibited imports of all Slovak beef, beef products and cattle. The SR reacted immediately by banning*

*imports of beef and cattle from the CR. The ban on mutual imports of beef between the SR and CR will affect Slovak more than the Czech producers, according to the Slovak Chamber of Agriculture and Food stuff. Slovakia recorded a significant increase of exports of beef and cattle to the CR during the first quarter of 2002. The impression on the Slovak part thus was that there were no veterinary reasons behind the embargo on Slovak beef; rather, it was attempts on the Czech side to protect their own market from competition. Slovak beef is Sk 5 to 15 cheaper, and the comparative advantage was further strengthened by the Czech currency becoming stronger. The mutual ban on imports of livestock and beef was lifted as of July 1 this year within the Customs Union.*

## **22. Ordering of Medical Services: Contracts between General Health Insurance Company (Všeobecná zdravotná poisťovňa) and Hospitals**

### **Comments of the Experts' Committee:**

Experts assume that the difficulties with respect to the contracts are due to the contracts having been made without any prior financial calculation and with a lack of contractual freedom, as most hospitals are state-owned and thus their existence is dependent on financial transfers from the largest health insurance company *Všeobecná zdravotná poisťovňa* (VŠZP). Modifications in the payment mechanism were adopted as the only possible option since the health sector in Slovakia lives beyond its means. The measure may be viewed as an attempt to resolve the persistent problems of Slovakia's health care system, however, an attempt that is isolated and focusing solely on cost reduction; it is expected to prove fruitless unless a complex reform is implemented. It only postpones the bankruptcy of the health care system in Slovakia. Partial steps do not address the core of the problem -- the so-called free health care. More attention should be paid to involving citizens into the financing of their treatment, to making large hospitals more efficient, to developing hospital directors' managerial skills, and strengthening their responsibility for the running and managing of their institutions more efficiently.

### **Characteristics of the measure:**

*The new measure as introduced by Ministry of Health implemented a new health care payment mechanism. Health insurance companies place contractually binding orders for medical services with hospitals, listing services and number of patients they are able and willing to pay for. The measure aims at rationalizing the number of treatments which thus could be financed from public funds. This should then inevitably exert pressure upon making hospitals more efficient and leading to possibly close some of the wards or hospitals. Since April 2002, health insurance funds were signing contracts with health care providers for three-months' periods. Afterwards, the contracts should be updated at quarterly basis, taking into account patients' demand for services provided by certain health-service institutions. This is an attempt to differentiate institutions by their quality. Should hospitals exceed the limits specified in specific contracts, the respective insurance funds will not cover the difference. Doctors, however, claim that the need for medical services exceeds the maximum limits set by *Všeobecná zdravotná poisťovňa* (VŠZP). Since VŠZP is the largest health insurance fund enjoying full state guarantees for its solvency, refusing to accept a contract would inevitably expose the existence of the hospital at risk. The debt of the health care system amounts to about SKK 20bn. According to the official figures provided by Ministry of Health, the total expenditures of the health sector in 2001 amounted to SKK 65.6bn, which represents 6.8% of the GDP. (The figure does not include unofficial payments - bribes.)*

## **23. Cancelling the Tender for State Treasury System**

### **Comments of the Experts' Committee:**

The majority of the Committee members supported the cancelling of the tender because of alleged corruption. The system of State Treasury System is very important to provide for transparent flows of public funds, and the delay in its introduction was unanimously criticized. The tender was not well prepared, indicating the inability of the state bodies to smoothly organize a selection procedure. Also, some believed that the delay was in the interest of the state administration, since it postponed the devolution of competencies with financial control of the individual parts of state administration to State Treasury System. According to some evaluators the tender also pointed out the complexity of the legislation regulating public participation. It needs to be improved and a mechanism should be added to regulate how to proceed whenever suspicions of corruption occurs, how to sanction corruptive attempts, how to prevent debates on results of public tenders and

continuous raising of objections by unsuccessful bidders which prevent the completion of the tender procedure.

**Characteristics of the measure:**

*At the end of April, 2002, Ministry of Finance of the SR (MF) cancelled the tender for the delivery of services and technologies for the system of State Treasury System, announced as early as in November 2000. MF cancelled the tender after the Office for Public Procurement (OPP) accepted the fourth objection by Siemens Business Services (SBS), Ltd. against the decision of the tender committee at the MF which excluded its bid from the tender. There were four different occasions on which bids for the delivery of the information system for State Treasury System were evaluated; the bid submitted by Hewlett-Packard (HP) has ranked first upon all occasions. SBS raised objection against the outcome, the Office for Public Procurement accepted its objection (the committee did not evaluate the bids the way specified in terms of reference), made the evaluation null and void and ordered it to be repeated.*

*The public procurement of the information system for State Treasury System was suspended also at the end of July 2001, since MF informed OPP about a suspicion of the attempt to corrupt some members of the evaluation committee. OPP suspended the tender, but allowed it to continue four weeks later, since no formal faults could be identified justifying the cancellation. The State Treasury System is envisaged to centralize financial control of approximately 2,500 organizations of public administration.*

## **24. Act on Substitute Alimonies (Establishment of Alimonies Fund)**

**Comments of the Experts' Committee:**

According to many experts, the Act on Substitute Alimonies and on the Establishment of the Alimonies Fund as drafted by MPs was not necessary, and was adopted due to the pre-election "populist" turmoil. The problems of families living in materially constrained conditions could have been addressed by a law on social aid. Experts claim that state paternalism has grown beyond the common sense. Instead, state should concentrate on the enforceability of the existing legal framework, which regards delinquency with respect to alimonies as an offence, which may be resolved by court execution. The new Act will encourage negative attitudes since it reduces the discipline of those who are bound to pay alimonies, and it exerts pressure upon state expenditures. Potential misuse of the institution of substitute alimonies cannot be ruled out. Experts also criticize the fund creation mechanism, casting doubt on its financial strength and capability to cover its obligations. Centralized collection of alimonies from delinquents introduces additional costs, as the Fund will have to obtain positions from Social and Legal Protection Departments of District Offices. Thus, social workers will have to handle more paperwork and will have even less time for their key work with families in need. However, there is also a contradictory view of an expert who praised the Act and called it "social", stating that for divorced women, claiming alimonies before courts represents too much of a burden.

**Characteristics of the measure:**

*In April, the Slovak Parliament (NR SR) adopted the draft Act on Substitute Alimonies submitted by MPs. It had been drawn up by the opposition HZDS (Movement for Democratic Slovakia). Its main purpose is to establish so-called Substitute Alimonies Fund, which will pay alimonies determined by courts in cases when a parent does not fulfill his/her obligation to maintain and support. As soon as the Fund pays the alimony instead of the delinquent, it becomes creditor with the right to collect the amount due by means of execution. The first, core budget of the Fund will be generated by the National Property Fund (FNM) of the Slovak Republic contributing SKK 1.5bn, which will come from privatization. Revenues alimonies are expected to be paid from interest on the capital and from grants from the National Budget. The key decision-making body will be Ministry of Social Affairs and Family, whilst the Substitute Alimonies Fund will collect all the necessary documentation and will act as a counseling body. The Czech government turned down a similar bill recommending the establishment of the Alimonies Fund, as it would represent a significant burden upon the National Budget and enhance bureaucracy of state administration.*

## **25. State Guarantee of SKK 11.7bn Extended to the Slovak Railways**

**Comments of the Experts' Committee:**

Taking into account the regular annual loss made by the Slovak Railways, experts regard the state guarantee for its loans as a risky decision. Rather, the state should keep its interventions in rail companies at a minimum. The current policy of state guarantees distorts the business environment, adversely affects free competition, preserves state's allocation function, and poses a burden upon public funds. Experts would find it more reasonable if state terminated its function of public rail transport orderer from the Slovak Railways, if it deregulated prices, cut down redundant personnel, re-assessed its generous railway-connected social programs (as, e.g., free fare to all rail employees and their families), and stopped repeatedly putting off decisions on financial problems by adopting state guarantees, which reminds of sewing patches on old patches. The size of the Slovak Railways (the biggest employer in Slovakia) blocks much of politicians' common sense and blurs their view of railways-related financial problems, which only allows moral hazards to grow further. Some experts regard privatization of the Slovak Railways as the only remedy.

**Characteristics of the measure:**

*The Slovak Government approved a state guarantee for three loans of the Railways of the Slovak Republic (ŽSR, a.s.) (management, operation and maintenance of rail routes) and of the Railway Company (Železničná spoločnosť, a.s.) (transport and trade activities) in a total amount of SKK 11.7bn. By means of the new loans, the rail companies intend to re-finance previous loans from 1994 to 2001 that fall due in 2002, and at the same time to cover losses generated by providing services classified as "in public interest" and finance development programs. As of the end of 2001, the accumulated loss made in connection with services ordered by state (so-called services "in public interest") exceeded SKK 10bn. A year ago, the Slovak Railways were granted a state guarantee for a loan amounting to SKK 10.5bn. Bank loans usually guaranteed by state represent the biggest portion of the Slovak Railways' debt, reaching the level of 30.7bn in April 2002. In 2001, the Slovak Railways generated a loss of 3.87bn, and their total debt reached nearly SKK 39bn.*

## **26. Act on Retail Chains (a Stricter Regulation of Hypermarkets)**

**Comments of the Experts' Committee:**

The Act prevents free flow of goods and services, it protects competitively weak producers, it creates a big space for corruption, increases costs of the retail chains, and in the long run it works against the interest of the customers (low prices and maximum choice). Although a portion of the respondents consider behavior of the retail chains as aggressive and admit that the access conditions to retail chains are not the same for all suppliers, such processes are accepted by the market and producers should respond to them by establishing marketing associations or other forms of suppliers organization with the aim to become an equal partner to trade chains able to negotiate deals based on their economic power. The adopted Act can be viewed as the victory of the stronger group, the producers; it will however have a negative impact on the customer. Several respondents suggested that the Act be repealed.

**Characteristics of the measure:**

*The parliamentary proposal of retail chains adopted by the National Council of the SR imposes, from 1 July, 2002, the obligation of competition with respect to specified groups of goods, making conditions of the sale of goods by retail chains more stringent. Pursuant to the provisions on the structure of the offer, operators of retail chains and shops with an area larger than 100 m<sup>2</sup> must have at least three products of a group of products from three different producers on display, and the range of products must proportionately represent domestic and foreign products. The categories of goods concerned by the provision of the structure of the offer, are to be determined by a generally binding regulation to be issued by Ministry of Economy upon consultation with Ministry of Agriculture. The Slovak Trade Inspection will monitor where retail companies abide by the rules. According to the drafters of the Act, the chains misuse their economic power, when requiring their suppliers to pay e.g. access fees to have their goods included in the offer, free delivery of goods, or coverage of advertising costs. The new Act is expected to prevent these practices, making access for Slovak suppliers easier. Among others, the new Act requires obtaining approval from the Slovak Chamber of Agriculture and Food and the Slovak Chamber of Commerce and Industry whenever the establishment of a new commercial place of operation is to be approved.*

## 27. Write-off of the Debt of the Slovak Television and Slovak Radio Amounting to SKK 711m

### Comments of the Experts' Committee:

Another write-off of the debt of the public electronic media STV and SRo (Slovak TV and Radio) is viewed as a non-systemic measure. Both companies call for the necessary intervention although no government has yet dared to undertake it. Paying old debts without developing a project for a systematic change that would eliminate future financial risks the broadcasting companies are exposed to (they have kept generating losses over the long term) only delays the reform, offers their management an opportunity to run into debts again, and is a waste of tax-payers' money. Financial pressure would be the most efficient catalyst, and therefore any write-off only encourages irresponsible management and is unacceptable. Some experts would recommend at least a partial privatization of public media, with state subsidies to be provided to support special non-for-profit projects only (e.g., film archives, original creative programs, etc.).

### Characteristics of the measure:

*In June 2002, the government approved a one-time write-off of the debt of the public media (Slovak Television (STV) and Radio (SRo)) to the Slovak Telecom totaling SKK 711m (STV: 486.7m., SRo: 224.3m.). The write-off was covered from dividends of the Slovak Telecom, a company in which state has a 49% stake. Even though the proposal was submitted by Ministry of Transport, Posts and Telecommunications, the Ministry itself does not regard it as a systemic solution, assuming that the new government will have to put the issue of the financing of public media on their agenda immediately after the elections. A year ago, the government approved a similar write-off in both companies amounting to nearly SKK 1 billion. It was covered from the National Property Fund (FNM) of the SR and its privatization proceeds. As of the end of May 2002, the total debt of STV reached SKK 1.2bn, and has been rising ever since.*

## 28. Tender for Light Trains Run by the Railway Company (Železničná spoločnosť, a.s.)

### Comments of the Experts' Committee:

A tender for 35 light train sets was assessed as mismanaged by the Committee of Experts. The bad news is that an international tender was unable to avoid non-transparency and suspicion of political corruption, which does not help improve the image of the Slovak Republic abroad at all. Non-standard deeds, implications of conflicts of interest of all entities involved, signals leading to political parties' financing being illicit, the tender being misused for political purposes in the pre-election competition, and the media commentaries favoring certain opinions have certainly not enhanced trust in politicians and state officials in Slovakia, and may adversely affect voters' participation in the elections. If any manipulation of the tender is proven, it should be cancelled and a new tender called for. The positive aspects of the affair are that it brought up unfair business practices in public tenders and political parties funding for public discussion. According to many experts, extensive privatization of the remaining state property could be a solution to non-transparent tenders. It would also minimize political parties' influence on decision-making procedures. People discuss the background of the tender, but several critics have also focused on state-of-the-art trains being used on regional routes which have the lion's share in generating railway losses.

### Characteristics of the measure:

*The Tender Committee of the Railway Company (ŽSSK, a.s.) awarded the tender for the delivery of 35 light train sets to the Swiss-Slovak consortium Stadler AG - ŽOS Vrútky, a.s.. The failing bidders were Siemens and the French-Slovak consortium Alstom LMB - ŽOS Zvolen who complained about the tender being biased. The Minister of Transport, Posts and Telecommunications, Jozef Macejko, announced his interest in the tender being re-assessed as the Supreme Audit Office of the SR (NKÚ) stated that the Committee opted for a more expensive offer. The media published unverified news (exact figures are still kept confidential as the tender procedure has not been closed yet) that when comparing purchase prices only, the French Alstom*



*offer would be SKK 822m cheaper. Taking into account the operating costs, however, the offer made by the Swiss company Stadler would be more convenient. The letter of an MP for the Slovak Democratic and Christian Union (SDKÚ) Mr. Peter Kresánek gave rise to suspicion that SDKÚ might have profited from the tender, and subsequently the whole issue turned into a political scandal. The Prime-Minister and his SDKÚ, who are connected with the affair through Prime-Minister's brother who is director of ŽSSK's Rail Train Division and Head of the Tender Committee at the same time, have blamed a certain special-interest group from Ministry of Transport, Post and Telecommunications. In their opinion, these people assumed competencies they were not empowered to; they were not entitled to interfere with the Tender Committee decision, and thus prevented the tender from being closed; they pursued their personal interests only, favoring the Alstom's offer; and by appearing in the media before the tender being closed, they violated the law. The Prime Minister submitted the issue to be investigated by the relevant bodies, and Mr. Jozef Macejko was recalled from his ministry office. Mr. Peter Kresánek who prompted the discussion about the funding mechanisms of political parties was dismissed from SDKÚ.*

## **29. Adjustment of the Planned Deficit of Public Finances for 2002 from 3.5% to 4.5% of GDP**

### **Comments of the Experts' Committee:**

The evaluators accepted the government admitted that the financial situation in public finances is bad and; by adjusting the planned deficit from 3.5 to 4.5% GDP, it made the state of the public sector more realistic. But they criticized the insufficient government efforts to look for reserves and to minimize the risks of a higher deficit by binding or reducing expenses, the new level of which can result in a destabilization of the economy. The consumption of the central government is disproportionately high, and continuing the existing trend of annual deficits can cause a portion or the whole system of public finances to collapse in the medium term. A majority of the evaluators consider the substantial reduction of the deficit as one of the most important tasks of the new government.

### **Characteristics of the measure:**

*It will not be possible to keep the planned deficit of public finances at the level of 3.5% of Gross Domestic Product (GDP) since a methodological mistake was made upon the setting up of the 2002 National Budget (NB). Revenues of the Slovenská konsolidačná a.s. (Slovak Consolidation Company), and revenues from the sale of telecommunication licenses which reduced NB deficit were included among the NB revenues; however, according to the International Monetary Fund (IMF) methodology, these amounts do not belong to NB revenues side. The government of the SR stated a deficit at the level of 4.5% GDP as its new aim. But if some proposed measures are not realized, the deficit of the budget could get as high as 5.3% GDP, according to IMF calculations. In its updated report (June 2002), Ministry of Finance quantified the risks of exceeding the approved deficit (SKK 36.8bn) of public finances by SKK 8bn to 10bn.*

**JULY - SEPTEMBER 2002**

| <b>Evaluated Measures ranked by Rating Values</b><br>(i.e. Contribution to the Economic and Social Development) |  | <b>RATING</b><br>[-300; 300] | Quality<br>[-3; 3] | Importance (%) | Passed in:<br>quarter/year |
|---|--|------------------------------|--------------------|----------------|----------------------------|
| 1.  | Communist-Era State Security (Štb) Files Opened to the Public, Founding the "Nation's Memory Institute"  | <b>121,9</b>                 | 2,18               | 55,8           | 3/2002                     |
| 2.  | Opening up The Electricity Market (Imports) for Large Customers  | <b>104,6</b>                 | 1,96               | 53,4           | 3/2002                     |
| 3.  | Tax on Losses Abolished  | <b>98,8</b>                  | 2,11               | 46,8           | 3/2002                     |
| 4.  | Tax Holidays for Investors Abolished   | <b>84,2</b>                  | 1,54               | 54,6           | 3/2002                     |
| 5.  | Privatization of Health-Service Institutions   | <b>77,2</b>                  | 1,24               | 62,3           | 3/2002                     |
| 6.  | Introducing Electronically Collected Motorway Fees (Tolls) after 2007  | <b>71,7</b>                  | 1,54               | 46,5           | 3/2002                     |
| 7.  | Legislative Intention to Draft the Act on Pension Insurance Capital Pillar: Alternative B - Administrators to be Chosen by Citizens (Proposed by Ministry of Economy)  | <b>67,3</b>                  | 0,88               | 76,9           | 3/2002                     |
| 8.  | Tender for Light Trains Run by the Railway Company Cancelled   | <b>57,4</b>                  | 1,54               | 37,2           | 3/2002                     |
| 9.  | Increasing Eximbanka's Equity by SKK 330m (to SKK 3bn)   | <b>42,8</b>                  | 1,20               | 35,8           | 3/2002                     |
| 10.   | Collecting Half (USD 460m) of the Russian Debt in Cash (USD 138m)  | <b>28,6</b>                  | 0,67               | 42,9           | 3/2002                     |
| 11.   | Istrochem Bratislava Sold (92% share for SKK 202m)   | <b>8,4</b>                   | 0,30               | 28,1           | 3/2002                     |
| 12.   | Minimum Wages Increase to SKK 5,570 (by SKK 650)   | <b>6,1</b>                   | 0,11               | 53,1           | 3/2002                     |
| 13.   | State Guarantees to the Slovak Electricity Company (SKK 6bn)   | <b>-7,6</b>                  | -0,18              | 43,0           | -                          |
| 14.   | State Guarantees to the Slovak Shipbuilding Company in Komárno (SLKB) (EUR 23m)  | <b>-8,9</b>                  | -0,27              | 32,8           | 3/2002                     |
| 15.   | Proposal to Establish Slovak Venture Capital Fund  | <b>-10,5</b>                 | -0,23              | 46,0           | -                          |
| 16.   | Framework for the 2003 National Budget   | <b>-13,6</b>                 | -0,17              | 81,7           | 3/2002                     |
| 17.   | License to the Third Mobile Operator - the Company Profinet, Inc.  | <b>-15,1</b>                 | -0,33              | 45,7           | 3/2002                     |
| 18.   | 2003 Collective Agreement of the Public Service (More Benefits)  | <b>-28,1</b>                 | -0,56              | 49,9           | 3/2002                     |
| 19.   | Draft Slovak Audio and Video Fund Act  | <b>-30,5</b>                 | -0,97              | 31,5           | -                          |
| 20.   | Legislative Intention to Draft Act on Pension Insurance Capital Pillar: Alternative A - Administrators to be Appointed by Investment Committee of the Social Insurance Agency (Proposed by Ministry of Labor, Social Affairs and Family) | <b>-47,0</b>                 | -0,59              | 79,2           | 3/2002                     |
| 21.   | New Collective Agreement for the Slovak TV (10- to 12-Month Severance Payments upon Laying off Top Managers)   | <b>-78,2</b>                 | -2,50              | 31,3           | 3/2002                     |
| 22.   | Security of Tenure for Top Experts without Passing Qualification Exam (Amendment to the Act on Civil Service)  | <b>-81,7</b>                 | -1,96              | 41,0           | 3/2002                     |
| <b>RATING of the 3rd Quarter 2002 (Passed Measures)</b>   |  | <b>33,5</b>                  |                    |                |                            |

**1. Communist-Era State Security (Štb) Files Opened to the Public, Founding the "Nation's Memory Institute"****Comments of the Experts' Committee:**

Indisputably positive although coming a little late, the act of disclosing confidential files of the former ŠtB will help Slovakia, which falls behind its neighboring post-Communist states in this respect, cope with the Communist past. We must appreciate this act even though only a small number of citizens is likely to inspect the formerly secret documents. Our society has the right to know its past. Moreover, opening the ŠtB archives to the public is a significant step towards future, as it will help recover societal moral aspects.

