

INEKO

Institute for Economic and Social Reforms

Dušan Zachar (Ed.)

SLOVAKIA 2006

*Evaluation of Economic and Social Measures
(The HESO Project)*

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Evaluation of Economic and Social Measures (The HESO Project)

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*THE **HESO** PROJECT*

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*EVALUATION OF
ECONOMIC AND
SOCIAL
MEASURES*

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**Bratislava
July 2007**

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Robert Žitňanský, weekly magazine .týždeň

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for their generous support to this publication.

Dušan Zachar

Project Coordinator and Editor of the Publication

Selected Average Foreign Exchange Rates of the Slovak Koruna (SKK)

Currency	Amount	2003	2004	2005	2006	1st Half of 2007
EUR	1	41,49	40,05	38,59	37,25	34,06
USD	1	36,77	32,26	31,02	29,72	25,65
CZK	1	1,30	1,26	1,30	1,31	1,21

Source: National Bank of Slovakia

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Introduction

The project of the non-governmental non-profit organisation INEKO (Institute for Economic and Social Reforms) - HESO (Evaluation of Economic and Social Measures) creates a platform where respected economic analysts, lawyers, sociologists, political scientists, economic journalists, representatives from the business community as well as from academic institutions, trade unions, employers' associations and think tanks can regularly express their opinions on selected economic and social measures of the legislative and executive power as well as on decisions of public institutions in Slovakia. In this way they inform the wider public about their opinions on the quality and importance of given measures. Thus, the citizens have a possibility to obtain a reliable overview of economic and social measures proposed and implemented in Slovakia and of the evaluation by renowned professionals without the necessity of becoming acquainted with too many details. From the beginning of the HESO Project in 2000 until the end of 2006, the experts expressed their opinions on 590 various measures of the public sector.

The ambition and the main objective of the HESO Project is not to monitor the development in individual areas of the society completely and in-details nor to provide professional starting points for the action of competent bodies but to regularly provide citizens with the opinion of the expert public on frequently discussed, important, innovative or unprecedented economic and social measures affecting the quality of life of citizens and to create better preconditions for the political acceptance of structural measures – reforms – bringing systemic changes into the Slovak economy and society.

Now, you are holding the *SLOVAKIA 2006* publication that maps the HESO Project results for the period of January – December 2006. It follows five previous HESO publications covering the period from the beginning of 2000. All of them (also in Slovak) are freely accessible at the INEKO's web site www.ineko.sk. In the *SLOVAKIA 2006* publication, you will find the description and evaluation of the selected 44 important and/or interesting economic and social measures of the year 2006, which were the subject of the evaluation by 58 experts operating in Slovakia and abroad (see the list of experts on pages 4 and 5). It is possible to learn from their evaluations which measures represent an important benefit for the socio-economic development of Slovakia and which of them slow this process down.

For example, in 2006, according to the experts, the granting of the licence to the third mobile operator was the most beneficial measure and then the repeated decisions on increase in interest rates of the National Bank of Slovakia, deregulation of prices for health care services among health care providers and health insurance companies as well as the imposing of a record-breaking fine on construction companies for a price cartel in the tender for construction of the highway under the High Tatras by the Antimonopoly Office of the Slovak Republic.

On the contrary, the most harmful measures passed in 2006 were the Programme Declaration of the Slovak Government for the period of 2006 – 2010, cancellation of some lump sum fees in the health care sector, allowing the Government to withdraw the Chairman of the Health Care Surveillance Authority for any reasons, cancellation of the privatisation of the Bratislava Airport, introduction of the lowered VAT rate on medicines, introduction of the so called millionaire income tax, payment of the Christmas contribution to pensioners, increase in the minimum wage as well as the refusal to appoint Mr Vladimír Tvaroška a vice-governor of the National Bank of Slovakia by the President of the Slovak Republic.

From the point of the political cycle, it is necessary to divide the year 2006 into two parts – the 1st half – the period before the parliamentary elections that is connected to frequent enforcement of measures with an expansive character which are politically popular from the short-term point of view (shortly before elections) but from the long-term perspective they have a negative impact (according to the theory of political cycle) and the 2nd half – the period of creation of a new government coalition and beginning of the fulfilment of its four-year programme. When looking at the Figure 1 on the next page we can say that the experts participating in the HESO Project perceived the benefits of measures passed in the period before the elections (1st and 2nd quarters of 2006) relatively critically compared to other quarters of the term in office of the previous Government. But in the 2nd half of 2006 – from the formation of the new government coalition – we can see an even more significant decrease in the acceptance (the level of consent) of the implemented economic and social measures from the side of the participating experts (see Figure 3) which led to negative values of the HESO-Rating of the monitored period for the first time in the HESO Project's history. So the 2nd half of 2006 was, according to experts, the worst evaluated period since the creation of the HESO-Project in 2000 from the point of the reform atmosphere or the level of contribution of passed measures to the economic and social development of the country. Even more significant than direct comparison of the HESO-Ratings of the quarters of the election year 2006 is comparing the differences in perception of the benefits of the measures of the initial periods of the Mikuláš Dzurinda Government and the current Government of Robert Fico, thus eliminating the influence of the political cycle (see Figures 1 and 2).

The HESO-Rating of the period (quarter, half-year, year(s), etc.) represents an average of HESO-Ratings of all evaluated measures adopted (approved) in the relevant period. It reflects the opinion of the Experts' Committee on their quality and importance and outlines the level of the reform atmosphere of the monitored period or the level of the contribution of passed measures to the economic and social development of the country. The HESO-Rating achieves the range from -300 to +300 points.

Figure 1

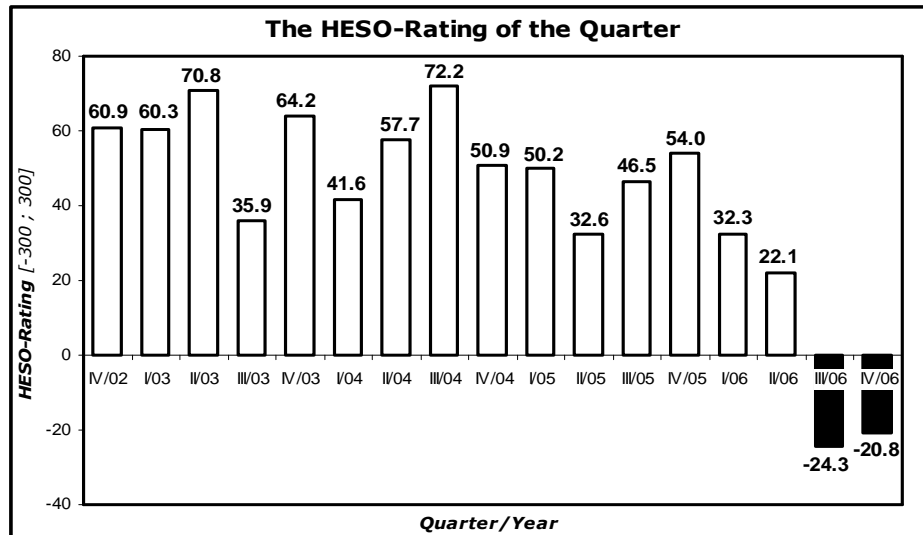


Figure 2

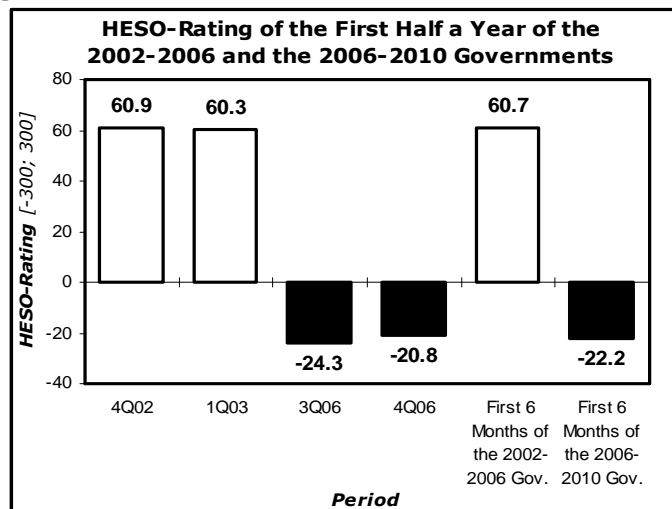
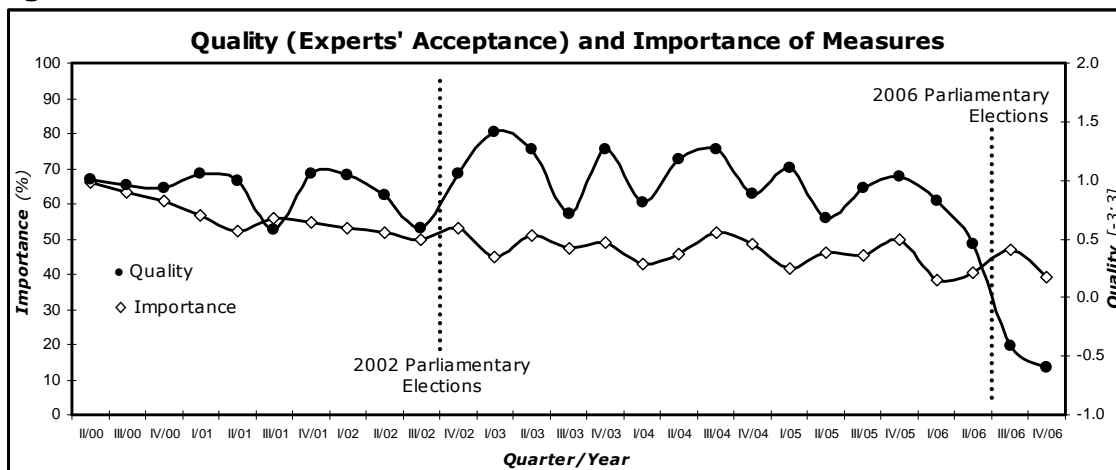