**Characteristics of the measure:**

*In August 2002, the Slovak National Council Members adopted the MPs' draft Act on Opening Secret Archives of the State Secret Services between 1939-1989 and on Founding the Nation's Memory Institute. The Act was passed despite the President's rather reserved attitude. As of the date of its effectivity, all Slovak citizens will be allowed to access intelligence and security service files on themselves, which is already possible in the majority of ex-communist countries with the exception of e.g. Russia and Ukraine. Each applicant will be entitled to learn true names of officers and agents, as well as their collaborators who were in charge of reporting on him/her. Also, other related files and documents on ŠtB activities can be inspected. For the sake of data security, all personal data of so-called third persons will be blackened. Files of persons who in the meantime died may be disclosed to the closest relative. Each officer and ŠtB agent may enclose his/her personal statement that will become an inseparable part of the respective file. The Act also stipulates the establishment of Nation's Memory Institute, which will not only make accessible formerly secret documents to the public, but will also keep track of files and all kinds of information and documents related to the period of 1939-1989. The Institute will also organize educational activities. All institutions that keep any secret service files in custody will be obliged to provide them to the Institute for research or for further custody. There are a lot of documents in the Czech archives. The Institute will be entitled to file cases of Communist and fascist crimes and court documents. Similar institute exists in Germany, the Czech Republic, Poland and Hungary.*

**2. Opening up The Electricity Market (Imports) for Large Customers****Comments of the Experts' Committee:**

This year's opening up of the electricity market to foreign imports is the next logical step after the privatization of the electricity distribution system, which creates the opportunity for free choice of suppliers and leads towards reduction of buyers' energy costs over the long term. Market liberalization is also expected to make the monopolistic Slovak Electricity Company (*Slovenské elektrárň*) more efficient. As for the electricity and power market being liberalized step by step only and imports being rather limited, experts believe that at the initial stage, liberalization will bring benefits to large industrial customers only. In future, however, a chance to choose their own supplier should also be provided to households. Thus, a real competitive environment will be established. Several experts, however, have pointed out the last year's California power crisis and the need to establish appropriate regulatory tools that would allow for intervention in case of "market failures".

**Characteristics of the measure:**

*Decree of the Ministry of Economy of September allows large customers to import a portion of their electricity demand. Since the beginning of 2002 companies with an annual consumption exceeding 100 GWh may import volumes equivalent to one twelfth of their consumption for the past 12 months. At the moment, about 20 customers can take advantage of the opening of the electricity market. As of January 2003, the minimum consumption limit will be reduced to 40 GWh per year, while customers will be allowed to import as much as a third of their total electricity consumption for the preceding year. Likewise, as of 1 January 2004, the threshold will be further reduced to 20 GWh and maximum imports will be increased to as much as two thirds of the preceding year's consumption. Opening up of the electricity market should continue so that as of January 2005 or upon Slovakia's joining the EU all customers, with the exception of households, will be allowed to import electricity without any restrictions.*

**3. Tax on Losses Abolished****Comments of the Experts' Committee:**

Experts have welcomed the abolishing of the so-called tax on losses. The new measure has eliminated the legislative fault that resulted in market nonconformist elements. Tax on losses may have stopped especially small firms from doing business and generating values. Its implementation was a non-standard solution to a widespread problem with "fake" companies, the purpose of which was generating losses for limited liability companies (Ltd.). Nevertheless, this undesirable phenomenon should rather have been solved by legislation steps referring to companies' registration and operation, as well as by more effective tax reviews. Several experts have also suggested introducing the so-called flat rate corporate income tax, which would prevent firms from speculating with their profits/losses. Maintaining the tax on losses would mean

unethical taxation of companies since it results in high negative progressive taxation of entities that do not achieve minimum profits of Sk 96,000.

**Characteristics of the measure:**

*In July, the Slovak Parliament amended the Income Tax Act, abolishing the provision adopted in December 2001 requiring each company in the third year of its existence to start paying minimum tax advances of Sk 2,000 a month (24,000 a year). Based on the original Act, advance tax payments by companies that do not generate the minimum profits of Sk 96,000 would be deemed corporate tax, and would not be recoverable by the company. This obligation also applied to companies that generated losses in the preceding tax period. The so-called tax on losses was strongly opposed by the Slovak Taxpayers Association, who underlined the unethical character of such corporate taxation.*

#### **4. Tax Holidays for Investors Abolished**

**Comments of the Experts' Committee:**

Market economy requires that equal conditions apply to all businesses, both local and international. Any exception to this rule may distort the market environment and limit the growth potential. Therefore, abolishing the 100% tax holidays has been perceived very positively. This step may make Slovakia less attractive to foreign direct investments, however legislation compatible with the EU regulations is a principal prerequisite if Slovakia wants to join the Union; this will later on open up the door to FDI inflows. Experts have also underlined the fact that tax holidays are but one of the many investment decision factors. Also, investors concerns include political stability, quality of the business environment, barriers, stable and enforceable legislation, low levels of corruption, developed infrastructure, cheap and qualified workforce, etc. Abolishing tax holidays does not necessarily mean that companies will lose all incentives to invest in the country, it only means that the method changes such that it gets compatible with the common EU legislation on state aid. Many incentives may be reassessed and recognized as regional aid. Experts believe it a mistake that Slovakia did not introduce tax holidays hand in hand with other V4 countries or, at least, as soon as the first Dzurinda's government got into power. One of the problems arising from the latest step is the violation of the Government's commitment to offer 10-year tax holidays to foreign investors in Slovakia.

**Characteristics of the measure:**

*The amendment to the Income Tax Act allowed for tax holidays provided that it was in compliance with the Act on State Aid. The original legislation allowed for full tax holidays for five years and 50% tax holidays in the following 5 years. Since September 1, 2002, the Office of State Aid must first approve the amount of the tax relief. The amendment, however, implemented two restrictions. Tax relief may not exceed the agreed level of regional support (i.e.: Bratislava - 20%, rural areas - 50%) and any relief (state aid) must be stated as a lump one-off amount. Thus, one of the key obstacles in the chapter Competition Policy chapter in EU accession negotiations should be eliminated. Full tax holidays do not comply with EU regulations that are being transposed into the Slovak legislation. The Slovak Government will thus have to settle the problem of foreign investors who have already been granted tax relief (e.g. the yearly relief granted to Volkswagen Slovakia and U.S. Steel Košice are estimated at about EUR 22m.). If these companies want to maintain their advantage after Slovakia's accession to the EU, they will have to harmonize the relief with the regulations on state aid.*

#### **5. Privatization of Health-Service Institutions**

**Comments of the Experts' Committee:**

Privatization of most health-service institutions in Slovakia is one of the key prerequisites to accomplish the long-awaited transformation of the Slovak health sector. Health-service institutions and clinics will then be possessed by real owners who will necessarily have to manage their resources and property more responsibly. The main disadvantage of the process is that it takes place in a poorly functioning and unreformed environment - it is always a problem to "run a business", if the salaries and performance bonus are paid by state or health insurance company. Also, post-privatization problems may arise due to the lack of capital for diagnostic and therapeutic facilities. Elimination of state control from the Slovak health sector will be accomplished by privatization, transfer of health-service institutions to local and regional offices,

and it is expected to result in improved health care. Local governments will thus be able to respond to citizens' needs more promptly as it understands these needs better than officials in Bratislava. A substantial number of decisions regarding the privatization of health-service institutions have been adopted at the last government meeting, which gave rise to uncertainty in respect to the selling price. Doubts were cast concerning the transparency of the privatization decisions.

**Characteristics of the measure:**

*Privatization of the health sector has always been on the agenda of all recent government meetings. Privatization concerns 169 health-service institutions: first contact care centers, clinics, the remainder of state-owned pharmacies, several centers for the chronically ill, pediatric centers, health resorts, specialized treatment institutes, and Slovthermae spas. The state should keep the ownership of teaching hospitals, several type II and III hospitals, highly specialized health centers, special-task centers, a portion of the specialized first-contact care centers, and emergency health service (apart from transport). Among the possible privatization methods, institutions may be transferred free of charge to the ownership of municipalities. Originally, state intended to transfer health-service institutions free of debts; however, based on the latest decision, it will be transferring them "as is", i.e. with their obligations. Municipalities shall be obliged to appoint specialized guarantors authorized to provide medical care. Another privatization method is direct sale to interested parties. In such circumstances, the new owner is obliged to assume all debts as well. The new owner must be selected in a tender, with price not being the only factor on which to make decisions. Companies with partners – doctors and municipalities will be in a better position to acquire health-service institutions. The new owner shall be bound to provide medical care in the privatized establishment for a minimum of 15 years. Ministry of Health shall maintain the authority to supervise privatized health-service institutions.*

## **6. Introducing Electronically Collected Motorway Fees (Tolls) after 2007**

**Comments of the Experts' Committee:**

Charging for the use of motorways reflecting actual numbers of kilometers traveled seems fairer and more legitimate than the current system of fixed charges (Motorway Stickers) as drivers would only pay for the actual "consumption". Toll will also probably bring forth an increase of price, on the other hand, however, they will generate funds for the completion of the construction of the Slovak motorways network and its maintenance. Thus, motorways will be financed by those who use them rather than by all citizens. Motorway fees will also reduce state's expenditures on the road network, which may have a positive effect upon the tax level. At the same time, the new system should also create a suitable environment for private companies to invest into construction of Slovakia's motorway system. Drivers should be given the option of either bearing costs associated with the installation of a microchip in their vehicles to record the exact numbers of kilometers traveled on a motorway, or paying cash at tollgates. The first option is associated with the risk of misuse, as it allows for monitoring citizens' movements.

**Characteristics of the measure:**

*Based on the government strategy, the current system of charges for the use of motorways (Motorway Stickers) will be replaced by an electronic one. The first phase (until 2004) includes implementation of the Electronic Fee Collection System (EFC) for lorries above 12 tones, which will be harmonized with similar systems in Germany, Austria, and the Czech Republic. The system is envisaged to cover all vehicles after January 1, 2007. The new system should be more objective, as drivers will be charged only for the kilometers actually traveled. Each vehicle will carry a microchip responding to devices placed on the road that will record the exact distance the car has traveled.*

## 7. Legislative Intention to Draft the Act on Pension Insurance Capital Pillar: Alternative B - Administrators to be Chosen by Citizens (Proposed by Ministry of Economy)

### Comments of the Experts' Committee:

Pension System Reform, including the Capital Pillar, is one of the key reforms relating to the social system and public finances. The Ministry of Economy's proposal that each individual should choose his/her pension fund is rooted in the principles of market economy. It should be the citizen who takes care of his/her money, and it should be the citizen who bears the risks and carries the responsibility for poor investments (there is a free choice). The competitive environment will make pressure upon individual private pension funds to generate the highest profits possible and to provide top-quality services. The best example of how private pension funds could operate is Chile. In experts' opinion, the Act on the Capital Pillar should increase the capital share on total contributions (forecasted at 30%) invested in this pillar, and should also leave free choice in respect of the age of retirement. Several experts believe that liberal environment without the necessary formal and informal regulations and rules gets often abused and it is therefore unavoidable to develop compensation schemes and a regulatory framework that would protect citizens' mandatory retirement insurance. Credible and financially strong entities should only be granted licenses to run pension funds. The prevailing majority of experts would rather prefer the more liberal alternative proposed by Ministry of Economy to the one generated by Ministry of Labor, Social Affairs and Family (see page 69)

### Characteristics of the measure:

*In August, the Slovak Government approved the document Legislative Intention to Draft the Act on Pension Insurance Capital Pillar. The Social Insurance Act, as adopted in May 2002, has become the so-called first (pay-as-you-go) pillar of pension insurance in Slovakia. The capital pillar, based on citizens' personal involvement (citizens are expected to deposit a portion of their pension insurance premiums on their special individual accounts) should become the second pillar, and the already operating system of Supplementary Pension Insurance constitutes the third pillar. While keeping the current expenditure structure (total rate of 28%), based on this concept, citizens should deposit on their individual accounts about 6% (about one third of the current rate) of their pension insurance premiums. The government proposed that citizens should eventually be receiving (in 20 years) as much as 50% of their pensions from the capital pillar. Although the capital pillar is proposed to be mandatory, the balance in case of death will not be inherited, which has been criticized a lot. The privatization of Slovak Gas Industry (Slovenský plynárenský priemysel (SPP)) provided funds for the transformation to the combined system of financing of the pension insurance scheme. The government adopted the decision that 25% (Sk 60bn) of the proceeds from the privatization of SPP will be used to establish the capital pillar of the pension insurance system. The peculiarity of the document concerns the existence of two contradictory alternatives regarding the institutional management of the funds, i.e. who will appoint fund administrators (see this measure below and page 69).*

### Proposal presented by Ministry of Economy:

*Unlike to the proposal of the Ministry of Labor (see page 69) which is considered as too centralistic and politically vulnerable, Ministry of Economy proposed to decentralize the Capital Pillar management and to allow citizens to choose their pension fund manager who would also take care of the citizen's pension account. Thus, pension contributions would be administered and managed by special financial institutions - private pension funds. Citizens would also benefit from profits generated by their pension fund, depending on fund's performance. Private pension funds will be supervised by a new body - Pension Funds Supervisory Authority that would also be authorized to grant licenses. The Authority would be financed through contributions from pension funds. Ministry of Economy also envisages to establish a Guarantee Fund, the purpose of which would be to satisfy citizens' claims in case any of the pension funds goes bankrupt. This scheme was implemented in Chile. Modified versions of it were also implemented in Hungary and Poland.*

## 8. Tender for Light Trains Run by the Railway Company Cancelled

### Comments of the Experts' Committee:

The tender for the acquisition of light train sets opened by the Railway Company (Železničná spoločnosť (ŽSSK)) was cancelled after being turned into a political issue and after allegations of

corruption were brought forward. Although coming late, it was probably the best solution. The final decision about the purchase of 35 light train sets for regional railways should be taken by the new government and its Minister of Transport. The poor transparency of public procurement in Slovakia remains the most troublesome area in the reform of public finances. A solution to test how to avoid non-transparent procedures and corruptive attempts in the Slovak Railways would be company's privatization.

**Characteristics of the measure:**

*In September, Minister of Transport, Post and Telecommunications refused to accept the acquisition of 35 light train sets for the ŽSSK at the price exceeding Sk 5bn. The Minister announced his decision to cancel the tender to avoid any doubts about the transparency and legitimacy of public procurement. This decision was taken after obtaining an ambiguous opinion from the Office for Public Procurement stating that all terms and conditions had been met; on the other hand, ŽSSK was applying a legally possible, but in this case unjustified method, namely tender without public announcement. The Office concluded that ŽSSK could have employed some other method. The Office also pointed to several flaws, such as unsatisfactory tendering documentation and ambiguous terms and conditions. The tender has become a political issue after a letter was published signed by an MP for SDKÚ (Slovak Democratic and Christian Union, the Government Coalition party of the Prime Minister Mikulas Dzurinda), which gave rise to suspicions that the political party might draw financial benefit from the tender. Several politicians commented that the cancellation was a pre-election move of the SDKÚ attempting to get rid of any suspicion of corruption.*

## **9. Increasing Eximbanka's Equity by SKK 330m (to SKK 3bn)**

**Comments of the Experts' Committee:**

All experts appreciated Eximbanka's (Export-Import Bank) managing to increase its equity from its own resources, thus making it unnecessary to use public funds. Prior to the capital increase, Eximbanka, the only state institution directly supporting foreign exports, was undercapitalized. A few experts, however, questioned the *raison d'être* of this bank institution in the Slovak financial market. They argued that various consortiums, reinsurance agencies, standard commercial banks and other entities exist, able to support exports even more effectively than Eximbanka is able to. Another question concerns the role for the bank after Slovakia's accession to the EU (and becoming part of the common European market).

**Characteristics of the measure:**

*In September 2003, the Government gave its consent to increase in Eximbanka's capital by Sk 330m, to reach Sk 3bn. The reason was to ensure the bank's capital strength and thus to allow the development of its activities in respect of supporting exports that bear higher risks. The step was expected to strengthen the bank's credibility in the Slovak and international financial markets and to open up the doors to using loans from other banks. During the first six months of 2002, the Bank supported and insured exports worth Sk 26.7bn, which represents an annual increase by Sk 9.9bn. Out of this, loans represented Sk 15.8bn and insurance activities Sk 10.9bn. By June 2002, the Bank generated profits of Sk 147.7m. Eximbanka SR is a state-owned financial institution, the purpose of which is to support Slovak exports. It has been operating since the summer of 1997.*

## **10. Collecting Half (USD 460m) of the Russian Debt in Cash (USD 138m)**

**Comments of the Experts' Committee:**

With regard to the generally lengthy process of collecting Russian debt as well as to the relatively high return on the transaction (compared with other countries, e.g., the Czech Republic, the Paris Club), it may be concluded that this prompt settlement is acceptable. Collection of debt in the form of goods or natural resources is usually more advantageous, however, it takes much more time, is unstable, non-transparent and often includes goods that are too expensive or useless. These factors thus decrease the value and the return on the transaction. Collecting the debt in cash should therefore be more transparent and gives rise to fewer corruption risks. However, the transparency of the latest money collection was shattered by the way how the mediator of the transaction was selected. Experts often pointed to the fact that the agent was an entrepreneur of a non-transparent background. Important with respect to the final assessment of the success of

the transaction will be the purpose and the efficiency with which the money will be used.

**Characteristics of the measure:**

*After approving the write-off amounting to USD 45m for an immediate payment of USD 13.5m (yield: 30%) and of USD 185m for USD 74m (yield 40%), the Slovak Government consented to the proposal of the Russian Debt Restructuring. This document determines that the debt amounting to USD 770m (Sk 34.2bn) will be paid by 2021. Within two days after signing the agreement, Russia took the advantage of settling a portion of the debt (USD 460m) in cash for USD 138m, which represents a 30% return. The Paris Club reaches an average return below 27%. In 2001 the Czech Republic and Russia reached an often disputed agreement on settling the major portion of the Russian debt (USD 2.5bn) at the return of less than 23%. The outstanding Russian debt to Slovakia amounts to USD 310m, of which a substantial part should be paid back in goods until 2006 or 2007. The remainder is payable before 2021. Slovak Minister of Finance claimed that proceeds from the repaid Russian debt could help Slovakia mitigate the strains of the National Budget revenues and thus stop further increase of the deficit of public finances.*

## **11. Istrochem Bratislava Sold (92% share for SKK 202m)**

**Comments of the Experts' Committee:**

The problematic sale of Istrochem at a price smaller than the one paid by the National Property Fund in re-privatization seems disadvantageous. The price was influenced by the sale-associated risks and the post-privatization phase. The price was also adversely affected by factors such as the lengthy dispute and out-of-court proceeding with the original investor, the company's undercapitalization, obsolete technologies, "minefield" of hidden debts (especially ecological). Doubts were cast regarding the investor's capabilities to fulfill his promise of investing at least Sk 1bn. An important flaw has been the ban on information about the company's ecological standing, which resulted in the narrowing of the circle of bidders to just one. Thus, it may be concluded that this privatization project was unsuccessful. No bids, no choice. One of the original bidders for a 92% share did not take part in the final round arguing that any investment in chemical industry must be rooted in a sound ecological audit. The privatization of Istrochem as such has been regarded as positive, as there will be another company beyond state's control.

**Characteristics of the measure:**

*The tender awardee - the Czech company Istrodeza - should pay Sk 202m for a 91.63% share in Istrochem (equity: Sk 4.279bn). Istrodeza is a member of the biggest Czech agricultural and chemical group Agrofert. The company is bound to invest to Istrochem a minimum of Sk 1bn including Sk 600m into ecology. The agreement also guarantees a 12-month option for the whole stock to the National Property Fund of the SR. The second bidder - Novácke chemické závody (NChZ) (chemical plant in Nováky) - did not meet the tender requirements because of the late delivery of the offer. NChZ offered Sk 200m with an option of doubling this price if an ecological audit can be conducted. The amount offered by both bidders is smaller than the amount (Sk 272m) obtained by the original investor (1996, 67% share for Sk 300m) through an out-of-court settlement last year. Istrochem produces explosives, rubber chemicals, polypropylene fiber products and agro-chemicals. At the end of March, it employed 1,124 people. In the first six months of 2002, Istrochem generated profits before taxes of Sk 45.9m, representing a year on year increase of 72.6m. This year's first six months have been the most successful half-year in six years.*

## **12. Minimum Wages Increase to SKK 5,570 (by SKK 650)**

**Comments of the Experts' Committee:**

The increase of minimum wages was an administrative decision that does not reflect the economic situation and needs or market rules. By expanding the gap between minimum wages and subsistence minimum, the measure motivates people to seek employment (more job opportunities); however, by increasing employment costs, it reduces demand for labor. If the government intends to increase employment, it must adopt measures that positively affect both sides of the market (or one side without restricting the other one, e.g. by creating better business conditions). The recent increase in minimum wages negatively affects the demand for labor. The government will not succeed in balancing the labor market by excluding market forces through increasing minimum wages. The fact that minimum wages exist in developed countries does not



necessarily mean that Slovakia will also benefit from them. In general, an increase in minimum wages will push the wage level upwards and will thus exert pressure upon salaries and wages in the public sector and upon public expenditures. Since the measure does not reflect the growth of labor productivity, it may prove counter-productive and may result in black work and in increasing unemployment in economically weaker regions.