Figure 3



Methodology

Selecting Measures to Evaluate

Evaluated economic and social measures include, among others: acts, directives, regulations, international agreements and treaties proposed or passed by the Slovak Parliament, measures adopted by the Slovak Government (acts, regulations, resolutions, privatisation decisions, strategy documents, policy concepts, etc.), decisions of public institutions (e.g. of the Social Insurance Agency, public health insurance companies, Slovak Radio and Television, National Bank of Slovakia, Antimonopoly Office, Telecommunications Office, Financial Market Authority, Office for Public Procurement, Regulatory Office for Network Industries or other market regulators). Everyone can suggest through INEKO's web site, 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 are not meant to provide a comprehensive and detailed overview and monitoring of the development in individual areas of the society. Characteristics (description) of the evaluated measures are prepared by INEKO. For this purpose INEKO uses information from original materials, documents as well as from media sources.

Evaluation Experts' Committee

The evaluation HESO Experts' Committee consists of about 40-50 members for each evaluation period. The experts are reputable economic analysts, lawyers, political scientist, sociologists, economic journalists, representatives from business community as well as from academic institutions, trade unions, employers' associations and think tanks (see the list of all members of the 2006 HESO Experts' Committee on pages 4 and 5). They represent leading or senior management positions in their organisations. 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 or any organisations of which they are members, nor the views of INEKO.

Evaluation Criteria

Experts evaluate all the selected measures in two categories: quality (i.e. experts' acceptance) of the measure and importance of the measure for the society and economy. These do not affect each other.

Quality of the Measure [-3; +3]

Experts evaluate the effect of a given 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 expert's absolute disapproval of the measure
- 2 expert's moderate disapproval of the measure
- 1 expert's minor disapproval of the measure
- 0 status quo, no effect of the measure
- +1 expert's minor approval of the measure
- +2 expert's moderate approval of the measure
- +3 expert's absolute approval of the measure

Importance of the Measure for the Society and Economy (%)

Experts express opinion how essential and necessary a given 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. Their comments on evaluated measures represent a part of the quality evaluation of the HESO Experts' Committee. About 50% of the HESO Experts' Committee members regularly comment on evaluated measures.

HESO-Ratings

HESO-Rating of the Measure [-300; +300]

To get the HESO-Rating of the measure, the average quality grade of the measure is multiplied by a coefficient expressing the average value of the measure's 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. The HESO-Rating of the measure indicates the contribution of an evaluated measure to the economic and social development of the country.

HESO-Rating of the Period [-300; +300]

Only those HESO-Ratings of measures, which have been implemented or passed by legislative body, executive power or public institutions, are used to complete the HESO-Rating of a given period (quarter, half of year, year(s), etc.). The HESO-Rating of the period is calculated as an average of all HESO-Ratings of evaluated measures, which have been passed or adopted in relevant period. 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 HESO-Rating of the period. It will count only in the period in which it is put into effect. The HESO-Rating of the period reflects Experts' Committee's opinion on quality and importance of all evaluated measures passed in relevant period and indicates the reform atmosphere of the given period or the extent of the contribution to the economic and social development of the country. The HESO-Rating of the period comes in range [-300; +300].

EVALUATION OF SELECTED ECONOMIC AND SOCIAL MEASURES – 1st HALF OF 2006

(Note: The evaluation of measures represent opinions and views of the HESO Experts' Committee members and do not necessarily reflect the views of their employers or any organisations of which they are members, nor the views of INEKO.)