**Characteristics of the measure:**

*After unsuccessful Tripartite (social partners) meetings at the end of June that failed to arrive at any agreement with regard to minimum wages coefficient, the government decided in August to consent to the compromise suggested by Ministry of Labor, Social Affairs and Family to increase minimum wages from Sk 4,920 to Sk 5,570 as of 1 October 2002. Trade Unions requested an even higher rise (to Sk 6,190), Employers' Associations refused any increase and were ready to allow a maximum of about 10% (to Sk 5,450 Sk) if necessary. The increase in minimum wages expands the gap between minimum wages and subsistence minimum (Sk 4,596)(previously Sk 472 vs. the current Sk 974 Sk). Similarly, minimum wages in Slovakia now make up 40.69% compared to previously 39.78% of average salaries (Sk 13,690). Based on the EU recommendation, minimum wages should reach the level of 60% of average nominal wages, which would mean Sk 8,210. At the end of March, the hourly minimum rates were EUR 0.68 (Sk 29.70) for Slovakia, EUR 0.88 (Sk 38.40) for the Czech Republic, 1.21 (Sk 52.80 Sk) for Hungary and 1.22 (Sk 53.30 Sk) for Poland. The Ministry reported that about 0.57% of all Slovak employees received salaries at the level of minimum wages in the last quarter. After increasing the minimum wages, there would be about 2.04% employees with the income at this level. The sectors with the lowest wages or salaries in Slovakia include agriculture, textile industry, textile manufacturing and waste management.*

### **13. State Guarantees to the Slovak Electricity Company (SKK 6bn)**

**Comments of the Experts' Committee:**

Providing state guarantees for state-owned companies is a non-systematic solution, as it reduces the company management's responsibility. Furthermore, companies tend to get accustomed to assistance, and request it on a regular basis. State guarantees have rescued Slovak Electricity Company (Slovenské elektrárne (SE)) from the threat of cross-default, as the company was expected to pay back several earlier loans. On the other hand, the guarantee actually makes the state SE's indirect creditor, using the money of Slovak taxpayers. State's assistance to companies should be reduced. Providing state guarantees without long-term analysis of how loans are being used and without conducting a financial audit is irresponsible. The SE should be privatized as soon as possible. Then, a foreign strategic investor will implement efficient financial management tools and thus eliminate the need for any further state guarantees. In the opinion of several experts, the state guarantees will slow down SE's restructuring and transformation.

**Characteristics of the measure:**

*In September 2002, the government approved the state guarantee for a loan amounting to Sk 6bn, offered by a consortium led by Tatra banka. The reason why SE applied for the guarantee was its worsened situation due to the accumulation of several installments to be paid towards debts from previous periods (e.g. loan for the construction of the nuclear power plant in Mochovce). By the year-end, SE is obliged to pay off about Sk 10bn. In 2001, the state guarantee for SE debts amounted to Sk 3bn. The company expects 2002 profits of Sk 33mil.*

### **14. State Guarantees to the Slovak Shipbuilding Company in Komárno (SLKB) (EUR 23m)**

**Comments of the Experts' Committee:**

It is a paradox that state endeavors to save a company that has been stripped of its assets by its former owners, who have not been penalized at all and may even take advantage of the state assistance. Several experts refused any guarantee to be provided to the Slovak Shipbuilding Company in Komárno (Slovenské lodenice Komárno, a.s., Bratislava (SLKB)) arguing that taxpayers' money is used to resolve problems caused by private investors. Furthermore, this step may introduce a negative precedence for large companies (especially those with large numbers of employees), who may start claiming similar help arguing that closing-down would substantially increase unemployment in their regions. SLKB is a clear-cut example of a company that was

poorly privatized, with the cheating owners left unpunished, followed by re-nationalization and failure to become re-privatized by a serious partner. If state is unable to find a private investor, the company will continue having problems and pressing for further state guarantees. Several experts believe that the situation of the Slovak Shipbuilding Company is rather similar to that of the Slovak Electricity Company; however, SLKB finds itself in the phase of restructuring and has the chance of being privatized and eventually transformed into a sound and profitable company that will not need any state guarantees any more. State guarantee is expected to allow SLKB to complete work in progress and thus finalize the company's privatization. If, however, bankruptcy proceedings were conducted as they should have, today companies like SLKB would not need state guarantees at all.

**Characteristics of the measure:**

*The problem of negative equity of the Slovak Shipbuilding Company should be resolved by means of a state guarantee for loans amounting to EUR 23m aimed at completing the construction of four ships under construction and increasing company's equity from current Sk 1m to 81m. The government allowed the National Property Fund to acquire a share in SLKB in amount of SKK 1m at the symbolic price of SKK 1. The measure is envisaged to help consolidate the company so as to make it ready to be sold to a strategic investor who will then increase company's equity by at least Sk 600m as is necessary for further restructuring of its assets and starting construction of other four cargo ships that have already been ordered from the "new shipbuilder". Slovenské lodenice directly employs about 900 people and provides further 550 jobs among to the suppliers.*

## 15. Proposal to Establish Slovak Venture Capital Fund

**Comments of the Experts' Committee:**

As proposed by Ministry of Economy, the Slovak Venture Capital Fund (SFRK) aimed at helping companies in bankruptcy with restructuring would be a dangerous intervention of the state in the business sector. State should create a good-quality business environment rather than attempt to establish support funds. The proposal is a non-standard attempt to address problems of businesses, which mostly went bust due to their own mismanagement. Furthermore, it is unethical since it would use taxpayers' money in the business sector. As far as the Fund would not be expected to generate profits, the selection of candidates who would receive help could hardly be unbiased, while subjective factors and bribes would probably prevail. Several experts voiced an opinion that probably it was some strong industrial lobbyist groups who want to keep influence and hope to get access to public funds that conceived the idea of SFRK. All similar "revitalization" projects in Slovakia (e.g., DMD Holding) have failed so far. And international experience is the same. Do we believe Slovakia could be an exception now?

**Characteristics of the measure:**

*Ministry of Economy suggested to establish Slovak Venture Capital Fund that would help selected industry companies with restructuring. With one third of the stake each, the Fund's founders and owners should be Ministry of Economy, the state-owned Slovenská konsolidačná (SKo) (Slovak Consolidation Agency), and the Confederation of Industry Associations of the Slovak Republic. The main purpose of the Fund would be venture capital transactions, i.e. buying assets in problem companies, company administration and subsequent sale to investors. The new Fund should have initial capital of Sk 600m, half of which should be paid in Sko and the other half by Ministry of Economy (from the National Budget as well as from out-of-budget funds, including privatization revenues). Fund's activities should be aimed at generating profits although maximizing gains is not its key objective. The Fund's priority is to use the potential of industrial companies in bankruptcy for restructuring and bring them in line with other profitable competing businesses.*

## 16. Framework for the 2003 National Budget

**Comments of the Experts' Committee:**

The 2003 National Budget is based on the same unreformed principles in public expenditures as the previous budgets. The structure of expenditures does not bring forth any radical changes or any substantial savings. Taxes are not used as efficiently as they could be. The Budget expenditures also reflect the effects of previous legislative flaws - e.g. the Acts on State and Public Service (civil servants' salary rise), Act on Family Allowances (paid to everyone). The Budget also faces risks arising from maximum revenue expectations. If the new government, however, takes

steps aimed at decreasing Budget expenditures, over optimistic revenues may not pose any risks in respect to the forecasted budget deficit. On the other hand, if the new government intends to decrease taxation levels in 2003, they will have to adopt a radical cut in expenditures, as well. The government plans to achieve a budget deficit of 3.5% GDP, which is regarded as unrealistic by many, since it currently exceeds 4.5% (applying the IMF methodology) or about 6% (applying the EU methodology). The government will also have to take measures to harmonize the Budget with the EU methodology, which reflects public finances more realistically. Thus, manipulative additions or omissions should be avoided. The basic macro-economic indices applied as a framework for the 2003 Budget are generally regarded as legitimate. Experts, however, expect that the National Budget Bill drafted by the new government will contain substantial changes as far as the macro-economic framework is concerned. They hope future budgets will reflect more pro-reform efforts. The task for the new cabinet is to streamline the state financing so that after its EU accession Slovakia be able to meet the budgetary criteria as set out in Maastricht (3% GDP), applying the EU methodology.

***Characteristics of the measure:***

*The framework for the 2003 National Budget, as approved by the previous government, requires that expenditures not exceed Sk 262bn. Thus, with revenues of 224.1bn, the 2003 budget deficit should reach the level of 38.1bn, which represents 3.5% GDP. Officials admit that the assumed revenues are at their utmost limit. Ministry of Finance expects tax revenues to bring Sk 203bn, i.e. 22.3bn more than in 2002. Other revenues, however, are scheduled below their 2002 levels (by 14.1bn). We must bear in mind though that the implementation of the Act on Public Service alone will require additional salary expenditures totaling 11.9bn. Thus, in 2003 civil servants' salaries will consume Sk 57.7bn. The increase in social allowances will require Sk 19bn more than in 2002. Capital expenditures are assumed at the level of 29.3bn, of which 10.9bn will be used for further development of the Slovak motorway system. State guarantees for bank loans will amount to about 7.6bn. The macro-economic basis for the 2003 National Budget expects the 2003 GDP of Sk 1,146.8bn, GDP growth rate of +4.1%, average inflation rate of 6.4%, and unemployment rate of 17.6%.*

## **17. License to the Third Mobile Operator - the Company Profinet, Inc.**

**Comments of the Experts' Committee:**

A third mobile operator could sharpen the competition in the Slovak market and thus bring benefits to mobile users (as happened e.g. in the Czech Republic). Ministry of Transport, Post and Telecommunications has, however, failed to create sufficiently attractive conditions for a combined GSM/UMTS license to attract more than one applicant - the company Profinet. Several respondents regard the disadvantageous conditions for a license to a third operator, as set out by the Ministry, as deliberate, resulting from possible behind-the-stage intrigues of the current mobile operators who intend to benefit from weak competition in a lucrative market. Thus, suspicion of corruption arose. The Telecommunication Authority provided the chance to the only applicant, and granted him the license. After failing to pay the first installment, however, Profinet lost the license, leaving the market to the original two rivals (duopoly). The Ministry was criticized for granting the license without checking applicant's financial position. This could be avoided in future by setting a security to be deposited. Another issue associated with the license is that it seems too late for granting it as the Slovak market is almost saturated.

***Characteristics of the measure:***

*In early 2003, a third mobile operator was envisaged to enter the Slovak telecommunication market. In July 2002, the Telecommunication Authority granted the license for developing and operating GSM and UMTS networks to the company Profinet. Profinet, an Internet provider, was actually the only applicant. Initially, there had also been two other interested parties - Telenor and Telecommunications International Wireless. However, both withdrew due to disadvantageous terms and conditions. Having been awarded the license, Profinet was obliged to pay two installments totaling Sk 1.5bn. The first tranche of 500m was due by the end of August and the second by December 2, 2002 at the latest. It was an international technological company from Western Europe that should have actually financed the license. The license required that the third operator be ready to start providing GSM service not later than by the end of January 2003, reaching the coverage of at least 20% of Slovakia by the end of January 2004. UMTS service should have been started not later than on day 30 after making the respective frequencies available. In September 2002, the Telecommunication Authority withdrew the license from Profinet*

*due to the outstanding payment of the first tranche. After the 1998 and January and June 1999 attempts, this was another unsuccessful endeavor to bring a third mobile operator to the Slovak market.*

## **18. 2003 Collective Agreement of the Public Service (More Benefits)**

### **Comments of the Experts' Committee:**

The 2003 Collective Agreement of the public service contains very generous severance payments in case of layoffs, as well as a overly strong protection of civil servants, which is in contradiction with the intended streamlining public administration structure. It is questionable whether the 2003 National Budget will generate sufficient funds to cover all obligations stipulated in the Collective Agreement. Collective Agreement should not be dealt with one month before general elections, and its final version should also be discussed with the new administration that will be held responsible for the 2003 National Budget (i.e. also for public administration expenses). The 2003 Collective Agreement brings forth benefits that are generally unattainable by ordinary taxpayers. Thus, there will be a low-income group of civil servants who will, on the other hand, be often on vacation, will work less, will be receiving a lot of benefits, and correspondingly they will provide low-quality service. Compared with the Collective Agreement of the Slovak Television (see page 70), the 2003 Collective Agreement of the Public Service is slightly more realistic in respect of public finances and the financial standing of the country.

### **Characteristics of the measure:**

*In August, civil servants' representatives and the Confederation of Trade Unions of the Slovak Republic concluded the 2003 Collective Agreement for Public Service, setting maximum net working hours (without breaks and overtime) for all civil servants to 37.5 a week. For instance, the Labor Code, which regulates minimum working conditions, sets the maximum working week at 40 hours. The Collective Agreement also lays down one additional week of paid leave (Labor Code - 4 weeks), and 6 weeks of paid leave after 15 years in office (9 weeks for teachers). As of July 1, 2003, salary tariffs will be raised by 5%, or 8%. Upon the termination of employment, employers shall be obliged to pay not only the mandatory 2-month salary, but also a severance payment amounting to 1 to 3 times the actual salaries, depending on the notice of termination. Employees aged above 45 who have been in office for over 15 years will in such circumstances receive severance payments amounting to 6 to 8 times their average salaries. If laid off at the retirement age, 2 average monthly salaries will be received in compensation. Furthermore, employers will make contributions towards their employees' additional pension insurance schemes (minimum 2% of salaries) and obligatory social fund (minimum 1% of total gross salaries). If there are insufficient funds allocated in the National Budget, employers will not be bound by the respective provisions.*

## **19. Draft Slovak Audio and Video Fund Act**

### **Comments of the Experts' Committee:**

The experts agree with the decision taken by the Parliament not to adopt the suggestion to establish the Slovak Audio and Video Fund (SAVF). It is regarded as a non-standard solution making private companies (video rentals, private TV companies, cable TV companies), who ordinarily pay copyright fees for using audio and/or video works, pay contributions to the Fund that would be aimed at supporting Slovak cinematography. Such contributions would merely represent hidden taxation. Attempts to save Slovak film producers by additional taxes imposed on a specified group of businesses would be a negative step distorting the Slovak media environment. The state would thus just be relieved of the responsibility for the poor situation in the Slovak film industry, and would require some businesses to resolve it. Adoption of the SAVF Act would just allow a group of people to make decisions about other people's money, and would thus create a basis for corruption. The system of allocation of financial support to applicants (future film makers) was regarded as inconsistent and biased.

### **Characteristics of the measure:**

*In August, the Slovak Parliament refused to adopt the Draft Slovak Audio and Video Fund Act, which had already been rejected by the President. The Act would establish the Slovak Audio and Video Fund as of 1<sup>st</sup> January 2003. SAVF was envisaged to become a specialized non-state fund operating on self-governing principles. Its purpose was to provide financial support to production,*

*distribution and archiving of Slovak films. It should have also developed cinema theatres and audio and video production and distribution technologies. The Fund was expected to raise funds from contributions from private TV broadcasters (3% of their total revenues), from the public Slovak Television (3% of concessionaires' charges), cable companies (1%), cinemas (1%), audio and video stores (5% of the price). The only exemption was proposed to News TV Channels (over 50% of news, e.g. TV-channel TA3). The Act also allowed the Fund to receive grants from National Budget for fulfilling tasks in public interest. The SAVF bodies should have been constituted of its contributors. The Fund would finance a maximum of 50% of total costs of a project.*

## **20. Legislative Intention to Draft Act on Pension Insurance Capital Pillar: Alternative A - Administrators to be Appointed by Investment Committee of the Social Insurance Agency (Proposed by Ministry of Labor, Social Affairs and Family)**

### **Comments of the Experts' Committee:**

The Ministry of Labor's proposal to appoint administrators of the capital pillar funds by the Investment Committee of the Social Insurance Agency (Sociálna poisťovňa) contradicts the principle of the free choice and responsibilities and merely strengthens administration and state paternalism. If implemented, the proposal would give rise to bureaucracy, corruption, lobbyist pressures and political misuse. It must be also borne in mind that administration costs would not be as low as claimed, since the officials appointed to manage funds/assets are expected to be experts rather than political nominees, and they will thus have to receive above-standard remuneration - or they would leave for private sector. Because of the poor enforceability of law and weak institutional environment, several evaluators viewed the Ministry of Labor's proposal as acceptable. If state makes citizens pay (deposit) contributions into a pension fund, then it is fully legitimate to require that it (state) guarantees pension at some minimum level, reflecting the deposited amount. Supporters of this proposal claim that the amount of assets controlled by the Investment Committee will give it power to negotiate most advantageous terms and conditions for investment. Despite this the majority of experts shares the opinion that Alternative A, as proposed by Ministry of Labor, brings more risks than advantages.

### **Characteristics of the measure:**

*In August, the Slovak Government approved the document Legislative Intention to Draft Act on Pension Insurance Capital Pillar. The Social Insurance Act, as adopted in May 2002, has become the so-called first pillar of pension insurance in Slovakia. The capital pillar, based on citizens' personal involvement (inhabitants are expected to deposit a portion of their pension insurance premiums to their special individual accounts) should become the second pillar, and the already operating system of Additional Pension Insurance constitutes the third pillar. While keeping the current expenditure structure (total rate of 28%), based on this concept, citizens should deposit to their individual accounts about 6% (about one third of the current rate) of their pension insurance premiums. The government suggested that citizens should eventually be receiving (in 20 years) as much as 50% of their pensions from the capital pillar. Although the capital pillar is suggested to be mandatory, the balance in case of death will not be inherited, which has been criticized a lot. The Slovak Gas Industry (Slovenský plynárenský priemysel (SPP)) privatization provided funds for the transformation to the combined system of financing of the pension insurance scheme. The government decided that 25% (Sk 60bn) of the proceeds of the privatization of SPP be used to establish the capital pillar of the pension insurance system. A peculiarity of the document concerns two contradictory alternatives regarding the institutional management of the funds, i.e. who will be making decisions on the fund administrators (see this measure below and page 62).*

### **Proposal of the Ministry of Labor, Social Affairs and Family:**

*Ministry of Labor, Social Affairs and Family suggested that the fund managers be appointed by a special public institution (Investment Committee - IC) that should be part of the institutional structure of the Capital Pillar Administration (SKP), being a unit of the Social Insurance Agency (SP). Investment Committee Members should be experts with ample experience in commercial investments, which should guarantee the security of accumulated funds. The primary objective of IC would be to develop an overall investment strategy, principles and methodology, and to select licensed private asset managers. The IC should also negotiate advantageous asset management terms and conditions based on economies of scale. The IC would always need to obtain approval from SP that will have the right of veto. Personal accounts will be managed by SKP, financed through funds generated by charging each individual account. Investment revenues will be equally*

*distributed among all individual accounts. Fund management will be supervised by the Financial Market Authority, Ministry of Finance, Ministry of Labor Social Affairs and Family, and the Supreme Audit Office of the SR. Minister of Labor supported his proposal by claiming that if there is a mandatory contribution to the social security, state must provide guarantees. In his opinion, the system must be regulated, because the Slovak capital market is underdeveloped and Slovakia lacks respective experience. Alternative A was applied in Sweden and Canada.*

## **21. New Collective Agreement for the Slovak TV (10- to 12-Month Severance Payments upon Laying off Top Managers)**

### **Comments of the Experts' Committee:**

With regard to major financial difficulties and low quality of broadcasting, the high financial requirements as set out in the new Slovak Television (STV) Collective Agreement (incl. 10- to 12-monthly salaries paid in severance payments to top managers in case of being laid off) are unacceptable, immoral and prove the inefficiency of the company's management. The extraordinary compensation for laid off STV management has been labeled as the "golden parachute" that is socially dangerous. The case has had a very adverse effect upon the public opinion and citizens' trust in justice and ethics. STV managers should have individual employment agreements and their remuneration should reflect their performance and achievement. The case has also revealed a flaw in the system namely that it is employees the solely approve the STV Collective Agreement. STV's difficult financial position results from the long-term inability to change the financing system of the STV. Several experts suggested that the STV situation will not improve unless STV is privatized.

### **Characteristics of the measure:**

*The Slovak Television (STV) representatives signed a new Collective Agreement that, apart from other benefits, provides for a compensation in case of lay-offs to almost 90 positions of the top management amounting to 10 to 12 monthly salaries (minimum severance payment laid down in the Labor Code is the equivalent of 2-month salary). The Act on STV excludes the CEO from the benefits under the STV Collective Agreement since he/she is elected and recalled by the Parliament. The severance payment becomes payable in case of the lay-off due to organizational changes as stipulated by the Labor Code (in other words, the respective position is abolished due to organizational reasons). Trade Unions commented upon the new agreement stating that the final wording is a compromise. If the individual severance payments were not agreed upon, the management would not give their approval to employees' salaries rise by 10%, or to the rise of their severance payments equivalent by 1 month salary (to reach 6 salaries). Anyone who has worked for the STV for more than 20 years will be entitled to receive severance payment equivalent to 8 average monthly salaries. Employees laid off two months prior to their retirement will be entitled to severance payment equivalent to 9-month salary. Heads of departments (except managers) have also been granted an additional premium. With respect to 2,000 employees, a 10 per cent salary rise means an increase of expenses by Sk 40 to 50 million. The severance payments for laid off top managers amounts to Sk 60 to 80 million. Additional cost increases will arise when ordinary employees leave the company. Based on the STV Council proposal, the Parliament recalled the CEO Mr. Milan Materák from his office in August, the reasons being the signing of the Collective Agreement, unclear international business trips and company's critical financial standing.*

## **22. Security of Tenure for Top Experts without Passing Qualification Exam (Amendment to the Act on Civil Service)**

### **Comments of the Experts' Committee:**

Office tenure for so-called top experts without passing qualification exam has been viewed as an unforgivable discriminating measure giving advantage to those civil servants who have, in fact, not provided evidence for deserving it. The amendment to the Act on Civil Service applies the past merits principle to top experts rather than that of current performance. The tenure system does not address the problem of civil servants' quality, it only "glues" officers with party label to their chairs.

**Characteristics of the measure:**

*In early July, the Slovak Parliament approved the Amendment to the Act on Civil Service, which defined 1,300 top experts positions. The civil servants who were previously classified in the category of top experts and were not appointed to temporary civil service by 8 August will be appointed to office tenure in compliance with the Amendment before 1 September, 2002 at the latest. Unlike other non-top servants, who are obliged to attend the prescribed training and pass an exam in order to obtain the tenure, top experts shall be appointed without any qualification requirement. The Civil Service Office is about to appeal to the Constitutional Court, as it is believed that the Amendment is against the principle of equality guaranteed in the Constitution, and it favors certain group of civil servants and gives rise to a system of castes.*

**OCTOBER - DECEMBER 2002**

| <b>Evaluated Measures ranked by Rating Values</b><br>(i.e. Contribution to the Economic and Social Development) |   | <b>RATING</b><br>[-300; 300] | Quality<br>[-3; 3] | Impor-<br>tance (%) | Passed in:<br>quarter/year |
|---|---|------------------------------|--------------------|---------------------|----------------------------|
| 1.  | Conclusion of Accession Negotiations with the European Union  | <b>215,0</b>                 | 2,40               | 89,7                | 4/2002                     |
| 2.  | Abolishing Restrictions (Customs Duties and Quotas) in Trade with the Czech Republic  | <b>126,6</b>                 | 2,44               | 51,8                | 4/2002                     |
| 3.  | Memorandum of the Government of the Slovak Republic   | <b>119,5</b>                 | 1,50               | 79,7                | 4/2002                     |
| 4.  | Amendment to the Employment Act (Stricter Eligibility Conditions for Unemployment Benefits; Municipalities as Executors of the Employment Policy)   | <b>85,6</b>                  | 1,63               | 52,6                | 4/2002                     |
| 5.  | Raising Regulated Prices  | <b>77,5</b>                  | 1,07               | 72,4                | 4/2002                     |
| 6.  | 2003 State Budget (Deficit of SKK 56bn, 4.9% of GDP)  | <b>73,3</b>                  | 0,92               | 79,8                | 4/2002                     |
| 7.  | Amendment to the Social Assistance Act (Cuts of Social Assistance Benefits and Strengthening of their Targeted Nature)  | <b>72,3</b>                  | 1,35               | 53,6                | 4/2002                     |
| 8.  | Amendment to the Act on Civil Service (Opportunity to Recall Heads of Service Offices; Abolishing So-Called Guaranteed Tenure of Office for Top Experts without Passing Qualification Exam; Establishment of So-Called Employee Positions of Strategic Significance with Above-Standard Remuneration) | <b>68,9</b>                  | 1,56               | 44,2                | 4/2002                     |
| 9.  | Reduction of Interest Rates by the National Bank of Slovakia (by 1.5 Percentage Points)   | <b>68,9</b>                  | 1,19               | 57,9                | 4/2002                     |
| 10.   | Slimming Down the Government (Dissolution of the Ministry of Privatization and of the Positions of Deputy Prime Ministers without Portfolio)  | <b>58,8</b>                  | 1,53               | 38,3                | 4/2002                     |
| 11.   | Raising Excise Tax on Tobacco and Mineral Oils  | <b>55,1</b>                  | 1,16               | 47,3                | 4/2002                     |
| 12.   | Freezing the Salaries of Constitutional Officials and State Sector Employees  | <b>54,0</b>                  | 1,28               | 42,3                | 4/2002                     |
| 13.   | Proposal to Introduce Flat Payments for Health Care Related Services (Draft Amendment to the Health Care Act)   | <b>54,0</b>                  | 0,88               | 61,1                | 2/2003                     |
| 14.   | Reducing the Gap between Value Added Tax Rates (Amendment to the VAT Act)   | <b>53,8</b>                  | 0,86               | 62,6                | 4/2002                     |
| 15.   | Dissolution of the Substitute Alimony Fund (So-Called Alimonies Fund)   | <b>53,2</b>                  | 1,66               | 32,0                | 4/2002                     |
| 16.   | Proposal of a Differentiated System of Remuneration of Health Professionals (Draft Amendment to the Act on Public Service)  | <b>46,8</b>                  | 0,98               | 48,0                | -                          |
| 17.   | Amendment to the Child Allowance Act (Cuts in the Flat Amount of Child Allowance; Making the Payment of Supplement to Child Allowance Dependent upon the Family Income)   | <b>43,2</b>                  | 0,93               | 46,5                | 4/2002                     |
| 18.   | Cutting the State Premium on Construction Savings Scheme from 25% to 20% (max. Amount Cut from SKK 4,000 to SKK 3,000) (Amendment to the Construction Savings Act)  | <b>31,9</b>                  | 0,79               | 40,4                | 4/2002                     |
| 19.   | National Bank of Slovakia's Exchange Rate Interventions on the Foreign Exchange Market to Prevent the Rapid Appreciation of the Slovak Crown  | <b>12,1</b>                  | 0,21               | 57,9                | 4/2002                     |
| 20.   | State Acquires a Stake in the Assets of the Slovak Airlines (Slovenské aerolínie, a.s.)   | <b>-0,7</b>                  | -0,02              | 28,6                | 4/2002                     |
| 21.   | Amendment to the Health Insurance Act (State Guarantees for the Liabilities of a Dissolved Health Insurance Fund up to the Amount of the Principal of the Debt; Extension of the Ban on Executions of Health Insurance Funds and Health-Service Institutions)   | <b>-15,7</b>                 | -0,31              | 50,7                | 4/2002                     |
| 22.   | Granting a State Guarantee for the Loan to the Railways of the Slovak Republic (Železnice SR, a.s.) Amounting to SKK 2.1bn  | <b>-35,4</b>                 | -1,00              | 35,4                | 4/2002                     |
| <b>RATING of the 4th Quarter 2002 (Passed Measures)</b>   |   | <b>60,9</b>                  |                    |                     |                            |



## 1. Conclusion of Accession Negotiations with the European Union

### Comments of the Experts' Committee:

The conclusion of the accession talks with the European Union (EU) was considered by the Experts' Committee as a clear-cut foreign political success and one of the most positive and most important steps in the history of the Slovak Republic. It is doubtful whether far better conditions of the Union membership could have been negotiated during the pre-accession talks. It will show but after some time in what area of accession negotiations more could have been done, and whether the details agreed upon during the negotiations will have positive or negative effects on the economy. It remains a fact that Slovakia succeeded in negotiating similar conditions as the other candidate countries. Experts recommended to undertake a maximum of reform measures even before the accession to create favorable conditions for the development and growth of the economy since joining the EU will at the same time mean handing over a portion of our sovereignty to Brussels, and thus also a portion of the decision-making powers, which in the case the EU fails to implement reforms, may hinder the growth and the competitiveness of Slovakia's economy.

### Characteristics of the measure:

*In December 2002, the Slovak Republic finished the 3 years of marathon of pre-accession negotiations of the conditions of European Union membership. Although we were among the last ones to start accession talks in 2000 because of failing to meet political criteria between 1994-1998, we were among the first countries to complete the negotiations. At the end of June 2001, Slovakia caught up (as assessed by the numbers of closed chapters) with the countries (the Czech Republic, Hungary, Poland, Slovenia, Estonia and Cyprus), which had been negotiating with the Union since early 1998.*

*A final decision was made at the **December Copenhagen EU Summit** on the financial aspects of the Union enlargement. The net financial effect (transfers from the EU less SR's contributions to the Union budget) of Slovakia's membership in the Union will represent EUR +838m in the three initial years. The SR thus will initially be so-called net recipient. Within 2004-2006, the SR shall receive from the EU (provided that the funds from the structural funds intended for Slovakia are fully utilized) EUR 155 per capita (Czech Republic EUR 76 per capita, Hungary EUR 135 per capita, Poland EUR 169 per capita). The candidate countries were struggling with the EU at the Copenhagen Summit, in particular to achieve a higher enlargement budget and to raise the amounts of direct payments to farmers. The Union eventually raised its funds in Copenhagen, intended for its future members, by adding EUR 2.3bn. Out of these additional „Copenhagen“ funds, Slovakia received almost EUR 23m intended for budgetary compensations. The Czech Republic raises EUR 83m more, Hungary EUR 56m. Poland was allocated EUR 108m to reinforce the external border of the EU. The Czech Republic succeeded in negotiating a transfer of EUR 100m from structural funds directly to its state budget, Poland achieved the transfer of almost EUR 1bn. Slovak negotiators were not attempting to achieve transfers of funds from „less secure“ structural funds directly into the budget, claiming that by using funds through projects, we shall learn how to use standard European methods, which is expected to help us more rapidly adapt to the EU environment. The extent to which the volume of the funds allocated to us from structural funds will be taken advantage of will thus be dependent on the numbers and the quality of projects.*

*A compromise was achieved on the issue of **direct payments to farmers** from the new member states. Initially, the Union was suggesting that in the accession year, the candidate countries should receive direct payments to farmers at the level of 25% of those received by farmers of the current EU member states. This suggestion however made the dissatisfied farmers to go to streets, arguing that this would create two categories of EU members, would discriminate and prevent farmers from the accession countries to compete in the market over saturated with food with the rich EU farmers who have been receiving ample European subsidies. Eventually, the politicians reached a solution in Copenhagen, mainly giving up to the pressure of Poland, to provide in 2004 direct payments to farmers from the new member states at the level of 25%, with the individual countries being allowed to subsidize their farmers from their own budgets up to 55%, and subsequently to 60% and 65% of the current EU levels in 2005 and 2006, respectively.*

*With respect to negotiations concerning **production quotas** for agricultural production, which will be subsidized by the EU, Slovak negotiators succeeded to achieve the greatest progress with respect to isoglucose. Also, increased quotas were requested for milk, the Union however turned this requirement down.*

*The Slovak Republic presented in early 2000 its negotiation position on 30 chapters of the European legislation. At that time, politically more successful countries had been negotiating with the EU for 2 years already.*

With respect to the **Free Movement of Persons** chapter, there was a requirement for a transitional period on the part of the EU. The requirement for a 7-year transitional period was pursued mainly by Austria and Germany that were concerned about the flood of cheap labor from east. The member states, after almost 6 months of negotiations, incorporated the requirements put forward by Austria and Germany, into the common position of the EU, with a 2+3+2 years structure. The suggested model means that the current member states will continue applying their internal measures, i.e. restrictions with respect to Slovak nationals as to their right to become employed. Some EU member states have already declared their willingness to open up their labor markets fully as early as upon Slovakia's accession. This was officially declared by Sweden, the Netherlands, Denmark, and Ireland. Other Union members, such as the UK, Belgium or Spain intend to apply restrictions against Slovakia with respect to free movement of persons during a maximum of 2 years. Slovakia, along with the other V4 countries objected that any transitional period with respect to the chapter Free Movement of Persons contradicts the equal treatment principle to be applied to Union citizens. Critics believe that free movement of persons represents one of the most important pillars of the EU project, and should be the major attraction for the citizens of the new member states.

In the chapter **Free Provision of Services**, the SR succeeded in negotiating a transitional period of 3 years for the application of the directive that regulates compensation schemes for investors and sets the amount of the guaranteed funds to EUR 20,000.

**Free Movement of Capital.** After the accession, the SR will apply a transitional period of 7 years concerning the acquisition of agricultural and forestry land to the ownership of foreigners. Exempted from the transitional period shall be individual farmers who will be allowed to acquire agricultural and forestry land in the SR provided that they have been cultivating it for a minimum period of 3 years. Concerns started to appear in Slovakia that foreigners would purchase real estate in Slovakia after the accession. The Slovak negotiating team initially requested a transitional period of 10 years for the acquisition of agricultural and forestry land, and 7 years for the purchase of cottages and second homes but the Slovak negotiating team eventually withdrew this requirement.

Lengthy negotiations were held with the EU concerning the chapter **Competition** because of the issues of state aid, in particular tax concessions and investment incentives for foreign investors. It was Spain that prevented the closing of the chapter since it disagreed with the provision of state aid to the Bratislava-based Volkswagen (VW); the reason was that VW intended to potentially locate the production of Seat cars to Bratislava. The SR eventually succeeded in negotiating two transitional periods: one for the granting of state aid through the end of 2008, which applies to the car producer Volkswagen, making up 30% of the eligible investment costs; and a transitional period for the granting of state aid through the end of 2009 applying to the steel producer U.S. Steel in Košice provided that the overall aid will not exceed USD 500m, the company maintains employment, abstains from enlarging the range of products, and will meet the set limits on the production and sales of some products.

Also discussed was the decommissioning of the nuclear power plant Jaslovské Bohunice, as a precondition for the opening of negotiations with the EU and the closing of the chapter **Energy**. These conditions were mostly pushed forward by Austria. Slovakia promised to shut down 2 units of the power plant by 2008, towards which the EU will contribute EUR 90m. Some, mainly opposition politicians did not support the shutdown of Bohunice, pointing to the large volume of funds spent on the upgrading of the plant to bring it to meet the safety standards of the EU. With respect to the chapter **Energy**, the SR negotiated a transitional period of 5 years, during which the necessary containers will be constructed, to be able to keep mandatory emergency reserves of oil and oil.

Slovakia by far fails to meet all the EU environmental standards, and it consequently applied for a number of transitional periods in this respect. In the view of the huge costs of the approximation of safety standards, Brussels agreed with the continuation of the harmonization of the legislation also beyond the accession date, and promised a substantial financial assistance from European funds. In the chapter **Environment**, Slovakia could negotiate several transitional periods to meet the regulations with respect to the treatment of waste waters and air protection. So, small municipalities and towns will have time to 2015 to construct sewers and to take care of the treatment of municipal waste waters; for settlements with a population of more than 10,000, this transitional period shall apply through 2010.

With respect to the chapter **Taxes**, Slovakia requested several longer transitional periods, and the corresponding negotiator claimed that everything was reached what was intended:

- VAT on heat energy – a transitional period of 5 years for the application of a reduced VAT rate on thermal energy,
- VAT on electricity – a technical transitional period of 1 year was granted during which reduced VAT rates can be applied on electricity; the SR took the advantage under the *acquis communautaire* to apply, during EU membership, so-called technical transitional period that envisages permanent application of a reduced VAT rate in the area;

- VAT on gas – a technical transitional period of 1 year to keep reduced VAT rates on gas; during the period, the application of Slovakia, being already a member state, will be reviewed to be granted a permanent exception (similarly as with VAT on electricity);
- VAT on constructions and construction works – a transitional period of 4 years was negotiated to apply reduced VAT rates on constructions and construction works concerning housing, i.e. one year less than initially requested (Poland was granted a permanent exception to keep the reduced 7% VAT rate for the building industry);
- excise tax on cigarettes – a transitional period of 5 years was negotiated until the reaching of the maximum rates of excise tax on cigarettes, making up 57% of the retail price (EUR 60 min. per 1,000 cigarettes, and EUR 64 as of 1 July, 2006);
- Taxation of producer's distillation – permanent exception was granted from the application of the EU legislation for producer's distillation of fruits, i.e. reduced (to 50%) excise tax will be applied to max. 30 liters of fruit distillate per produce per year.

Having announced unification of both VAT rates since 2004 (by Ministry of Finance), requests of permanent exceptions for the application of reduced tax rates will become irrelevant.

There was a request of a transitional period on the part of the EU with respect to the chapter **Transport**. The most sensitive issues concerned transport services in haulage. The agreed solution will enable Slovak haulers fully liberalized access to the EU market in international road transport which accounts for the most important portion of performances in road transport. Slovak carriers will thus be allowed to provide international road transport similarly as carriers from other EU member states, immediately after the accession. It was agreed at the same time however that freight road transport (so-called cabotage) will not be mutually awarded in the territories of other countries for a transitional period of 2 years. At the end of the second year after the accession, the individual current and future member states can announce extension of the transitional period by additional 2 years and subsequently by an additional year if deemed necessary to prevent a serious disturbance to the respective national market. Cabotage currently accounts for an average of less than 1% of the international freight road transport in the EU.

Slovak negotiators succeeded in agreeing that Liptauer cheese ("bryndza") will continue to be produced according to the traditional procedures; provided that the hygienic standards are complied with, this cheese can also be exported to the EU single market. The names of local specialties such as Demänovka, Bošácka slivovica, Karpatské brandy or Tokaj wine will be protected by trademarks. Fruit brandies may continue to be referred to by old names such as borovička (juniper brandy), slivovica (plum brandy), hruškovica (pear brandy). What has been referred to as "inland rum" cannot include the term "rum" any more since it is not being produced from sugar cane as is genuine Cuban rum. The Czechs will deal with the problem by changing the name to "tuzemák" (approximately "inlander").

Unlike V4 countries where many stakeholders or the political opposition were frequently not very satisfied with the outcome of the talks, not many issues were subject of public discussions concerning the accession negotiations, and there has been a wide consensus concerning the negotiation position of the SR. Not even the parliamentary opposition criticized the results achieved during the pre-accession talks with the EU. The Chief Negotiator of Slovakia considers the completion of the accession negotiations and the conditions negotiated as a success. He believes that this could have been done because our requirements were realistic right from the beginning, and we had not to give up many of them as some neighboring countries, who started the negotiations with strict demands, had to. The Prime Minister declared that the conditions agreed upon during the accession negotiations are outstanding for Slovakia, even incomparably better than those the Czech Republic was able to negotiate.

## 2. Abolishing Restrictions (Customs Duties and Quotas) in Trade with the Czech Republic

### Comments of the Experts' Committee:

The abolishing of almost all duties and quotas in trade with the Czech Republic was unison perceived as the right step to undertake that however should have come much earlier. In the experts' opinion, Slovakia should have followed the same path also in its relationships with other countries, at least including accession countries and the present EU member states. Any restrictions applicable to foreign trade represent hangovers from the past, they negatively influence free choice in exchange of goods and services, which subsequently reduces the wealth of the whole society. The abolishing of protective duties and quotas between the SR and the Czech Republic represents a market-friendly solution that will push up the competitiveness of both economies. The opening up of our market to our western neighbors will be a general test for many domestic food producers prior to the accession. Whoever is unable to face imports from the

Czech Republic will not at all be able to face competition in the huge single European market. The abolishing of barriers will bring price reductions to consumers of both countries.

**Characteristics of the measure:**

*In December, the Slovak Minister of Economy signed with his Czech counterpart an agreement to abolish, as of 1 January, 2003, all mutual customs duties and quotas which existed in the foreign trade between the Slovak and the Czech Republics, except for sugar and isoglucose. The specific rules concerning the trade in sugar, which will remain administratively protected, shall also survive the joining of the EU. As of January, Slovakia for example will abolish all restrictions applying to imports of soft drinks, meat preserves or rapeseed. Czech Republic will no more apply additional import duties on poultry, butter, flour and pasta. Also, mutual recognition of laboratory tests of food and agricultural products will facilitate the passage of goods across the borders. Elimination of administrative barriers in mutual trade came ahead of both countries joining the EU, which envisages such a step. Ministers also agreed on preparatory steps for abolishing of the Customs Union which will lose its raison d'être as soon as both countries join the EU.*

*The Ministers expect the abolishing of barriers to trade to be positively reflected in the economies of both countries. The majority of traders welcomed this step as it will exert pressure on reduction of prices, which will also benefit customers. On the other hand, food producers are not satisfied since they will have to face stronger competition from abroad. They claim that the measure will threaten the domestic production of some commodities.*

*During the 10 months of 2002, Czech exports to Slovakia reached the value of Sk 94bn compared to Slovak exports to the Czech Republic, which were worth Sk 10bn less.*

### 3. Memorandum of the Government of the Slovak Republic

**Comments of the Experts' Committee:**

The Government Policy Memorandum of the Government of the Slovak Republic was appreciated as an ambitious project. If the government succeeds to meet all its objectives and targets within the 4-year term frame, it will substantially change Slovakia. The scope of the promised reforms is sizable (among others, reforms in the area of public finances, social system, public health or judiciary). Compared to the previous documents of the kind, the Memorandum focuses more towards market-oriented economic and social reforms, which was perceived positively by the respondents. As the most risky factor of the Government Memorandum, experts consider the excessive nature of the commitments, which will make the implementation difficult. The vague nature of some formulations, inadequate specificity and lacking quantification of some targets will result in differences in the interpretation of the government's activities as to what will have been fulfilled and what not.