HESO – Evaluation of Economic and Social Measures – 1st Half of 2006					
Measures Ranked by HESO-Rating Values <i>(i.e. Contribution to the Economic and Social Development)</i>		HESO-RATING	Quality	Importance	See Page No.
		<i>[-300;300]</i>	<i>[-3 ; 3]</i>	<i>%</i>	
1.	Increase in pensions for so called "old-pensioners" who have been negatively influenced by maximum pension assessment during the years 1988-2003 before the starting of the pension reform (cancellation of an income ceiling serving as a basis for pension assessment – pensions of "old-pensioners" will be recalculated and assessed based on the whole income; Amendment to the Act on Social Insurance)	77.8	1.64	47.4	<i>p. 14</i>
2.	Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points (basic interest rate – 3.5%) since March 1 st , 2006	75.9	1.55	49.1	<i>p. 16</i>
3.	Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points (basic interest rate – 4.0%) since May 31 st , 2006	72.9	1.52	47.9	<i>p. 17</i>
4.	Deregulation of prices for health care services between health care providers and health insurance companies and deregulation of rent of non-residential rooms in medical facilities (deregulation of prices except services of medical first aid, emergency services, services provided for so called social purposes and maximum prices for services paid directly by a patient alone)	69.1	1.50	46.0	<i>p. 19</i>
5.	Increase in social scholarships for secondary schools and university students (connection of a social scholarship to a subsistence minimum; extending of the radius of beneficiaries by an increase of the income threshold for granting the social scholarship)	61.3	1.58	38.8	<i>p. 20</i>
6.	Decision of the Government on the privatisation of 66% share of the Bratislava and Košice airports by TwoOne consortium consisting of the Vienna-Schwechat Airport, Austrian Raiffeisen Zentralbank and Slovak financial group Penta for a total amount of SKK 19.7bn	44.7	0.99	45.2	<i>p. 22</i>
7.	A general pardon for concessionary fees debtors of the Slovak Radio and Slovak Television (remission of interests on late payments for all debtors who paid the owing concessionary fees within 60 days, decrease of penalty fees, prohibition of sale of claims against concessionaries to third parties; Amendment to the Act on Concessionary Fees)	34.9	1.06	33.0	<i>p. 24</i>
8.	Decision of the Office for Public Procurement on confirmation of the fine in the sum of SKK 12bn to the Ministry of Interior of the Slovak Republic for reportedly unauthorised utilisation of negotiated procedure without publication for the purchase of fire-fighting tank vehicles – "sprayers"	30.6	1.16	26.4	<i>p. 26</i>

9.	Increase in salaries of health care employees (in faculty hospitals by 20%, in smaller hospitals by 6% in 2006)	28.6	0.72	39.9	<i>p. 28</i>
10.	The project of cultural vouchers (SKK 200 per pupil and teacher per year for payment of a visit to cultural events)	21.6	0.73	29.7	<i>p. 30</i>
11.	The Project Internet for Education (state contribution in the sum of SKK 234 per month during 2 years for 40,000 young (later for all) people that will establish a high-speed internet connection)	13.7	0.34	39.8	<i>p. 31</i>
12.	Cancellation of the state subsidised organisation Správcovská SND (the Slovak National Theatre (SND)) as the exclusive administrator and operator of its new building	12.1	0.52	23.0	<i>p. 33</i>
13.	Resolution on the not-making of any privatisation decisions after February 22 nd , 2006 until the formation of a new Government (termination of privatisation projects as for 3 energy distribution companies ZSE, SSE and VSE, 6 companies of the SAD, 6 heating stations, Railway Company Cargo and DMD Group)	11.8	0.22	52.6	<i>p. 35</i>
14.	A general pardon for debtors of the so called "triple tax" (remission of penalties for late payment for all persons who paid owing principals for the inheritance tax, gift tax and real estate transfer tax within 3 months)	9.6	0.33	29.3	<i>p. 37</i>
15.	Limitation of the possibility to change the Pension Fund Management Company at a maximum of once every 2 years (Amendment to the Act on Old-Age Pension Savings)	6.0	0.14	42.2	<i>p. 38</i>
16.	Cancellation of the Civil Service Office (loosening rules on selection and replacement of civil servants)	0.5	0.01	40.0	<i>p. 40</i>
17.	Introduction of an employer's obligation to pay the Guarantee Insurance contributions in the amount of 0.25% also for persons working under a Work Performance Agreement or under a Brigade Work of Students Agreement (Amendment to the Act on Social Insurance)	-24.3	-0.77	31.5	<i>p. 43</i>
18.	Annual settlement of public health insurance premium payments	-31.4	-0.68	46.2	<i>p. 44</i>
19.	Not-appointing of Mr Vladimír Tvaroška as vice-governor of the National Bank of Slovakia by the President of the Slovak Republic because of supposed not-meeting of the conditions for sufficient expert knowledge and experience	-48.5	-1.40	34.7	<i>p. 46</i>
HESO-Rating / Quality / Importance of the 1st Half of 2006		27.2	0.65	39.3	