**Characteristics of the measure:**

*In early November, the Slovak Government approved its Programme Policy Memorandum. In its introductory chapter – **Democratic State** – the government declares joining the EU and the NATO as its priorities. It expresses its commitment to deal with the Roma issue and to protect the moral values of the society.*

*The section **Economic Policy** contains commitments to keep macro-economic stability, to make state budget administration and public finances overall more effective so as to bring the Slovak Republic by the end of the election term to the level of the Maastricht convergence criteria. The government's direction is towards equal taxes and unification of VAT rates. The cabinet intends to further reduce the tax burden and also relies on supporting of the business sector and the competitiveness of the economy. With respect to tax policy, the government wishes to shift the focus from direct to indirect taxes.*

*Further tasks by sectors are the following:*

- *the transport, posts and telecommunication sector – transformation of railways, non-public sources entering construction of motorways, liberalization of civil aviation,*
- *the agricultural sector – support of free competition in agri-business, making control of the utilization of state aid more efficient,*
- *regional development – support of independence of local self-governments, support of the construction of housing.*

*With respect to **Social Policy**, the government promises to undertake an extensive and principal reform of the pension system, health care sector, and partially also of the education sector. The key point of this chapter however is the dealing with the issue of unemployment. The government*

*intends to introduce measures, which are expected to result in an active policy to address the issue of unemployment.*

- *pension reform – establishment of a pension system based on three pillars, establishment of the mandatory capitalization pillar, support of voluntary forms of pension insurance,*
- *social security – partial change of the system of payment of sickness benefits (devolvement from the Social Insurance Agency to employers), targeted nature of social assistance,*
- *unemployment – measures (mainly tax-related) directed towards increasing incentives to seek employment, raising the flexibility of the labor market,*
- *health sector – contractual relationship between health-service institutions and insurance funds, shifting the focus from stationary treatment to outpatient care, one-day surgery, introduction of supplementary health insurance, change in the categorization of medicines, stopping the growth of indebtedness commencing 2004,*
- *education sector – multi-source financing, introduction of tuition fees at universities.*

*In the chapter **Safe and Efficient State**, the government expressed its commitment to gradually devolve responsibilities as well as funds to self-governments. Connected to this is also the dissolution of district and regional offices. However, review of the reform of the administrative structure of the country is not mentioned.*

- *Justice – reform of the judiciary to make it more efficient and less bureaucratic, introduction of the institution „three strikes and you’re out“, establishment of special courts and of the office of Special Prosecutor to fight organized crime and corruption;*
- *Internal security – preparation for joining the countries of the Schengen Convention, establishment of criminal liability of legal entities, linking relevant registers and enabling access to them, elimination of the bureaucratic nature of the Police Corps;*
- *Collective defense – the clear-cut objective is joining the NATO;*
- *Reform of the armed forces – establishment of a small but operational army, professional army by 2006, funds allocated for the defense sector to amount to at least 2% of GDP;*
- *joining the EU represents the clear-cut objective – active participation in the discussions on the future of the EU, transparent use of European funds.*

*There is no separate chapter dealing with the fight against corruption, even if this has also been considered as one of the priorities of the new government. Instead, this issue has been addressed in all the chapters. In the opinion of some experts, this may act against the operation of the fight against corruption at the national level. The government intends to focus on fighting mainly economic corruption, corruption in the health sector, education sector, judiciary and the Police Corps.*

*The opposition criticized that the social aspect of the Government Policy Memorandum was in their view inadequately addressed. They consider the Policy Memorandum not specific enough and thus difficult to control. Representatives of regions, towns and villages appreciated the government's planning of fiscal decentralization, they missed however the setting of specific deadlines. Also, they criticized the ambiguous nature of the further direction of the public service reform. Coalition politicians arrived at the common conclusion that the government's programme is an ambitious one.*

#### **4. Amendment to the Employment Act (Stricter Eligibility Conditions for Unemployment Benefits; Municipalities as Executors of the Employment Policy)**

##### **Comments of the Experts' Committee:**

Among other aspects, the amendment to the Employment Act brought stricter conditions of the unemployed to remain eligible for unemployment benefits, and increased the pressure on the unemployed to actively seek jobs. The amendment is expected to contribute to more efficient elimination of black labor. In the opinion of some experts however, the amendment lacks comprehensiveness and repeats some of the old mistakes. So, labor offices will be exposed to much more administrative burden. Pursuant to the amendment, the unemployed will be liable to actively seek jobs and to call upon the labor office in person once in a fortnight to show cooperation or to demonstrate efforts to seek job. The requirement to work a certain number of hours to the public benefit (if required so by the municipality) to be entitled to remain registered as unemployed is considered by some as a good idea; it remains questionable however how this condition will be practically applied. Including municipalities among the executors of active employment policy met with positive attitudes since self-government bodies are more intimately familiar with the specifics of the local situation. It will nevertheless be important to provide municipalities with additional tools to be able to influence unemployment rates, and to cover the

devolved responsibilities and competencies with appropriate funds. In this connection, some experts believe that regional labor offices should be dissolved. The professional public supports addressing the reasons for unemployment including high levies and taxes and lack of flexibility of the Labor Code provisions. The amendment to the Labor Code only addressed the consequences of unemployment.

**Characteristics of the measure:**

*The government draft amendment to the Employment Act was approved by the MPs in mid-November. The amendment broadened the list of the executors of active employment policy by adding municipalities. For this purpose, labor offices will be providing municipalities with monthly data on job seekers. The amendment also made conditions of the registration of the unemployed with the corresponding registers more stringent. Any registered unemployed will be liable to call upon the labor office once in a fortnight to demonstrate willingness to cooperate or to provide evidence of active seeking of employment. Failure to cooperate with the labor office (such as refusing to participate in re-training and consulting programmes), proving involvement in black labor, and failure to provide evidence for seeking employment using own efforts will be deemed reason to deregister and thus to suspend payments of unemployment benefits.*

*The objective of the amendment is to eliminate illicit employment through involving municipalities in the dealing with the issue of seeking job opportunities for the unemployed. Another aim of the amendment is to reduce expenditures of state on active employment policy. In the opinion of the opponents, the amendment to the Employment Act will not suppress black labor, it rather will become an additional burden to be carried by those who are in need of social benefits. They also point to the added administrative demands of working with the unemployed at the labor offices.*

## 5. Raising Regulated Prices

**Comments of the Experts' Committee:**

The professional public stated that the raising of regulated prices (gas, electricity, water, heat) was an unavoidable step. Distorted prices of energies that failed to cover production costs, needed to be made free of distortions and more realistic, thus reducing the extent of cross subsidies. Unpopular jump-like price increases after last year's delay in deregulation schedule caused the population and a portion of the business community to become displeased, and suggested that it might be less painful to undertake deregulation measures gradually and continuously, i.e. also in the election year. The experts see the problem in the system of regulated price increases, which does not exert sufficient pressure upon monopolies to produce more efficiently. Regulatory Office for Network Industries (ÚRSO) failed to adequately explain its methodology used to calculate prices; the definition of so-called appropriate profits remained unknown as well, and also the background documents that the Office used to recognize so-called eligible costs of monopolistic companies that may be calculated towards the price raised some questions. In the opinion of the experts, the Regulatory Office should be exposed to stricter public control and should provide more intelligible explanation on how the calculation formula is being set up and how the final price is arrived at. Criticism concerned the absence of the opportunity to question ÚRSO's decisions, to appeal against them; this could leave in place also Office's decisions which have been influenced by lobbyist pressure on the part of strong monopolistic entities, and this even in the fact that decisions on the most important prices in the economy are made by just a few officials.

**Characteristics of the measure:**

*Prices of energies were raised to a larger extent for all categories of customers as of 1 January 2003; the reason was failure to deregulate prices during the election year 2002. As of January 2003, the price of **natural gas** increased by 32.7% on average. Regulatory Office for Network Industries (ÚRSO) approved the increase of the average price of gas for households and large customers by 43.7% and 30 to 36% respectively. In 2003, the price of gas for households will reach 90% of the level of the regulated price, which includes eligible costs and adequate profits. Households, which use gas for cooking only, will pay monthly Sk 30 more, those who use gas for heating will pay in excess of Sk 500 more. The prices of gas in Slovakia will still remain lower than those in the other four Visegrad countries, even after the raise in January. The prices of natural gas for households will be equally raised in 2004; the customer prices will then cover the costs of gas transport and adequate profits.*

*As of January 2003, prices of **electricity** increased for all categories of end-customers by an average of 19.82%. For households, the price of electricity increased by an average of 24.73%, representing an increase in monthly payments by Sk 140. For large customers, power will be 24% more expensive.*

Average price of **heat** grew 8 to 11 %.

Maximum price per cubic meter of **drinking water** for households increased by 35%. The maximum **sewer** charges increased by 30%. The costs of the average household will increase by Sk 557.

Minister of Finance claimed that the average estimated growth of housing-related costs after the price increases will be Sk 600-630 per household. After 2003, the only utility prices that can be expected to show more pronounced growth of prices will concern gas and water for households. The other regulated prices have already reached the level covering eligible costs and adequate profits, and they will be increasing in the next years in dependence on the development of inflation rates and prices of inputs.

Apart from Trade Unions, also Federation of Employers' Associations of the Slovak Republic protested against the increases in energy prices. They believe that the price increases will bring increased yearly costs of Sk 16bn. Employers suggested to spread price deregulation over several years to prevent hazards with respect to the creation of new jobs.

After the decision concerning price increases, the independent regulatory authority became subject of criticism from several sides. Critics pointed to the unclear methodology of calculations used for the raising of regulated prices, as well as to the fact that the Regulatory Office virtually remains without any supervision; they also cast doubt on whether the 6-member Regulatory Council consequently represents the interests of the consumers rather than those of energy producers. In working together with the employers, Ministry of Economy will initiate an amendment to the ÚRSO Act, which would provide for the opportunity to appeal against Regulatory Office decisions. The ÚRSO should be made liable to announce the methodology applied for its calculations.

In addition to the above mentioned regulated prices, Ministry of Transport, Posts and Telecommunications prepared for 2003 **raises in travel fares for passenger railway and bus transport** averaging 15%; in parallel, some discounts (for young people, pensioners) were abolished, and **postage fees** were increased by an average of 8%.

## 6. 2003 State Budget (Deficit of SKK 56bn, 4.9% of GDP)

### Comments of the Experts' Committee:

The Experts' Committee appreciated the effort of the government to reduce the deficit of public finances and to approximate the EU methodology with respect to the reporting of the deficit of public finances, which more realistically reflects the status of state's management. The state budget may thus be called more transparent and truer. It cannot be referred to however as pro-reform. Namely, it failed to reflect systemic measures within the whole cross-section of public expenditures. Rather, it focused on some selected positions, which it attempts to use to stabilize the deficit of public budgets. In the view of the short period of time that elapsed since the new government took over until the adoption of the 2003 State Budget Act, the failure of taking advantage of the opportunities to undertake substantial and systemic changes might be partially understood. The scheduled deficit of public finances for 2003 is nevertheless too high. This is due to the approach of the government to public finances that has changed but little compared to what was happening in the past. The suggested cuts in expenditures are insufficient. Many expenditures continue to be mechanically „transferred“ from one year into another without their purpose and sense being reassessed. In the opinion of the experts, the budget should have focused much more on savings in state administration where they see huge reserves. They consider the change in the strategy of state aid and subsidy policy as insufficient. Also, they criticized the fact that higher tax revenues are being scheduled rather than more draconic cuts of public expenditures to keep the budgetary deficit at 5%; the revenues are expected to derive from mainly the already increased indirect taxes (excise tax, raise of the VAT rates). As a final result of all these measures, the tax and overall levies-related burden to be borne by the population will increase. Some evaluators mean that the key problem of the state budget is the unclear definition of the resources to cover the financing of the activities of the local governments resulting from devolvement of competencies from state administration. It is a mistake that no fiscal decentralization has taken place to avoid redistribution of funds among municipalities, cities and regions through the state budget.

### Characteristics of the measure:

The Slovak Parliament approved, after a short review, the 2003 State Budget Act in December 2002. As a result of some amending comments by the MPs which were adopted, the deficit of the Budget should be reduced by Sk 762.7m as compared to the government draft (it happened for the first time in the history of the Slovak Parliament that MPs did not increase the deficit), to reach

Sk 56.037bn, representing 4.92% GDP (according to the ESA 95 methodology). Revenues of the state budget have been scheduled at the Sk 235.4bn level, and expenditures at Sk 291.437bn. Revenues are expected to grow as a result of the raised rates of the excise tax on tobacco and mineral oils and of adjusted VAT rates. Savings of public expenditures are expected to be achieved through the freezing of the wages of civil servants, through cuts of the state premium on construction savings, cuts of state subsidies to mortgage loans, reduced child allowances, reduced volume of funds allocated for social assistance, abolishing of the Alimonies Fund, making conditions of payment of unemployment benefits more stringent, etc. Smaller volumes of funds (in nominal comparison with 2002) have been allocated to the budgets of the construction of housing, motorways, and for agriculture. Ministry of Finance estimates that the current inflation rate of 3% will soar to 8.8% due to the implementation of price deregulation which will be introduced with a delay of one year. Gross Domestic Product is expected to exceed Sk 1.15bn in 2003, and deficit of public finances is expected to oscillate around the level of 5% GDP (in 2002, the deficit of public finances soared to reach more than 7%). Apart from state budget, the budgets of health insurance funds also show deficits, the other components of the public budget are assumed to be balanced or to make profits. The state budget continues the reforms of the Ministry of Finance (programme budgeting, medium-term outlook, integration of state funds, decentralization of public finances), leaving however open issues of medium-term concept and priorities of the government policy.

Opposition MPs assume that the state budget deficit will be higher than scheduled and approved. They criticized the poor support of the education sector, which represents 3.55% of the future GDP compared to 3.82% GDP spent on the education sector in 2002. Also, subsidies to agriculture were viewed as low, and the opposition critics believe that this will expose a major portion of domestic producers to risk upon the opening up of the European market after joining the EU. The Association of Towns and Communities of Slovakia was dissatisfied with the volume of funds allocated from the state budget for local governments, as numerous competencies of state administration have been devolved to towns and villages under the public administration reform, and they go hand in hand with commitments that need financing. The Confederation of Trade Unions of the SR called the 2003 budget too restrictive, taking no account of the socially underprivileged. Some opposition MPs miss developmental stimuli in the budget as well as preconditions for sustainable development. Criticism from the other side on the contrary considered the approved budget and the amount of the expenditures as still too high, questioning the reform efforts of the government. The degree of redistribution is too large, adding to the tax-related burden upon the citizens, and state guarantees and subsidies to selected business entities have not been abolished. Minister of Finance gave the approved budget the attributes of „demanding and true“. True, since for the first time the EU compatible – ESA 95 methodology was applied to this state budget, which e.g. does not allow to include into the calculations of the deficit one-time revenues such as proceeds from the repayment of the Russian debt. On the contrary, costs of restructuring of banks were included in the deficit. Pursuant to the IMF methodology, which was used previously, the deficit of public finances would be 3%.

## **7. Amendment to the Social Assistance Act (Cuts of Social Assistance Benefits and Strengthening of their Targeted Nature)**

### **Comments of the Experts' Committee:**

Evaluators appreciated the efforts to make social assistance more targeted and, mainly, efforts to abolish abuses of the social assistance system. Further measures will however be needed to make the social net help only those who really need assistance. As a positive aspect, beneficiaries of benefits paid in material need from objective reasons will have to work several hours to the benefit of their municipality to receive full amount of the payment. The setting of the upper limit of the maximum social aid benefit to Sk 10,500 per family has met with acceptance; the purpose of this has been to make work at even minimum wages for unemployed spouses advantageous. In the opinion of the experts, the negative aspect of the amendment concerns the missing comprehensiveness and the predominance of the general nature of the cuts in expenditures, which helps more the state budget than those in need of social assistance. Some Committee members criticized the measure as being too harsh vis-à-vis people with health handicaps, in particular in the view of the generally increasing costs of living. Some experts on the other hand considered the measure as insufficiently stringent. Some evaluators questioned the alleged savings. The original intentions of the restrictions on the cumulation of social benefits from the social assistance and state social support subsystems will not be achieved, they claim.

### **Characteristics of the measure:**

*In mid-December 2002, the Slovak Parliament repeatedly adopted the government draft amendment to the Social Aid Act, which was returned by the President. The amendment aims at*



*making social benefits more targeted and more efficiently paid. The maximum amount of social aid was set being Sk 10,500 per family. The Ministry of Labor, Social Affairs and Family's intention was to motivate people to seek minimum wages jobs. To be entitled to receive social aid benefits received by individuals in material need due to objective reasons, the beneficiaries will have to carry out work to the benefit of their municipality. If refusing to do so, the amount of the benefit will be cut to half. The amendment newly regulates also financial contributions to compensate for the social consequences of severe health disabilities. None of the benefits will be linked to the subsistence minimum; rather, a flat amount will be set. The income that makes the disabled eligible to receive the compensation was reduced to 2 times the subsistence minimum (previously 3 times). A total of Sk 24.7bn will be redistributed yearly on social aid. The measures under the amendment are expected to save Sk 4.1bn.*

*A number of associations of disabled persons protested against the amendment to the act. In their opinion, the amendment interferes with the principal human rights of handicapped individuals, and is exclusively directed to save public funds to the detriment of the severely health disabled. President of the SR considers this standard as overly restrictive, and he thus repeatedly refused to sign it. The amendment nevertheless came into force.*

## **8. Amendment to the Act on Civil Service (Opportunity to Recall Heads of Service Offices; Abolishing So-Called Guaranteed Tenure of Office for Top Experts without Passing Qualification Exam; Establishment of So-Called Employee Positions of Strategic Significance with Above-Standard Remuneration)**

### **Comments of the Experts' Committee:**

The Experts' Committee stated that the passed government-drafted amendment to the Act on Civil Service brought some positive efforts to deal with the hottest problems. The positive aspect of the amendment is the preservation of the principle of the non-political nature of civil service and at the same time the creation of mechanisms to influence the formation of advisor teams of constitutional officials (ministers, president and vice-presidents of the Slovak Parliament and the President of the SR). This is expected to contribute to a better performance of the authorities. The re-introduction of the mandatory passing of qualification exams for officers to be assigned to permanent civil service as well as for so-called top experts eliminated the distortions introduced by the previously applicable discriminating regulation adopted before the 2002 elections. The establishment of the so-called employee positions of strategic significance with above-standard remuneration introduced new elements of incentives into the state administration activities. However, cronyism and corruption will have to be prevented with respect to the filling of such prestigious and well paid civil service positions. Positively perceived has also been the facilitation of the method of filling vacant positions, in particular of „Euro-positions“; in exceptional cases only, candidates for such positions will not be required to present with professional practical experience. Evaluators pointed out that the above mentioned amendments only represent partial changes that stress the necessity of adopting a comprehensive amendment to the Act on Civil Service. Thus, a wide discussion of the issue should be opened to see whether yes or not, and if yes to what extent the working conditions in the state sector should differ from those in the private sector.

### **Characteristics of the measure:**

*In November, the Slovak Parliament adopted the government draft amendment to the Act on Civil Service with more than 30 motions by MPs to amend it; apart from wages of civil servants, the draft also addressed some shortcomings of the preceding legal regulation.*

*So, the MPs reintroduced the condition that so-called **top experts** appointed pursuant to the preceding legal regulation automatically to permanent civil service (so-called guaranteed tenure of office) will have to attend the prescribed training and pass a qualification exam similar to the other civil servants applying for positions in civil service. This is expected to eliminate the criticized measure that favored some state administration employees.*

*The MPs also approved the provision pursuant to which ministers will be allowed to present suggestions to **recall heads of service offices** if finding their performance unsatisfactory. A selection procedure shall be opened by Chairman of the Civil Service Office (ÚŠS) to fill the vacant position, and he also shall establish a selection commission that is to determine 3 most successful candidates. Ministers will then be entitled to select from among them the head of the respective service office. Also, other officials of central state bodies (president and vice-presidents of the Slovak Parliament, President of the SR) shall also be entitled pursuant to the Act mentioned to*

freely choose their closest co-workers. Pursuant to the previously applicable wording of the law, only cabinet members were entitled to influence the selection of their closest professional co-workers.

ÚŠS Chairman stated that the principles of the civil service free of political influences that make the Slovak legislation a standard one in this respect within the European space, shall be maintained without prejudice to this new measure. In the opinion of the drafters of the amendment, it is important that officials of central state authorities have the opportunity to replace low-quality people at certain positions and to have the opportunity to select their closest co-workers with whom they will be pursuing their programmes. Critical voices pointed to the hazards of political nominations of civil servants at certain positions.

Also, the Slovak Parliament adopted the motion presented by MPs to define a certain number of so-called **employee positions of strategic significance** within the civil service. Positions of strategic significance are key positions with respect to the fulfilling of the Government Policy Memorandum. They shall be identified by the head of the service office with the approval of ÚŠS. Civil servants holding civil service positions of extraordinary significance may receive a 30% – 100% supplement to their tariff salaries. With respect to such positions, about 10 positions of strategic significance shall be approved by the government; civil servants holding those positions shall be receiving so-called personal salaries. The amount of the personal salaries shall be determined by the Civil Service Office based on comparable salaries in the private sector and on the capacities of the state budget. The aim of this measure is to address the problem of low salaries of experts in civil service and to raise the attractiveness of the employee positions in civil service, i.e. to maintain able and professionally well founded civil servants, and to motivate highly qualified individuals to enter civil service. The critics pointed to the fact that in a situation while the government attempts to cut public expenditures, space is being created by the motions concerning the amendment to the Act on Civil Service to increase expenditures.

## 9. Reduction of Interest Rates by the National Bank of Slovakia (by 1.5 Percentage Points)

### Comments of the Experts' Committee:

Changing the key interest rates is among the standard tools available to the central bank to influence demand and supply of domestic currency and thus the value of the exchange rate. Evaluators agreed that reduction of reference interest rates rather than direct interventions of the National Bank of Slovakia (NBS) in the foreign exchange market is an appropriate instrument to weaken the exchange rate of the currency becoming stronger. The long interval of hesitations of the NBS and the subsequent unexpected jump-like change of interest rates unnecessarily damaged the trust of the players in the financial market in the central bank. The NBS' measure showed as a certain inconsistency of the monetary policy as the extent of the reduction of interest rates was insufficient to permanently reduce demand for the Slovak currency, while at the same time being too extensive to enable good quality anti-inflation effects. The reduction of interest rates will show in the growth of credit opportunities. On the other hand, because of the expected development of the inflation rates in 2003, it will devalue the deposits of the population. A critical opinion was also voiced that questioned whether the NBS actually knows what is an „adequate interest rate“. Any erroneous determination of any price, that of money not excluded, must result in market disbalances. As this measure has to do with the price of money that circulates throughout the economy as the only asset, such an interference with the free decision-making by market entities must negatively impact upon the functioning of the economy as a whole, the experts believe.

### Characteristics of the measure:

Having decided on a reduction of the limit interest rate for 2-week REPO tenders in late October by 0.25 percentage points to 8.0% and leaving other interest rates unchanged, the NBS Bank Board unexpectedly reduced in mid-November all the key interest rates in the monetary market by 1.5 percentage point, i.e. the limit interest rate for 2-week NBS REPO tenders from 8.0% to 6.5%, the rate for sterilization transactions from 6.5% to 5%, and the rate for 1-day refinancing deals from 9.5% to 8.0%. NBS thus followed similar steps undertaken by the Czech Republic and Poland. By cutting interest rates, NBS responded to the marked inflow of short-term capital from abroad with the subsequent pressure upon the exchange rate of the Slovak currency, being a consequence of the optimistic visions and the favorable political development in Slovakia after the parliamentary elections (invitation to the NATO and the EU). By its decision on the reduction of interest rates, the Bank Board supported the effect of the direct interventions in the foreign exchange market against the strengthening of the exchange rate of the domestic currency.

*By reducing interest rates, the NBS succeeded in slightly weakening the Slovak currency; the critics however doubt whether the weaker exchange rate can be maintained since there is pressure upon long-term appreciation of the currency. Namely, investors will continue purchasing the Slovak currency as they make profits from exchange rate differences and the still relatively high interest rates in a stable political environment. Some economists also cast doubts on the appropriateness of the decision made by the central bank, which came unexpectedly and in contradiction to the previous proceeding of the NBS, acting against its reputation.*

*All Slovakia's commercial banks responded to the reduced interest rates of the National Bank of Slovakia by reducing their own interest rates.*

## **10. Slimming Down the Government (Dissolution of the Ministry of Privatization and of the Positions of Deputy Prime Ministers without Portfolio)**

### **Comments of the Experts' Committee:**

The cut in the number of ministries and their staff is a desirable step. As a matter of fact, the government coalition decided on the only minimally acceptable slimming down of the central government. The current situation would require a more draconic approach to have a motivating effect upon the public at large since its support is rather important for pushing through the reforms. The dissolution of the Ministry of Privatization was a must; at the same time, there will be but small savings achieved in the expenditures under the state budget since the majority of the staff will be transferred under the sector of the Ministry of Economy. Similarly, the reduction in the numbers of the Deputy Prime Ministers without portfolio will only bring negligible savings. Instead of actually slimming down the central government and making it cheaper, the government coalition limited itself to sending out a political signal. In exact accordance with the expectations of the experts, the willingness of the government to more pronouncedly cut the numbers of the ministries as declared by the government in the pre-election promises of the political parties of the government coalition has proved to have its limits as soon as the portfolios started to be distributed after the elections. Reduction of the overall numbers of civil servants rather than the numbers of the cabinet members or numbers of ministries is an improvement in the effectivity of their activities, and this is what a permanent pressure on the part of the government as well as of the general public should focus on.

### **Characteristics of the measure:**

*President of the SR appointed the new government on 16 October; this is the second cabinet of Mikuláš Dzurinda. The new cabinet has 16 members. The previous Dzurinda's cabinet had 20, and V. Mečiar's cabinet (1994-1998) comprised 19 people. The current government abolished the positions of 3 Deputy Prime Ministers without portfolio (leaving but one), and is committed to dissolve Ministry of Privatization that was transferred under the control of the Minister of Economy. All the staff, competencies and assets of the dissolved Ministry will be assigned to Ministry of Economy.*

*Prior to the elections, some of the government coalition parties presented intentions to even more pronouncedly slim down the government, to comprise 13 or 10 departments. Some experts see opportunities for further reduction of the number of departments in dissolving Ministry of Transport, Posts and Telecommunications, and Ministry of Construction and Regional Development whose competencies would be transferred to Ministry of Economy; and in merging the sectors of culture and education as well as the Ministry of Labor, Social Affairs and Family with Ministry of Health. In their opinion, however, it might be appropriate to leave these ministries to work independently for the time during which extensive and principal reforms are being prepared for the two latter departments. Even if many observers do not view the slimming down of the cabinet as satisfactory, the second Dzurinda's government at least succeeded in becoming the smallest Slovak cabinet since 1989.*

## **11. Raising Excise Tax on Tobacco and Mineral Oils**

### **Comments of the Experts' Committee:**

The raising of the excise tax on tobacco is understood by experts as an unavoidable step on the way towards harmonization of excise taxes that Slovakia committed itself during the pre-accession negotiations with the EU. Similar approximation measures will also be unavoidable in the future, and that is why some respondents considered gradual raises of the rates more appropriate than

jump-like increases. Another reason for the raising of the excise tax was the attempt of the government to increase revenues of public budget to enable consolidation of the deficit of public finances in 2003. The question arises whether making cigarettes more costly won't paradoxically impact negatively upon public finances since illicit trading in this commodity will certainly intensify. In their programme policy, the government declared to attempt to reduce the tax burden and to shift the focus towards indirect taxes. Raising of excise taxes thus would seem a logical measure provided that reductions of income taxes were suggested in parallel. This was not the case however, so that many evaluators consider the increase of the excise tax rates on mineral oils as counterproductive. In their opinion, this will show in a growth of transaction costs and the associated negative aspects: growth in unemployment, reduction of the standard of living and in the competitiveness of a number of business entities since fuels represent an important input for the whole production sector. Many disagreed with the raising of the excise tax on mineral oils as there was no pressure with respect to the approximation to EU standards: the level of the taxes is already comparable (petrol) or even higher (diesel) than the minimum set by the EU Directive.

#### **Characteristics of the measure:**

*The government draft amendment to the **Tobacco Excise Tax Act** approved in November raised the tax rate on so-called short cigarettes from the previous Sk 0.70 Sk apiece to Sk 0.95 /pc, thus bringing the tax rate on short cigarettes to the level of that on long cigarettes.*

*The amendment to the Tobacco Products Excise Act is based on the need to approximate the tax rates to the minimum rates set in the corresponding EU Directive, and at the same time on the need to address the revenues side of the state budget. The minimum rates will have to be applicable in the SR by 1 January 2004; although there is certain time frame to raise the taxes, Minister of Finance sees no reasons why such raises cannot be applied earlier. A pack of cigarettes will thus be taxed by 38% instead of the previous 32% of the retail price, the excise tax on cigarettes nevertheless remaining behind the minimum rates applicable in the EU (57% of the price of a pack). The EU level of taxation is expected to be reached in 2009 by gradually raising the tax by 3% annually according to a binding time schedule.*

*The adopted amendment to the Tobacco Excise Tax Act repealed the provision laying down that 15% of the proceeds of the tax will be used to finance developmental programs within the health sector, which focus on the management of cardiovascular diseases and oncological diseases.*

*Critics of the amendment point to the fact that previous increases of the tobacco excise tax have never resulted in the realization of the scheduled revenues. In the opinion of those who are against the raise, it remains questionable whether the rates could not have remained unchanged for a year since the minimum rates according to the binding time plan become applicable for Slovakia as late as in 2004.*

*The government draft amendment to the **Mineral Oil Excise Tax** is also based on the need to address the revenues side of the state budget, but it also is based on the need to approximate the rates of excise taxes to those applicable in the EU. The amendment raised the rate on lead-free petrol and diesel equally by Sk 0.60 per liter, and those of leaded petrol by Sk 1.90 per liter. Also, the tax rate on so-called red diesel for agriculture was raised by Sk 0.60 per liter. With the present level of fuel consumption remaining unchanged, the approved raises of the tax rate are expected to bring additional Sk 1.1bn to the state budget.*

*Ministry of Finance assumes that, thanks to the reduction of the VAT rate from 23 to 20%, there should be no price increases of petrol and diesel at the refueling stations. Those who opposed the amendment do not see any justification for the increase in the excise tax rate to reach the minimum level applicable in the EU since Slovakia is scheduled to join the EU not sooner than in 2004. In their opinion, the change in the tax rate may reduce the competitiveness of the sales of Slovak oil since this product is already now burdened with a higher tax than it is the case in the neighboring countries (the Czech Republic, Poland), being even higher than the minimum required by the EU. Opponents of the amendment fear that the increase of the excise tax on „agricultural diesel“ will result in a reduction of the competitiveness of Slovakia's agriculture as the rate of this tax also exceeds the EU required minimum.*

## **12. Freezing the Salaries of Constitutional Officials and State Sector Employees**

### **Comments of the Experts' Committee:**

Through freezing of the salaries of constitutional officials (MPs, government members and President of the SR, judges and prosecutors) and state sector employees the government and the parliament attempted to present certain solidarity with the population who are forced to „tighten

their belts<sup>n</sup> due to the adopted package of austerity measures. The degree of the remuneration paid to civil servants and public servants should not only reflect the capacities of the economy but also the performance and the quality of services provided by state authorities and officers. This general measure should however be followed by the establishment of an efficient and transparent system of differentiated compensation paid to civil servants enabling to attract to the state administration good quality people who can currently be incomparably better paid by the private sector. Funds to cover the higher salaries should be raised from savings achieved by slimming down the state administration. In the opinion of experts, the general freezing of salaries without any subsequent differentiation will result in public officials and officers being poorly paid, and this will in turn show in a reduced quality of the state administration's performance. Some experts suggested to deal with the problem of the quality of the staff through introducing the contract system as implemented successfully in e.g. New Zealand. Limits to payments of the 13th and 14th salaries were assessed positively since their flat and automated payments does not motivate the staff to improve the quality of their work.

#### ***Characteristics of the measure:***

*The salaries of state administration staff will not be raised for inflation in 2003. Upon reviewing the State Budget Act, the Slovak Parliament Members supported the idea of freezing the salaries of constitutional officials – MPs, cabinet members and President of the SR, judges and prosecutors. Also, the amending motion was adopted by the plenary to also freeze salaries of civil servants to whom the Act on Civil Service applies. The MPs further decided to abstain from the valorization of tariff salaries of the Police, members of the Slovak Intelligence Service, Corps of Prison and Judiciary Guards, Railway Police, National Security Authority, customs officers and firefighters. The amending suggestions mentioned are expected to show in the savings of almost Sk 600m in the 2003 State Budget. The government draft State Budget Act already included the freezing of tariff salaries of the professional military. The valorization mechanism of state sector staff salaries has been changed. There won't be any increasing automatism. The date and the rate of valorization will be set by state budget every year.*

*Slovakia's economy could not afford to raise the salaries of state sector employees, and Minister of Finance claimed that measures had to be taken in the area of wages to reduce budgetary demands by approximately Sk 6.7bn. The Minister suggested to slow down rather than to entirely stop the growth of wages. According to the government suggestion, the tariff wages in the state sector should be valorized as of July 2003 (by 5%), the MPs however approved a zero valorization as part of the State Budget Act. By failing to adopt the draft amendment to the Act on Public Service however (which was returned by the President for repeated review), the amount of expenditures on salaries of public service employees laid down in the 2003 State Budget was exceeded by more than Sk 3.4bn.*

*Partisans of salary cuts in the state sector pointed to the fact that if the government intends to „tighten the belts“ of the citizens, it has to do the same with respect to itself. Some observers expressed the view that rationalization of headcounts in the public sector rather than general freezing of salaries would be needed to create space for differentiated remuneration and continuous raising of salaries of good quality staff. There are currently about 50,000 civil servants employed in Slovakia. One fifth of all state's expenditures is spent on public sector employees. The critics point to the fact that although having frozen the growth of civil servants' salaries, state guarantees (based on the Collective Agreement for the Civil Service approved in November) 5 weeks of paid leave (extension by 1 week) and sets net weekly working hours (breaks not included) at 37.5 hours.*

### **13. Proposal to Introduce Flat Payments for Health Care Related Services (Draft Amendment to the Health Care Act)**

#### **Comments of the Experts' Committee:**

The suggestion to introduce flat payments for services connected with health care (charges for accommodation and meals in the hospital, for visits at outpatient departments, for prescriptions and ambulance transport) were perceived by the evaluators as a step directed towards the reform of the health system; its key meaning resides in the breaking of the taboo that exists on the part of the population that consider health care as a free of charge service, rather than in the very financial benefits which are limited. Even if the charges do not reflect the actual costs they have motivating effect. The charges will marginally increase the costs and this will result in a reduction of the consumption. Many experts would prefer seeing this step as part of systemic changes. The point is not that state should determine prices, salaries, etc. Rather, state should establish the rules that will generate the rest. Such comprehensive measures are expected to achieve e.g. a reduced degree of redistribution, increase in the personal contributions and of competition in

public health and introduction of the voluntary principle in the system. If however, systemic changes in the public health sector fail, the suggested charges will only turn into an additional tax and levies-related burden to the citizen. In the opinion of the critics, the suggested mechanism of collection of charges to be paid by patients will complicate the situation in health-service institutions because of their administrative demands. Also, disagreement was voiced with the suggestion that a substantial portion of the amounts collected should be handed over to health insurance funds. There was an isolated opinion voiced, which considered the introduction of charges to the health sector as the most anti-human action of the government since 1990.

#### **Characteristics of the measure:**

*In late December, the government approved the draft amendment to the Health Care Act, which envisages introducing several flat charges for services in the health sector. Subject to charges will be activities which are connected with the provision of health care but which do not directly represent health care. A portion of the handling fees will remain with the health care providers, a portion shall be transferred to health insurance funds, which will be liable to spend them on the coverage of the costs of services connected with the provision of health care.*

- *Pursuant to the suggestion, a charge of Sk 30 daily would apply to the provision of **hospital meals, accommodation** would be charged also Sk 30 (surcharge for so-called hotel services, including cleaning, provision of clothes, or laundry). Initially, Minister of Health intended to introduce even higher charges – up to Sk 50 for meals and around Sk 100 for accommodation, respectively; after negative response of the public, he chose to accept smaller payments, symbolic, as he says. By introducing charges, Minister intends to reduce corruption (in the spirit of the philosophy: if I am paying for something, I am not going to give bribes), and to reduce expenditures of hospitals. Also, he wants people to become aware that in the health sector nothing is for free, every service has its price. He believes that also hospitalization of patients for so-called social reasons will reduce as it will be in their interest to remain in hospital as short as possible. This should cause a shift towards so-called one-day surgery and outpatient care, which are more efficient forms of treatment compared to stationary care.*
- *It is envisaged that patients will pay Sk 20 **for a consultation at the outpatient department**. Out of this amount, doctors shall pay Sk 10 to the health insurance fund, and keep Sk 10. This handling fee should discourage frequent „tourists“ who visit doctors without any reason just to ask for prescriptions. The average in Slovakia is 17 consultations per person per year, compared to the European figure of 6. The suggestion met with refusal on the part of patients. They namely believe that this will above all impact on patients who have to more frequently consult doctors.*
- *The flat **fee for prescription** should be Sk 20 to be collected at pharmacies. Thereof, the pharmacy will keep 2 and forward 18 to the health insurance fund. This is being criticized by pharmacists. Namely, their administrative costs will increase, the difference being larger than the Sk 2 intended to be kept by the pharmacy. The Slovak Chamber of Pharmacists is in favor of the introduction of prescription fees similarly as it is the case in other countries; they however protest against the public being forced to pay off the debt of health insurance funds (amounting Sk 6bn for medicines). The main aim of this measure should be reduced consumption of drugs, which today account for about 40% of all expenditures on the health sector in Slovakia. On the average, about 10 prescriptions are issued per capita per year in Slovakia (meaning that about a billion Sk could be collected from prescription charges). Along with the consumption, also public expenditures are expected to reduce since less inefficient medicines will be prescribed. Partisans of this measure also expect that there will be less consultations and thus less expenditures of health insurance funds on health interventions.*
- *The draft amendment to the Act also introduces **payments for transport of patients** using ambulances. Payments for such transport should be based on so-called contractual price. The basic insurance should only cover emergency transport of patients. The authors of the measure claim that ambulances are frequently misused by patients, in particular when it comes to so-called social cases. Critics claim that it is doctors who prescribe ambulance transport who are to blame for the misuse.*

*Ministry of Health expects the envisaged introduction of charges to mainly reduce the excessive consumption of health services, medicines and medical devices, and to set barriers to misuse of the system. Along with additional measures, this is expected to make a pronounced contribution towards the dealing with one major problem of the Slovak health system which is the constantly growing debt. The Ministry estimated that the changes will bring annually Sk 1.64bn and Sk 1.09bn to insurance funds and health-service institutions respectively, with the charges representing an average monthly burden on patients of Sk 53 only. Minister of Health recognizes that the introduction of charges is not a systemic solution within the reform of the health system; rather, it represents some kind of a stabilization measure that should help preventing debt from*

growing more than Sk 700m a month. Technically, it is the easiest way to start the reform of the health care system from the patient, he claims.

Opponents of the draft amendment are of the opinion that the introduction of charges would contradict the Constitution that guarantees the right for free of charge health care to everybody who pays contributions to health insurance. Critics point to the financial burden upon patients due to the introduction of charges. Minister of Health considers the amounts as merely symbolic; moreover, the socially most underprivileged would be exempted from such payments.

Pursuant to the suggestion, health care will be provided based on contractual supplementary insurance scheme (supplementary health care not covered under the solidarity package), including dental care with the exception of preventive care, cosmetic surgery, acupuncture, sports medicine, balneological care, interventions and medicines upon assisted reproduction, abortion, psychoanalysis, sterilization provided that such interventions are not unavoidable to preserve health.

## **14. Reducing the Gap between Value Added Tax Rates (Amendment to the VAT Act)**

### **Comments of the Experts' Committee:**

The idea of a gradual approximation and unification of VAT rates was accepted positively and assessed as justified and correct. The measure is expected to already now act against tax evasions. The final unification of the VAT rates should then simplify the tax system of Slovakia overall, to make it transparent, to facilitate the job of businesses, to release capacities of tax auditors, as well as to harmonize our tax system with the recommendations of the EU. A single VAT rate expresses equality of opportunities, experts say. Efforts spent by various groups to classify some goods under the lower VAT rate will be eliminated. The expected final VAT rate at the 17% level is considered as too high by the majority of experts. Also, the opinion was voiced that the measure adopted will negatively impact upon socially less favored layers of the population and producers, and will also have effects on the construction of housing. Some evaluators questioned the government's argument claiming that this adjustment was unavoidable with respect to the joining of the EU: an alternative solution was to lower, in full agreement with the EU Directives, the basic VAT rate to 15% and the lower rate could have been maintained at the previous level.

### **Characteristics of the measure:**

*In mid-November 2002, the Slovak Parliament approved the government amendment to the Value Added Tax Act, pursuant to which the upper VAT rate will be reduced from 23% to 20%, whereas the lower rate will increase from 10% to 14%. This measure is part of the harmonization of the tax system with the European system, and of the government's intention to unify VAT rates by 1 January 2004. The government estimates that their revenues will increase by more than Sk 3 billion due to the VAT rates adjustment. Indirect savings amounting to approximately Sk 8.5bn could be achieved through limiting tax evasion and reducing the volume of VAT refunds.*

*The Slovak Chamber of Commerce and Industry criticized the amendment. It protested mainly against the increase of the lower VAT rate. In their opinion, these changes will reflect in increased consumer prices, they will reduce competitiveness of Slovak companies, and limit chances to create new job opportunities.*

## **15. Dissolution of the Substitute Alimony Fund (So-Called Alimonies Fund)**

### **Comments of the Experts' Committee:**

The dissolution of the Substitute Alimony Fund was assessed positively, the importance of this measure is rather marginal however. The essence of the repealed act was establishment of the so-called Alimonies Fund through which state intended to pay alimonies determined by courts to parents taking care of children if the other parent fails to fulfill his/her duty to support and maintain. The Fund's assets should have been established from proceeds from privatization, making up Sk 1.5bn. The establishment of the Fund as originally intended represented a non-systemic solution whose aim was to replace the lack of functionality of the legal system in the process of the collection of alimonies. It was something that was trying to treat consequences rather than causes. State is not expected to interfere with private civil relationships in such a

way, and should not assume liabilities and duties which parents are expected to meet. The corresponding act was characterized by numerous shortcomings concerning the enforcement of its provisions; the adoption of this new legal standard moreover was motivated by the forthcoming parliamentary elections. The dissolution of the Substitute Alimony Fund therefore is seen as a positive step, which stopped the spreading of bureaucracy, and saved funds from public sources. The money saved could however be spent to make courts' activities more effective, providing parents with a standard facility to collect alimonies within an acceptable time frame. On the other hand, it should be stated that the situation concerning the payments of alimonies in Slovakia is rather bad: it is almost impossible for mothers in particular to collect alimonies which fathers owe to them. Thus, it should be the role of the Ministry of Labor, Social Affairs and Family to suggest measures to improve the situation. Having dissolved the Alimonies Fund, the problem of the protection of mothers and children has remained unresolved.