1. Increase in pensions for so called "old-pensioners" who have been negatively influenced by maximum pension assessment during the years 1988-2003 before the starting of the pension reform (cancellation of an income ceiling serving as a basis for pension assessment – pensions of "old-pensioners" will be recalculated and assessed based on the whole income; Amendment to the Act on Social Insurance)

Primary Source: Amendment No. 310/2006 Coll. to the Act No. 461/2003 Coll. on Social Insurance

Status of the Measure in the Legislative Process: approved on 21.4.2006 by the National Council of the Slovak Republic (i.e. Slovak Parliament) in the 3rd reading; effective from: 1.8.2006

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to soften big differences between the pensions of so called "old-pensioners" (pensioners who obtained the title to pension according to old legislation effective before 1.1.2004 (during the years 1988-2003), i.e. before the launching of the pension reform)) and "new-pensioners"

Contents of the Measure:

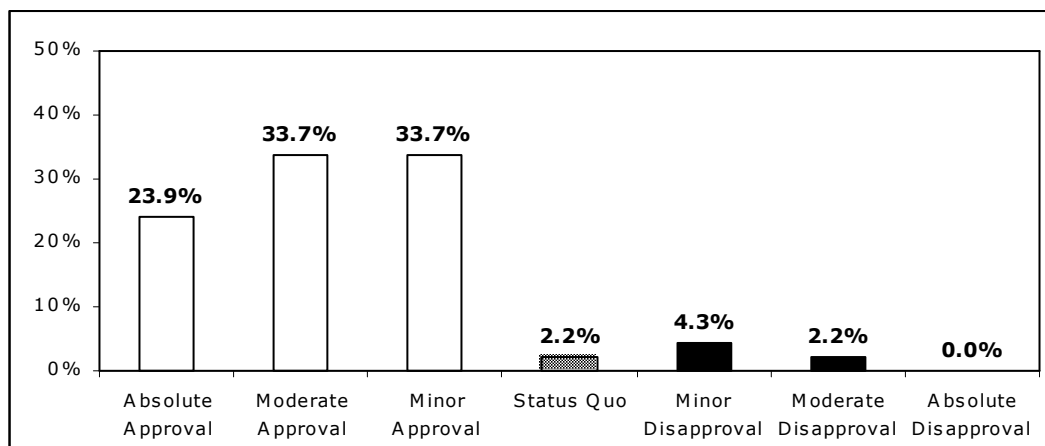
- the income ceiling serving as a basis for pensions assessment during 1988-2003 was cancelled; now the whole income will be taken into account via the recalculation of pensions of "old-pensioners"
- increase in pensions affects especially those people who had an income higher than SKK 10,000
- Social Insurance Agency (SP) shall recalculate more than 100,000 pensions conferred before the launching of the pension reform till the end of 2007. Thanks to this fact approximately 80,000 people should get pensions higher by SKK 1,000 on average
- this will require SKK 800m in 2006 and more than SKK 2bn per year in the next 3 years
- it is not necessary to ask for recalculation of the pension – SP shall do this automatically
- cancellation of the maximum pension assessment is also related to widow's and widower's pensions as well as to people working even after reaching retirement age

Opinions of Proponents:

- strengthening of the deserts principle also for "old-pensioners" – their pensions will better reflect their real income in the past
- corrective measure in the pension reform
- equalisation of "old - and new-pensioners"
- softening of the difference between their pensions
- fair measure

Opinions of Opponents:

- such extensive amendments should have been taken into account before starting the pension reform
- frequent changes make the social system less transparent and it causes significant uncertainty among people
- high administrative demands of pensions recalculations for the Social Insurance Agency
- necessary additional public sources
- a pre-election populist ad hoc step

Evaluation of the HESO Experts' Committee:

The measure resolved the situation that was considered unfair by society as well as by most evaluating experts. Differences in the amount of pensions between so called "old- and new-pensioners" were reduced and this was evaluated as a right step by the Ministry of Labour, Social Affairs and Family of the Slovak Republic although one respondent considered it to be a politically motivated step. However, according to him it was important to rectify the failures from the past that resulted from the launching of the pension reform. Another evaluator considered the measure to be "more systematic and less destroying of confidence in the whole system than e. g. precedent prolonging of the transition period for lower deserts. But it increases the pressure of the public pension system on public finance, although this can be corrected by sooner implementation of valorisation according to inflation or a sooner increase of the retirement age".