**Characteristics of the measure:**

*In mid-November, the MPs adopted the government draft amendment to the Substitute Alimony Act, which repealed the Act and thus also the not yet established Substitute Alimonies Fund. The original (now repealed) Act on Supplementary Alimonies proposed by the MPs of the Movement for a Democratic Slovakia (HZDS), as approved by the previous Parliament, thus remained effective for a single month only. The principle of the repealed Act was the establishment of a Substitute Alimony Fund (so-called Alimonies Fund) through which state envisaged to pay alimonies determined by courts to the parent taking care of a child if the other parent failed to fulfill his/her duty to support and maintain. Having paid the alimony, the Fund should have become creditor of the delinquent, and start to collect the outstanding amounts through execution. The capital of the Alimonies Fund should have been established from proceeds from privatization, making up Sk 1.5bn. Payments from the Supplementary Alimony Fund should have been financed from the collected alimonies, from interest on the Fund capital, and from grants from state budget.*

*The new Minister of Labor, Social Affairs and Family did not consider it right to let state pay instead of the parents who fail to pay. In his opinion, the amendment that repealed the institution of substitute alimonies prevented substantial economic losses (a.o. significant burden upon the state budget, increased administrative demands on state administration). State, the Minister believes, should concentrate on the improvement of the enforceability of the existing legal framework that deems failure to pay alimonies as a crime and can be addressed by enforcement of court decisions or execution based on court authorization.*

*There are no statistical data on how many parents in Slovakia fail to fulfill their duty to support and maintain children. Alimonies were granted to 40 thousand children. The criminal act of failing to support and maintain children ranks second among the frequencies of crime in Slovakia, following robbery (1,500 individuals were sentenced in 2001). The institution of substitute alimonies is known in also other countries (e.g. the Czech Republic, Poland, Germany). Collection rates of alimonies by alimonies funds remain low however (reaching e.g. 16% in Germany).*

## **16. Proposal of a Differentiated System of Remuneration of Health Professionals (Draft Amendment to the Act on Public Service)**

**Comments of the Experts' Committee:**

The intention to make the final income by health professionals dependent on the work they carry out, resulting in the desirable differentiated system of remuneration, has been rational. Some experts considered the suggestion to reduce the guaranteed tariff component of the salary and a shift towards autonomous and individually-based appraisal of employees by hospital directors (or head physicians and head nurses) as a rather necessary and important step under the reform of the public health system which is expected to positively impact on the quality of services provided to the public. Several evaluators were of the opinion that differentiated remuneration should be applied after comprehensive systemic changes have taken place, being an automatic consequence of such changes. The implementation of the system should be preceded (or at least accompanied) by changes which should enable directors of health-service institutions to behave efficiently and rationally. In the opinion of those who criticized the measure, state hospital directors will namely tend to give more to those who are loyal to them rather than to appreciate those who are highly capable. In other words, abolishing tariff matrices unless having changed the ownership of hospitals would be a bad step since such tariffs represent the sole tool that protects the employees from unregulated decisions made by the supervisors. Even today, there is a possibility for directors of health-service institutions to differentiate wages of health professionals by the quality of their work. They however do not take advantage of this opportunity since they are prevented from doing so by the economic conditions, and this is why they pay almost exclusively the guaranteed component of the income only, which is the tariff salary. In the opinion of the



critics, the draft amendment to the Act on Public Service does not head towards a differentiated remuneration scheme for health professionals; rather, it was aiming at reducing the costs of wages in health-service institutions. This would mean that perspective young physicians and nurses would leave for other countries, while unable sycophants would strengthen their position, thus resulting in a further reduction of the quality of hospital care. Doctors would compensate their smaller salaries with bribes, which they would be willing to accept.

**Characteristics of the measure:**

*In its motion to the amendment to the Act on Public Service, Ministry of Health (MH) suggested to include a provision that would cancel the system of guaranteed fixed tariff wages for health professionals. The new tariffs would only guarantee the bottom limit of salaries, which would correspond to grade one of the tariff class the health professional has been assigned to according to qualification. So, a physician with 20 years of practical experience and two specialization degrees, who currently receives Sk 23,290 as the basic salary, would have a guaranteed tariff salary at the level of Sk 10,790. It would be directors of the hospitals who would then decide on how much more the physician or the nurse or the obstetrical assistant receives above the law-guaranteed minimum limit. This power could be delegated to head physicians of the various departments and to head nurses. The law would not limit the total amount of the salary, the only limit being the volume of funds provided by health insurance companies. The measure would enable individually based and differentiated remuneration of the employees. Minister of Health believes that the new system of remuneration of health professionals would provide hospital directors with an appropriate tool to motivate good quality people. This would exert a pressure upon hospitals to lay off redundant and less well performing people who would otherwise restrict the growth of salaries of more able employees (costs of wages make up about 60% of total costs of hospitals). In the opinion of the drafters of this amendment, the direct link between performance and remuneration can be expected to strengthen the motivation of health professionals to perform at the highest quality level possible, and this in turn will significantly contribute to the improvement of the health care provided. The suggested differentiation would reduce the significance of the education level achieved and of the length of practical experiences, stress would be laid upon the quality of work. The new, more targeted system would enable more able physicians and nurses to achieve higher salaries more quickly, which is not possible under the traditional tariff wages, Minister claims. The authors of the reform also expect this change to improve the status of the nurses who should become equal partners to doctors.*

*Despite the opportunity to improve their salaries, health professionals responded to this measure by a strong wave of criticism. They namely fear that the total real income of health professionals may drop, in parallel with the guaranteed salaries. If salaries drop, say the health professionals, the risk of even more doctors, nurses and obstetrical assistants leaving for other countries (in particular the Czech Republic, Germany and Austria) would get even more pronounced. Doctors expressed their concerns about the subjective assessment of their work by directors or head physicians, creating the risk of fellows being preferred because of „good friendly relationships“. It is there that the drafters see the traditional space for Trade Unions, which could participate in the development of transparent compensation criteria for health professionals, and it may be in their interest to negotiate the salaries with hospital management.*

*President returned the amendment to the Act on Public Service in December for review. There were not sufficient numbers of votes at the Parliament during the second review that were needed to adopt the act vetoed by the President, and this caused, for the first time in the new coalition setting, serious strains. The reasons why the amendment was not adopted was the protest by MPs for the Christian-Democratic Movement (KDH) who did not like the staffing of the bodies of Slovenské elektrárne (Slovak power-plant company). Minister of Health afterwards commented that the Christian democrats made the health system reform a hostage to further their own aims.*

**17. Amendment to the Child Allowance Act (Cuts in the Flat Amount of Child Allowance; Making the Payment of Supplement to Child Allowance Dependent upon the Family Income)**

**Comments of the Experts' Committee:**

The real capacities of the public finances have become reflected in the cuts of child allowances as well. Reduction of the allowances is expected to be compensated by more tax deductibles thus making the state budget relieved of the payments of direct benefits. The linkage of the payments to parental duties and regular school attendance by the child was assessed positively. Although the payment of supplement to child allowances and the amount have been made dependent on the family income, the keeping of the payments of child allowances to all children without means-

testing weakens the efforts to secure a targeted nature of the state social support, many evaluators mean. Children should not become an automatic source of income for the family. On the other hand however, also the unfavorable demographic development of the Slovak society should be borne in mind.

**Characteristics of the measure:**

*In mid-November, the Slovak Parliament approved the government draft Amendment to the Child Allowance and Supplement to Child Allowance Act, which cuts the amount of the child allowance paid universally to the flat amount of Sk 270 per child per month. Pursuant to the amended act, also persons will be eligible to receive supplement to child allowance whose income and income of persons assessed together with them does not exceed 2.2 times the joint income (the limit being raised from 1.37 times applicable in 2002). The amount of the supplement to child allowance will depend on the income of the family (2 income brackets). Pursuant to the amendment, the payments of the supplement will be linked to regular school attendance by the child concerned. If the school notifies the district office of the failure to abide by these obligations, the office will decide to suspend the payment of the benefit to the parents, and will pay it to the municipality.*

*Although the amendment keeps the general payment of the benefits in place (i.e. all children will be receiving them), it partly went back to the original idea of the act: the targeted nature of the benefits is now reflected in the differentiated amounts of the supplement to child allowances which will now be made dependent on the income of the family. As stated by Minister of Labor, Social Affairs and Family, it is being considered to replace child allowances by tax allowances in the future. The critics are dissatisfied by seeing that the amendment keeps the principle of universal payments of the allowances. They suggest to eliminate families from payment who are not dependent on them, thus saving a significant volume of funds in the deficit-ridden state budget.*

**18. Cutting the State Premium on Construction Savings Scheme from 25% to 20% (max. Amount Cut from SKK 4,000 to SKK 3,000) (Amendment to the Construction Savings Act)**

**Comments of the Experts' Committee:**

There were two contradictory aspects to assess the measure. The first one refuses any state subsidies at all. Such subsidies, the experts claimed, represent an unsound element in a market-based system. State contributions towards construction savings are considered as an untargeted social assistance which construction savings institutions make the best profits of. Several evaluators voiced the opinion that there is no reason to prefer one product over any other one. Partisans of the cut of the state premium considered this austerity measure as justified since interest rates have gone down in the market overall. Without the cut suggested, there would be a big difference between the yields on construction saving and long-term bank deposits.

Another group of evaluators criticized the cuts of the state premium as being a step, which might bring down the construction of housing and worsen the situation in the real estate market. In their opinion, the measure serves to reduce expenditures from the state budget but in a single direction. Also criticized was the lacking concept with respect to the construction of housing. The actual impact of the measure, said the evaluators, will show within several years.

**Characteristics of the measure:**

*The government draft amendment to the Construction Savings Act was approved by the MPs in mid-November. The suggested adjustment of the parameters of the construction savings scheme cuts the share of the state premium from January 2003 from 25% to 20% of the yearly deposit made by the savers. In connection to this measure, the maximum amount of the state premium was set in the 2003 State Budget, being Sk 3,000 instead of the previous Sk 4,000. The State Budget Act also laid down reduction of state subsidies to the interest on mortgage loans from the current 4.5% to the level of 2.5%. The main objective of the amendment to the Construction Savings Act was to approximate the yields from construction savings scheme to the diminishing level of the yields from deposits in commercial banks (6.26% in early September), as well as stabilization of expenditures under the state budget. With the current parameters of the construction savings scheme, the return on construction savings deposits reaches 10.53%, decreasing to 9.15% after the application of the amendment. Cuts of the state premium on construction savings will bring savings of more than Sk 900m in 2003. The overall expenditures of the next year's state budget on state premium on construction savings will thus represent approximately Sk 2.67bn.*

*Opponents of the amendment warn that the state premium on construction savings has changed 6*

*times in the last decade, remaining still at the initial level in some neighboring countries (CZK 4.5 thousand in the Czech Republic), or being even increased (in Hungary, the amount will double to reach HUF 72 thousand). As a matter of fact, the interest of the clients in the construction savings scheme keeps growing despite the relatively frequent interventions on the part of the state.*

## **19. National Bank of Slovakia's Exchange Rate Interventions on the Foreign Exchange Market to Prevent the Rapid Appreciation of the Slovak Crown**

### **Comments of the Experts' Committee:**

Through its intervention in the foreign exchange market aimed against the strengthening of the Slovak currency, the National Bank of Slovakia (NBS) may have achieved its goal within the short term, but at the end of the day NBS lacks sufficient tools or idle resources to fight the strengthening of the currency over the long term. Experts even mean that this would not be the right thing to do since the central bank would then have to face the unavoidable trend of the Slovak currency revaluation compared to reference currencies. Improving rating of Slovakia, along with the subsequent growth of inflow of foreign capital would make it ever more difficult, and mainly meaningless, to prevent the natural market development. Those who criticized the proceedings of the NBS disagreed with preference being given to some groups of domestic producers brought about by the artificial weakening of the currency, and pointed to the absence of evidence that a strong domestic currency was restricting the export performance of the country. They pointed to the fact that it is the slow restructuring process of Slovakia's industries and exports rather than the strong currency that represents a threat for Slovakia. In the opinion of the partisans of interventions, the measure will positively influence the realization of the foreign investment projects as well as the inputs of further foreign investors coming to Slovakia.

### **Characteristics of the measure:**

*In October and November 2002, the National Bank of Slovakia (NBS) intervened against the domestic currency's strengthening by purchasing foreign exchange in the free market. The exchange rate of the Slovak currency reached its long-term peak during late November (SKK 41.1/EUR). In the opinion of the NBS, the strengthening of the Slovak currency was triggered above all by the positive expectations connected with the success of Slovakia's integration ambitions without any adequate improvement of the principal economic parameters (deficit of public finances and deficit of the current account of balance of payments). Disproportionate strengthening of the exchange rate could negatively act on the restructuring process of the economy and its export performance, which in turn may induce a further worsening of the deficit of trade balance, NBS claimed. Also, the improved rating of the long-term foreign exchange liabilities of the Slovak Republic (Baa3) by Moody's Investors Service materially influenced the strengthening of the Slovak currency. Standard & Poor's subsequently also improved the rating of Slovakia (BBB-), followed by Fitch Ratings (BBB-). In November, NBS spent a total of EUR 583m in three waves on direct interventions against the strong exchange rate of the domestic currency. The National Bank succeeded to weaken the exchange rate of the Slovak currency to stop at SKK 41.6/EUR. After the direct interventions by the NBS in the foreign exchange market and reduction of the key interest rates by the NBS (which also aimed at eliminating appreciation pressures) the development of the exchange rate of the Slovak currency stabilized, and no further measures were thus needed on the part of the central bank.*

*The fight of the central bank against the strong currency triggered criticism by some economists. They questioned the sense of it as well as the method of its implementation. Analysts pointed to the fact that NBS is unable to defend the exchange rates against investors who purchase the currency due to the exchange rate differentials and relatively high interest rate differentials, and will keep purchasing it over and over again. They believe that it would be more sensible to leave it on the economy to cope with the appreciation of domestic currency, which is generally expected. NBS Governor admitted to see some space for gradual strengthening of the currency provided that on the long-term, the economic policy will be managed in the right way. NBS and economists differ in their opinions on whether it makes sense to fight the strengthening of the domestic currency at such a high price to protect domestic exporters as this only delays the necessary improvements of their productivity and ability to compete. According to NBS Governor, the National Bank pursues a weaker currency also to stimulate domestic production to replace imports, and this is expected to positively affect growth of employment.*

*Within 11 months, the National Bank of Slovakia recorded losses amounting to Sk 15.022bn. The central bank made profits of Sk 2.326bn last year. NBS' losses were influenced by mainly the strengthening of the Slovak currency against the reference currencies EUR and USD.*

## 20. State Acquires a Stake in the Assets of the Slovak Airlines (Slovenské aerolínie, a.s.)

### **Comments of the Experts' Committee:**

The acquisition by state of a stake in the loss-making Slovak Airlines (SA) through contributing 3 aircrafts to the fixed assets of SA (the aircrafts would be previously leased to this private company under unfavorable conditions for the state) was viewed by the experts as an emergency solution resulting from mistakes and errors of the past. The state's stake in SA increased, thanks to this transaction, from 34 to more than 90%. Those who criticized this step suggested that bankruptcy would have been a more natural development. The standing of the Slovak Airlines is unfavorable, and by assuming the risk of high costs to keep the company going, state acted irresponsibly. In the experts' opinion, state should not get involved in business, and they thus recommended to sell state's stake in the company to a strategic investor as soon as the company has stabilized. In addition, there is a potential conflict of interests with respect to the Ministry of Transport, Posts and Telecommunications as it owns the carrier and at the same time plays the role of the regulator of air transport, which may result in a distortion of the competitive environment.

### **Characteristics of the measure:**

*The government decided to contribute 3 TU 154 aircrafts as an in kind contribution to the fixed assets of Slovenské aerolínie (SA, the airline company), worth Sk 642m. The aircrafts were acquired as a part of Russian debt repayments and they used to be leased to the airline company under conditions which were unfavorable to the state. Thanks to this deal, state's stake in the company will rise from the current 34% to 90.7%. The airlines owe the state Sk 130m for the leasing, and the debt to other creditors makes up Sk 65m. The cabinet authorized Minister of Transport to prepare personal changes in the company and to find the best model of its privatization to strategic investor. Another alternative to deal with the situation could have been bankruptcy or canceling of unfavorable aircraft leasing contracts.*

*In the opinion of the Minister of Transport, the suggested solution will not burden the state budget in any way; rather, it is expected to create space for the restructuring of the company, improve performance, stabilize the financial standing, and prompt a development of the air transport company. The government's resolution was criticized by the competing air company Air Slovakia, which believes that by its presence in the SA, the state distorts the competitive environment. Similarly, the Antimonopoly Office of the SR pointed to the conflict of interests since the new majority owner of SA, Ministry of Transport, Posts and Telecommunications, at the same time plays the role of the air transport regulator.*

*For the first 9 months of the current year, SA was making profits of Sk 20.166m, representing a slight year on year drop. The company was established in 1996, and operated 2,874 flights in 2001, carrying in excess of 280 thousand passengers.*

## 21. Amendment to the Health Insurance Act (State Guarantees for the Liabilities of a Dissolved Health Insurance Fund up to the Amount of the Principal of the Debt; Extension of the Ban on Executions of Health Insurance Funds and Health-Service Institutions)

### **Comments of the Experts' Committee:**

The amendment to the Health Insurance Act which restricted state's guarantees for the dissolved and/or bankrupt health insurance fund relating to the provided health care vis-à-vis health-service institutions to the amount of the debt principal, and extended at the same time the ban on execution of assets of health insurance funds and health-service institutions was considered as a non-market and non-systemic measure. Members of the Experts' Committee were surprised to see the lack of a systematic approach to the debt in the health sector which has been prevailing over long periods of time being compensated for by adopting an amendment to an act, thus principally disturbing the system of honoring ownership rights and its enforceability. Namely, penalties and interest on delay represent an integral part of the debt arising with respect to any business, and execution is one of the standard tools of efficient collection of liabilities. Similar measures may deeply disturb the trust of the market in state guaranteed transactions. Experts admit that it is rather tough to face the intensifying problems arising from the lack of willingness, or capacity, of previous governments to comprehensively deal with the situation in the health sector; in remedying the faults however, they don't see restrictions of natural and constitutional

rights concerning private ownership and disturbing the business environment by disfavoring individual market participants, in this case borrowers including mainly doctors and pharmacists, as the right approach. The evaluators voiced the opinion that state should guarantee liabilities of entities whose management it is directly influencing. If this is not the case, it would be required to abolish the legal liability of health-service institutions to provide equal health care to all patients regardless of their solvency and trustworthiness of their health insurance fund. The evaluators view the extension of the ban on execution of health insurance funds and health-service institutions as a similarly non-systemic measure, which only serves to deepen the agony of our health system. Health insurance funds and health-service institutions, being independently managed economic entities operating in a market, must be subject to the same market rules, including executions and bankruptcies. The problem concerning health insurance funds is that no competition has developed in this area as yet. Legislation must enable private health insurance funds to become established and to come to the present „market“.

***Characteristics of the measure:***

*Members of the Slovak Parliament amended the government draft and adopted, in November, the draft amendment to the Health Insurance Act, which left in place state guarantees for the liabilities of the dissolved and/or bankrupt health insurance fund (HIF) with respect to health care provided by health-service institutions and other entities in the health sector, the liabilities being limited to the amount of the debt principal. By refusing to pay interest on delayed payments of debt, state may save significant funds as interest and penalties may, after so many years of unsuccessful collection, exceed the very face value of the dissolved HIF. Creditors however believe that such an approach represents an interference with private ownership in contradiction to the Constitution since de facto a portion of their receivables is not recognized (interest on delays and penalties) even if the law provides for their entitlement in this respect. It will not be possible any more to assign the liabilities of the dissolved HIP, and this is aimed at securing delinquent insured persons purchasing their debt at much lower price.*

*The original wording of the amendment drafted by Ministry of Health (MH) and approved by the government suggested that the liabilities of the dissolved / bankrupt HIF relating to health care provided by health-service institutions be only paid from collected receivables of the dissolved HIF. In other words, state would not at all guarantee the liabilities of insolvent health insurance funds. In the case of the only HIF that went bankrupt so far, Perspektíva, doctors and pharmacists would then be able to collect a negligible portion of their receivables only since the assets of the fund were „tunneled“ (stolen) and the non-dubious receivables by the DZP Perspektíva are rather small. Minister of Health justified his suggestion by the attempt to prevent any increases in the expenditures from the state budget and – as he put it – „attempting to fight sinister trading“ in receivables of the bankrupt DZP Perspektíva.*

*Health care providers pointed to the asymmetry in responsibilities: the state forced them through laws to dispense medicines or to attend the insured of the poorly managed Perspektíva, they could not reject them, receiving on the other hand no compensation for the services provided and medicines, and state should not even guarantee it, as suggested by the initial draft prepared by the MH. Eventually, Minister of Health recognized that total abolishing of the state guarantee would harm private ownership of health-service institutions and principally identified itself with the adopted slightly softer version of the amendment introduced by MPs.*

*Also, the provision that extends the ban on executions of health insurance funds and health-service institutions found its way into the amendment to the Health Insurance Act. Apart from insurance premium, also medicinal products and medical devices shall be excluded from executions, along with funds and property of health insurance funds and health-service institutions provided that they were acquired from health insurance funds. The aim of the new regulation is to gain time to settle the debts of health insurance funds and to prevent the provision of health care from being threatened due to execution.*

*Critics have been pointing to the fact that executions are among the standard tools available to creditors to effectively collect their money, and that this new provision abolishes this possibility. In their opinion, one group of creditors gets disfavored again. So, this prevents the collection of receivables by pharmacists from health insurance funds amounting to approx. Sk 6.6bn or those of suppliers from hospitals.*

## 22. Granting a State Guarantee for the Loan to the Railways of the Slovak Republic (Železnice SR, a.s.) Amounting to SKK 2.1bn

### **Comments of the Experts' Committee:**

Experts expressed their disagreement with the granting of another state guarantee for the loan to the Railways of the Slovak Republic (ŽSR), the company that has not yet undergone reform and which in addition has been making losses over long periods of time. Instead of exercising pressure upon the making of the management of the railways more effective, state extended assistance that will only intensify the inefficiency of the management of the company. The railways already got accustomed to be repeatedly granted state guarantees, and this creates preconditions for the so-called moral hazard, and for similar requirements to be presented by also other companies. The government wishes to prevent the raising of the social strains which lay-offs of employees from the railways would cause, while at the same time failing to formulate a clear-cut long-term strategy based on which realistic contracts would be made on services in the public interest. A principal political decision is also lacking when it comes to the debt of the railways. A significant accumulation of loans for investments and operation gives but minimum hopes that the railways may be able to pay off their debt. The HESO evaluators hope that the government, which is expected to launch the necessary reforms in this year, will provide for a principal change in both the activities and the management of the railways, as well as in the system of the granting of state guarantees, which as a matter of fact represent an increased tax and levies-related burden on the population, i.e. enhanced redistribution, which results in inefficiencies and unfairness of redistribution.

### **Characteristics of the measure:**

*In December, the Government of the SR extended a guarantee to Železnice SR (ŽSR, the Railways of the Slovak Republic) for their loan of Sk 2.1bn. The railways intend to use it to finance investment projects aimed at modernizing railway corridors. The previous state guarantee was extended by the government to the ŽSR in August 2002. The loan of Sk 1.5bn was spent by the ŽSR on covering losses from performances in public interest. In April 2002, the government approved state guarantees to ŽSR for loans of EUR 160m and Sk 2bn. The proceeds were directed to cover operating costs as well as on investment programmes.*

*State compensates the shortage of money to subsidize so-called performances in public interest by massive state guarantees. The debt of the ŽSR amounted to Sk 39bn as of 30 June 2002, thereof Sk 37bn with state guarantees. Many experts consider the management of the railways as rather inefficient. In 2001, ŽSR made losses amounting to Sk 3.873bn.*

## Members of the Experts' Committee

*Register contains names of all experts who have participated in minimum one quarterly evaluation in 2002.*

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**Peter Kasalovský**, economic daily newspaper Hospodársky denník; Economic Club (NEF - Informal Economic Forum)  
**Lýdia Kokavcová**, weekly magazine of society and politics Slovo, weekly magazine of economics, politics and society Formát  
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**Ján Kovalčík**, Trend Analyses  
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**Tomáš Velecký**, daily newspaper SME

**Peter Višváder**, daily newspaper Národná obroda

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**Eduard Žitňanský**, fortnightly economic magazine Profit

**Robert Žitňanský**, critical weekly magazine Domino fórum

*All experts have participated in the HESO project for no reward.*



## Ranking of All Evaluated Measures in 2002

| <b>All Evaluated Measures in 2002 ranked by Rating Values</b><br><i>(i.e. Contribution to the Economic and Social Development)</i> |  | <b>RATING</b><br>[-300; 300] | <b>Quality</b><br>[-3; 3] | <b>Importance (%)</b> | <b>Evaluated</b><br><i>(quarter)</i> | <b>Passed</b><br><i>(q/year)</i> |
|--|--|------------------------------|---------------------------|-----------------------|--------------------------------------|----------------------------------|
| 1.   | Conclusion of Accession Negotiations with the European Union   | <b>215,0</b>                 | 2,40                      | 89,7                  | 4th                                  | 4/2002                           |
| 2.   | Privatization of SPP, a.s. (Slovak Gas Company)  | <b>173,1</b>                 | 2,02                      | 85,6                  | 1st                                  | 1/2002                           |
| 3.   | Electronic Signature Act   | <b>159,9</b>                 | 2,53                      | 63,1                  | 1st                                  | 1/2002                           |
| 4.   | Computerization of the Judiciary (Introduction to the Courts of a Case Management Software)  | <b>152,0</b>                 | 2,49                      | 61,1                  | 1st                                  | 1/2002                           |
| 5.   | A New Law on Accounting (Harmonization of the Slovak Accounting System with the International Accounting Standards IAS)                                    | <b>142,0</b>                 | 2,37                      | 59,9                  | 2nd                                  | 2/2002                           |
| 6.   | Privatization of Slovenská poisťovňa, a.s. (Slovak Insurance Company)  | <b>138,4</b>                 | 2,19                      | 63,2                  | 1st                                  | 1/2002                           |
| 7.   | Draft of the Higher Judicial Officials Act   | <b>133,0</b>                 | 2,25                      | 59,1                  | 1st                                  | 2/2002                           |
| 8.   | New Legislation Concerning the System of Payments (Cutting Time Limits for Electronic Banking Operations)  | <b>130,9</b>                 | 2,46                      | 53,3                  | 2nd                                  | 3/2002                           |
| 9.   | Abolishing Restrictions (Customs Duties and Quotas) in Trade with the Czech Republic   | <b>126,6</b>                 | 2,44                      | 51,8                  | 4th                                  | 4/2002                           |
| 10.  | Lien upon Movable Assets (Amendment to the Commercial Code)  | <b>125,9</b>                 | 2,22                      | 56,8                  | 2nd                                  | 3/2002                           |
| 11.  | Amendment to the Foreign Exchange Act (Liberalization of Capital Flows)  | <b>125,3</b>                 | 2,37                      | 52,9                  | 2nd                                  | 2/2002                           |
| 12.  | Amendment to the Telecommunication Act (Liberalization of Telephone Services since 2003)   | <b>122,4</b>                 | 2,18                      | 56,2                  | 2nd                                  | -                                |
| 13.  | Communist-Era State Security (Štb) Files Opened to the Public, Founding the "Nation's Memory Institute"  | <b>121,9</b>                 | 2,18                      | 55,8                  | 3rd                                  | 3/2002                           |
| 14.  | Draft of the Constitutional Act on Conflict of Interests   | <b>121,2</b>                 | 1,93                      | 62,8                  | 1st                                  | -                                |
| 15.  | New Model of Active Provision of Information Regarding the Grant Allocation Process  | <b>120,9</b>                 | 2,30                      | 52,5                  | 2nd                                  | 2/2002                           |
| 16.  | Memorandum of the Government of the Slovak Republic  | <b>119,5</b>                 | 1,50                      | 79,7                  | 4th                                  | 4/2002                           |
| 17.  | Privatization of Electricity Distribution Companies  | <b>118,8</b>                 | 1,83                      | 65,1                  | 2nd                                  | 2/2002                           |
| 18.  | Sale of Istrobanka   | <b>110,1</b>                 | 2,48                      | 44,4                  | 1st                                  | 1/2002                           |
| 19.  | Act on Genetic Technologies and Genetically Modified Organisms   | <b>108,6</b>                 | 1,94                      | 55,9                  | 1st                                  | 1/2002                           |
| 20.  | Opening up The Electricity Market (Imports) for Large Customers  | <b>104,6</b>                 | 1,96                      | 53,4                  | 3rd                                  | 3/2002                           |
| 21.  | New Draft Arbitration Act  | <b>99,2</b>                  | 1,79                      | 55,4                  | 1st                                  | 2/2002                           |
| 22.  | Tax on Losses Abolished  | <b>98,8</b>                  | 2,11                      | 46,8                  | 3rd                                  | 3/2002                           |
| 23.  | Draft Act to Fight Overbearing and Insolence of State to Citizens (Reduction of State Bureaucracy)   | <b>95,8</b>                  | 1,69                      | 56,7                  | 1st                                  | -                                |
| 24.  | Draft Act on the Establishment of the State Treasury System  | <b>90,2</b>                  | 1,43                      | 63,0                  | 1st                                  | 2/2002                           |
| 25.  | Regulatory Rules for Gas Distribution Utilities (Pricing of Gas)   | <b>89,0</b>                  | 1,59                      | 56,0                  | 1st                                  | 1/2002                           |
| 26.  | Strengthening the Control of State Property Management (Model Statutes for State-Owned Joint Stock Companies, Draft Amendment to the State Enterprise Act) | <b>87,3</b>                  | 1,83                      | 47,8                  | 2nd                                  | 3/2002                           |
| 27.  | National Bank of Slovakia Raised Interest Rates by 0.5 Percentage Points   | <b>86,0</b>                  | 1,48                      | 58,2                  | 2nd                                  | 2/2002                           |
| 28.  | Amendment to the Employment Act (Stricter Eligibility Conditions for Unemployment Benefits; Municipalities as Executors of the Employment Policy)          | <b>85,6</b>                  | 1,63                      | 52,6                  | 4th                                  | 4/2002                           |
| 29.  | Tax Holidays for Investors Abolished   | <b>84,2</b>                  | 1,54                      | 54,6                  | 3rd                                  | 3/2002                           |
| 30.  | Slovak Bus Transport Companies (SAD) Privatized  | <b>83,8</b>                  | 1,58                      | 53,2                  | 2nd                                  | 2/2002                           |
| 31.  | Assigning 1 Per Cent of Corporate Income Tax of Legal Entities for Community Purposes (Tax Assignment)   | <b>83,2</b>                  | 1,87                      | 44,6                  | 2nd                                  | 2/2002                           |
| 32.  | Amendment to the Labor Code  | <b>80,0</b>                  | 1,34                      | 59,7                  | 1st                                  | 1/2002                           |
| 33.  | Raising Regulated Prices   | <b>77,5</b>                  | 1,07                      | 72,4                  | 4th                                  | 4/2002                           |
| 34.  | Privatization of Health-Service Institutions   | <b>77,2</b>                  | 1,24                      | 62,3                  | 3rd                                  | 3/2002                           |
| 35.  | Decision by the Antimonopoly Office of the SR to Stop Internet Provision by the Slovak Telecom Using ADSL Technology                                       | <b>75,1</b>                  | 1,66                      | 45,1                  | 2nd                                  | 2/2002                           |
| 36.  | Abolishing the Restriction on PVC Production   | <b>74,6</b>                  | 1,45                      | 51,3                  | 1st                                  | 1/2002                           |
| 37.  | 2003 State Budget (Deficit of SKK 56bn, 4.9% of GDP)   | <b>73,3</b>                  | 0,92                      | 79,8                  | 4th                                  | 4/2002                           |
| 38.  | Amendment to the Social Assistance Act (Cuts of Social Assistance Benefits and Strengthening of their Targeted Nature)                                     | <b>72,3</b>                  | 1,35                      | 53,6                  | 4th                                  | 4/2002                           |
| 39.  | Introducing Electronically Collected Motorway Fees (Tolls) after 2007  | <b>71,7</b>                  | 1,54                      | 46,5                  | 3rd                                  | 3/2002                           |
| 40.  | Science and Technology Act   | <b>70,7</b>                  | 1,52                      | 46,4                  | 1st                                  | 1/2002                           |

|     |   |              |       |      |     |        |
|-----|---|--------------|-------|------|-----|--------|
| 41. | Amendment to the Act on Civil Service (Opportunity to Recall Heads of Service Offices; Abolishing So-Called Guaranteed Tenure of Office for Top Experts without Passing Qualification Exam; Establishment of So-Called Employee Positions of Strategic Significance with Above-Standard Remuneration) | <b>68,9</b>  | 1,56  | 44,2 | 4th | 4/2002 |
| 42. | Reduction of Interest Rates by the National Bank of Slovakia (by 1.5 Percentage Points)   | <b>68,9</b>  | 1,19  | 57,9 | 4th | 4/2002 |
| 43. | Legislative Intention to Draft the Act on Pension Insurance Capital Pillar: Alternative B - Administrators to be Chosen by Citizens (Proposed by Ministry of Economy)   | <b>67,3</b>  | 0,88  | 76,9 | 3rd | 3/2002 |
| 44. | New Legislation Proposal for Citizens' Participation in the Legislative Process   | <b>65,7</b>  | 1,52  | 43,2 | 2nd | -      |
| 45. | Slovak Republic not Becoming Party to European Code Of Social Rights  | <b>64,0</b>  | 1,38  | 46,5 | 2nd | 2/2002 |
| 46. | Slimming Down the Government (Dissolution of the Ministry of Privatization and of the Positions of Deputy Prime Ministers without Portfolio)  | <b>58,8</b>  | 1,53  | 38,3 | 4th | 4/2002 |
| 47. | Tender for Light Trains Run by the Railway Company Cancelled  | <b>57,4</b>  | 1,54  | 37,2 | 3rd | 3/2002 |
| 48. | Raising Excise Tax on Tobacco and Mineral Oils  | <b>55,1</b>  | 1,16  | 47,3 | 4th | 4/2002 |
| 49. | Law on State Debt and State Loan Guarantees (Establishing the State Debt Management Agency)   | <b>55,1</b>  | 1,12  | 49,2 | 2nd | 2/2002 |
| 50. | Freezing the Salaries of Constitutional Officials and State Sector Employees  | <b>54,0</b>  | 1,28  | 42,3 | 4th | 4/2002 |
| 51. | Proposal to Introduce Flat Payments for Health Care Related Services (Draft Amendment to the Health Care Act)   | <b>54,0</b>  | 0,88  | 61,1 | 4th | 2/2003 |
| 52. | Reducing the Gap between Value Added Tax Rates (Amendment to the VAT Act)   | <b>53,8</b>  | 0,86  | 62,6 | 4th | 4/2002 |
| 53. | Dissolution of the Substitute Alimony Fund (So-Called Alimonies Fund)   | <b>53,2</b>  | 1,66  | 32,0 | 4th | 4/2002 |
| 54. | Proposal of a Differentiated System of Remuneration of Health Professionals (Draft Amendment to the Act on Public Service)  | <b>46,8</b>  | 0,98  | 48,0 | 4th | -      |
| 55. | Amendment to the Child Allowance Act (Cuts in the Flat Amount of Child Allowance; Making the Payment of Supplement to Child Allowance Dependent upon the Family Income)   | <b>43,2</b>  | 0,93  | 46,5 | 4th | 4/2002 |
| 56. | Draft Social Insurance Act  | <b>42,9</b>  | 0,56  | 76,9 | 1st | 2/2002 |
| 57. | Increasing Eximbanka's Equity by SKK 330m (to SKK 3bn)  | <b>42,8</b>  | 1,20  | 35,8 | 3rd | 3/2002 |
| 58. | Extension of the Deadline for Property Declaration  | <b>40,4</b>  | 0,84  | 47,9 | 1st | 2/2002 |
| 59. | Use of the Privatization Proceeds from SPP (Slovak Gas Industry) and Energy Distribution Companies  | <b>39,3</b>  | 0,57  | 69,5 | 2nd | 2/2002 |
| 60. | Amendment to the Supplementary Pension Insurance Act (Mandatory Insurance of Employees with Hazardous Jobs)   | <b>37,6</b>  | 0,87  | 43,2 | 2nd | -      |
| 61. | Act on the Slovak Academy of Sciences (SAV)   | <b>37,2</b>  | 1,00  | 37,2 | 1st | 1/2002 |
| 62. | New University Act  | <b>34,5</b>  | 0,56  | 62,0 | 1st | 1/2002 |
| 63. | Cutting the State Premium on Construction Savings Scheme from 25% to 20% (max. Amount Cut from SKK 4,000 to SKK 3,000) (Amendment to the Construction Savings Act)  | <b>31,9</b>  | 0,79  | 40,4 | 4th | 4/2002 |
| 64. | Collecting Half (USD 460m) of the Russian Debt in Cash (USD 138m)   | <b>28,6</b>  | 0,67  | 42,9 | 3rd | 3/2002 |
| 65. | Five Per Cent Raise in Pensions   | <b>28,3</b>  | 0,63  | 44,7 | 2nd | 2/2002 |
| 66. | Repayment of a Part (USD 230m) of the Russian Debt in Cash (USD 88m)  | <b>18,3</b>  | 0,48  | 38,3 | 2nd | 2/2002 |
| 67. | National Bank of Slovakia's Exchange Rate Interventions on the Foreign Exchange Market to Prevent the Rapid Appreciation of the Slovak Crown  | <b>12,1</b>  | 0,21  | 57,9 | 4th | 4/2002 |
| 68. | Act on Packaging (Mandatory Reserves for Packaging Materials)   | <b>11,5</b>  | 0,26  | 44,1 | 2nd | 3/2002 |
| 69. | Istrochem Bratislava Sold (92% share for SKK 202m)  | <b>8,4</b>   | 0,30  | 28,1 | 3rd | 3/2002 |
| 70. | Minimum Wages Increase to SKK 5,570 (by SKK 650)  | <b>6,1</b>   | 0,11  | 53,1 | 3rd | 3/2002 |
| 71. | Amendments to the Public Service Act  | <b>4,4</b>   | 0,09  | 48,6 | 1st | 1/2002 |
| 72. | Ban on Imports of Czech Meat as a Way of Slovakia's Retaliation   | <b>4,1</b>   | 0,14  | 29,8 | 2nd | 2/2002 |
| 73. | State Acquires a Stake in the Assets of the Slovak Airlines (Slovenské aerolinie, a.s.)   | <b>-0,7</b>  | -0,02 | 28,6 | 4th | 4/2002 |
| 74. | Ordering of Medical Services: Contracts between General Health Insurance Company (Všeobecná zdravotná poisťovňa) and Hospitals  | <b>-1,3</b>  | -0,02 | 56,6 | 2nd | 2/2002 |
| 75. | State Guarantees to the Slovak Electricity Company (SKK 6bn)  | <b>-7,6</b>  | -0,18 | 43,0 | 3rd | -      |
| 76. | State Guarantees to the Slovak Shipbuilding Company in Komárno (SLKB) (EUR 23m)   | <b>-8,9</b>  | -0,27 | 32,8 | 3rd | 3/2002 |
| 77. | Cancelling the Tender for the Sale of Slovenské lodenice Komárno (Slovak Shipbuilding Company) (SLKB)   | <b>-10,3</b> | -0,27 | 38,7 | 1st | 1/2002 |
| 78. | Proposal to Establish Slovak Venture Capital Fund   | <b>-10,5</b> | -0,23 | 46,0 | 3rd | -      |
| 79. | Framework for the 2003 National Budget  | <b>-13,6</b> | -0,17 | 81,7 | 3rd | 3/2002 |
| 80. | Cancelling the Tender for State Treasury System   | <b>-14,8</b> | -0,34 | 43,3 | 2nd | 2/2002 |

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|------|---|---------------|-------|------|-----|--------|
| 81.  | License to the Third Mobile Operator - the Company Profinet, Inc.   | <b>-15,1</b>  | -0,33 | 45,7 | 3rd | 3/2002 |
| 82.  | Amendment to the Health Insurance Act (State Guarantees for the Liabilities of a Dissolved Health Insurance Fund up to the Amount of the Principal of the Debt; Extension of the Ban on Executions of Health Insurance Funds and Health-Service Institutions) | <b>-15,7</b>  | -0,31 | 50,7 | 4th | 4/2002 |
| 83.  | Decision of Financial Market Authority on the Sale of VSŽ (a Steel Company) Stocks From Transpetrol Portfolio   | <b>-19,3</b>  | -0,47 | 41,4 | 1st | 1/2002 |
| 84.  | Act on Substitute Alimonies (Establishment of Alimonies Fund)   | <b>-26,1</b>  | -0,84 | 30,9 | 2nd | 2/2002 |
| 85.  | 2003 Collective Agreement of the Public Service (More Benefits)   | <b>-28,1</b>  | -0,56 | 49,9 | 3rd | 3/2002 |
| 86.  | Draft Slovak Audio and Video Fund Act   | <b>-30,5</b>  | -0,97 | 31,5 | 3rd | -      |
| 87.  | Granting a State Guarantee for the Loan to the Railways of the Slovak Republic (Železnice SR, a.s.) Amounting to SKK 2.1bn  | <b>-35,4</b>  | -1,00 | 35,4 | 4th | 4/2002 |
| 88.  | National Property Fund's (FNM) Suggestion for the Allocation of SPP (Slovak Gas Industry) Privatization Proceeds  | <b>-36,7</b>  | -0,48 | 76,8 | 1st | -      |
| 89.  | State Guarantee of SKK 11.7bn Extended to the Slovak Railways   | <b>-41,1</b>  | -0,93 | 44,0 | 2nd | 2/2002 |
| 90.  | Legislative Intention to Draft Act on Pension Insurance Capital Pillar: Alternative A - Administrators to be Appointed by Investment Committee of the Social Insurance Agency (Proposed by Ministry of Labor, Social Affairs and Family)                      | <b>-47,0</b>  | -0,59 | 79,2 | 3rd | 3/2002 |
| 91.  | Act on Retail Chains (a Stricter Regulation of Hypermarkets)  | <b>-47,4</b>  | -0,96 | 49,6 | 2nd | -      |
| 92.  | Write-off of the Debt of the Slovak Television and Slovak Radio Amounting to SKK 711m   | <b>-47,8</b>  | -1,35 | 35,4 | 2nd | 3/2002 |
| 93.  | Tender for Light Trains Run by the Railway Company (Železničná spoločnosť, a.s.)  | <b>-55,2</b>  | -1,40 | 39,6 | 2nd | 2/2002 |
| 94.  | Postponing the Transformation of the News Agency of the Slovak Republic (TASR)  | <b>-59,0</b>  | -1,58 | 37,4 | 1st | 1/2002 |
| 95.  | Adjustment of the Planned Deficit of Public Finances for 2002 from 3.5% to 4.5% of GDP  | <b>-60,3</b>  | -0,93 | 64,5 | 2nd | 2/2002 |
| 96.  | Government Loan to the Municipality of Košice   | <b>-69,0</b>  | -1,61 | 42,8 | 1st | 1/2002 |
| 97.  | Proposal to Increase Social Benefits for Members of the Slovak Parliament   | <b>-76,7</b>  | -2,21 | 34,7 | 1st | -      |
| 98.  | New Collective Agreement for the Slovak TV (10- to 12-Month Severance Payments upon Laying off Top Managers)  | <b>-78,2</b>  | -2,50 | 31,3 | 3rd | 3/2002 |
| 99.  | Security of Tenure for Top Experts without Passing Qualification Exam (Amendment to the Act on Civil Service)   | <b>-81,7</b>  | -1,96 | 41,0 | 3rd | 3/2002 |
| 100. | Proposal to Compensate Clients of Bankrupt "Pyramid Schemes"  | <b>-124,1</b> | -2,42 | 51,2 | 1st | -      |