Martin Krekáč: "Differences between so called "old-pensioners" and "new pensioners" were unfair. But this problem should have been solved before the starting of the pension reform, not only subsequently."

Juraj Lazový: "I view this as an amendment of an insufficiently balanced pension reform. The intention of the reform's creators was not to decrease pensions to anybody by the reform. Finally an adverse problem emerged, i.e. inadequately big differences between so called "old- and new-pensioners"."

Ladislav Balko: "The measure is logical and fair. But there is the question whether it should not have been implemented simultaneously with the launching of the reform. In my opinion this measure only rectifies unconstitutional inequality of the pension claim of citizens of this State although our constitution says that citizens are equal and nobody may be aggrieved in his/her rights (and we could also cite other provisions of the constitution). I am sure that if you change the rules of the game in any area or if a composer changes notes in his composition, musicians in the orchestra with old notes can not play in a different way than musicians with modified notes. But in order to achieve this the state should have remembered in the area of pension calculation when it intended to make the changes whether there will be resources for that. And not to make the reform just for external presentation that we are reformed. We were over hasty in this area. A citizen has to be equal with another citizen before the law."

Juraj Draxler: "Definite agreement. Recalculation of pensions will rectify an evident, pronouncedly arrogant injustice."

Jozef Stránsky: "It's a pity that opinions requesting this fact were not listened to during the preparation and realisation of the pension reform. Several pensioners were significantly aggrieved and they will be still in disadvantage against others. "Wise heads" decided on resources that were produced also during their active working life."

Jaroslav Vokoun: "Our life is about forgiving, too. Many things could have been but were not. The Government recovered and made a partial rectification. It deserves an applaud for this. Let's not look at pensioners as at an unwanted residual. We haven't opened many doors yet because it is easier not to do that."

Juraj Nemeč: "The result is OK but the process side is questionable."

Luboš Vagač: "Agreement with equalisation of conditions for "old-pensioners". However, the first pillar burdens the whole pension system by its too strong deserts principle."

Richard Ďurana: "I consider the total removal of the deserts principle from the first pillar to be a better solution considering the growing deficit of the Social Insurance Agency."

One respondent expressed consent with critics pointing at too frequent changes in the first pillar of the social insurance as it makes the whole pension system less transparent and it causes significant uncertainty among people.

2. Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points (basic interest rate – 3.5%) since March 1st, 2006

Primary Sources: Resolution of the Bank Board of the National Bank of Slovakia (BR NBS) on the setting of interest rates

Comment of the BR NBS to the Resolution on the set levels of the interest rates of the NBS.

Status of the Measure in the Legislative Process: approved on the BR NBS's meeting on 28.2.2006; effective from: 1.3.2006

Submitter: National Bank of Slovakia

Intent of the Measure: to support the meeting of the inflation target in the perspective of Euro adoption in 2009 through a tightening of the monetary policy

Contents of the Measure:

- the Bank Board of the NBS decided on an increase of the key interest rates by 0.5 percentage points
- the basic interest rate was increased to the level of 3.5%
- the two-week REPO tender limit rate – 3.5%
- the overnight refinancing rate – 4.5%
- the overnight sterilisation rate – 2.5%

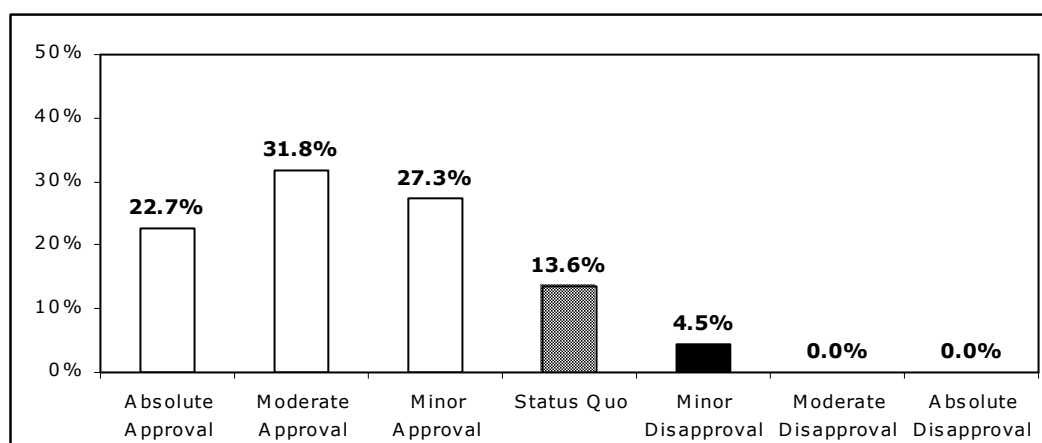
Opinions of Proponents:

- relatively high level of inflation
- the risk of acceleration of inflation dynamics
- fear of the economy overheating
- the trade balance deficit and GDP were growing faster than expected
- the measure should limit future inflation pressures and this way ensure fulfilment of the inflation Maastricht convergence criterion necessary for Euro adoption
- standard procedure and tool of the NBS's monetary policy

Opinions of Opponents:

- increase in interest rates will lead to an increase in the interest rates of commercial banks that can harm especially smaller entrepreneurs
- increase in rates will make the planned investments of entrepreneurs more expensive
- the market expected a lower increase

Evaluation of the HESO Experts' Committee:



The increase of the key interest rates of the central bank was evaluated as a right reaction of the National Bank of Slovakia (NBS) on development with the aim of reducing the inflation growth which was viewed as problematic at that time in order to meet the Maastricht criterion of price stability for Euro adoption.

Ladislav Balko: "A logical step of the central bank made only with the aim of slowing down inflation. Because if the Slovak currency was already in ERM II and if the state started preparations for the planned date of Euro introduction, it was necessary to take this monetary

measure from the side of the NBS. But it is questionable and the development confirmed this fact that it was not sufficient. I.e. whether NBS shouldn't have increased the rate by 1 percentage point immediately. This measure, i.e. a more penetrative increase of interest rates, did not reflect immediately and here we need to consider the fact that the effect of the interest rate increase usually comes only after three quarters. I.e. at the end of 2006. So maybe an increase of the rate by 1 percentage point would have slowed down inflation more aggressively. But it is questionable whether the intervention of the NBS by using a monetary tool is efficient and whether it should not be combined also with other State's policies. And the question of what would a more significant increase of rates do with the crown exchange rate is not omissible here."

Juraj Draxler: "The correctness of this step has already been confirmed by the development – Slovakia recorded a record-breaking GDP growth while inflation stayed under control. The fact is that the economic growth of SR is dominantly driven by foreign investments and export therefore neither the short-term choking of domestic demand would not have a similar impact as in less open or bigger economies. But in this case the NBS was probably right and the measure has not probably influenced e.g. a demand on the mortgage market!

Radoslav Štefančík: "Increasing interest rates by the National Bank leads to the increasing of interests by loans provided by commercial banks on one hand to companies and on the other hand to households. Increasing interest rates then results in a decrease of investments which is subsequently reflected in the slowing down of economic growth, an unemployment rate increase but also in raising the prices of mortgages. It is questionable whether there would really be an overheating of the economy without the intervention of the National Bank of Slovakia or whether the economy would also cope with a faster growth of the domestic economy."

Robert Žitňanský: "An understandable step in the fight against inflation, but because inflation was abnormally not pushed by government expenses it is disputable whether it is the most optimum way to limit the economic expansion only because of meeting the arbitrary determined criteria for entrance into the Eurozone."

Jozef Orgonáš: "The decision of the Bank and subsequently also in the second half-year documents the quality performance of the monetary policy of the central bank."

Jaroslav Vokoun: "The NBS is a respectable institution that considers its steps well before it makes them. I understand this as a softening of influences of the political cycle."

Miroslav Siváček: "A standard measure that met its purpose."

3. Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points (basic interest rate – 4.0%) since May 31st, 2006

Primary Sources: Resolution of the Bank Board of the National Bank of Slovakia (BR NBS) on the setting of interest rates

Comment of the BR NBS to the Resolution on the set levels of the interest rates of the NBS

Status of the Measure in the Legislative Process: approved at the BR NBS's meeting on 30.05.06; effective from: 31.5.2006

Submitter: National Bank of Slovakia

Intention of the Measure: to act against inflation risks via tightened monetary policy

Contents of the Measure:

- the Bank Board of the NBS decided to increase the key interest rates by 0.5 percentage points
- the basic interest rate was increased to the level of 4.0%
- the two-week REPO tender limit rate – 4.0%
- the overnight refinancing rate – 5.0%
- the overnight sterilisation rate – 3.0%

Opinions of Proponents:

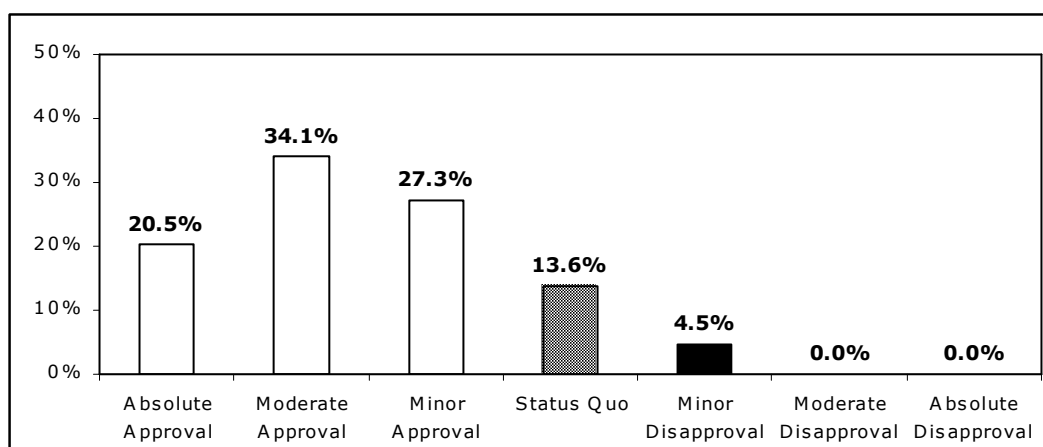
- persisting risk of acceleration of inflation dynamics
- the measure should slow down future inflation pressures and this way ensure fulfilment of the inflation Maastricht convergence criterion necessary for Euro adoption
- standard procedure and tool of the NBS's monetary policy
- increase of interest rates on time deposits of commercial banks
- the rate of increase reflects the real development of the economy
- increase of the NBS's rates will not significantly negatively influence economic growth
- the measure of the NBS was expected by analysts

Opinions of Opponents:

- slowing down of inflation at the expense of economic growth
- it can also result into the slowing-down of salaries growth, productivity and prices converging to the EU standard

- increase of interest rates on mortgages
- increase in rates will make the planned investments of entrepreneurs more expensive
- the measure was implemented closely before parliamentary elections that could have had a significant impact on the financial market

Evaluation of the HESO Experts' Committee:



Several experts evaluated this monetary measure of the National Bank of Slovakia (NBS) similarly as the previous one. One respondent stated that *"despite the possible slowing-down of economic growth and salaries growth, considering the analysis of the World Bank and development in our economy, the act of the NBS considering the aim to meet the inflation criterion for entering the Eurozone was right"*.

Ladislav Balko: *"I think that in connection with the previous measure this was only a routine reaction on the economic development and especially the only possible attack against inflation. At that time the central bank was fighting against inflation alone, the execution was not helpful. But also the central bank should have reacted more smartly. Again it seems to me that especially by a higher increase of the rate and combination of this step with other measures, e.g. in the area of liquidity excess on the market. The central bank could have decided on a more significant increase of rates also considering the coming elections where it should certainly count on the fact that the markets will temporarily wait, i.e. that the crown will not move and this way the central bank could have made the crown more attractive and eliminate the impact of elections on its exchange rate."*

Juraj Draxler: *"The NBS probably manages interest rates quite at a professional level. Reserves emerged more in operations at the exchange market – not long ago Czech economists notified that the NBS probably underestimates the Slovak crown too much by its interventions and after this notification also some Slovak analysts added their criticism. The monetary policy also benefits from the fact that wages are under control: high unemployment, weak organisation of labour unions and the fact that key companies are owned by foreign owners with strong leverage against the State – all these facts are working against the pressure on too fast an increase of inflation pressures through wide demand. But the next period will be a crucible because of the high growth rate on one hand and there is still a possibility of strong external shocks through energy prices on the other hand."*

Jozef Stránsky: *"The NSB successfully fulfils its task by guarding the Slovak financial market. This is also possible because of the fact that political pressures have not been expressed fully here yet."*

Jaroslav Vokoun: *"The NBS is a respectable institution that considers its steps well before it makes them. To be sure that the NBS shivers to be in the monetary union where it will not be responsible for this small yard where each cock can be seen and we pretend..."*

4. Deregulation of prices for health care services between health care providers and health insurance companies and deregulation of rent of non-residential rooms in medical facilities (deregulation of prices except services of medical first aid, emergency services, services provided for so called social purposes and maximum prices for services paid directly by a patient alone)

Primary Source: Regulation of the Ministry of Health of the Slovak Republic No. 07045 – 15/2006 – SL which determines the extent of price regulation in the area of health care

Status of the Measure in the Legislative Process: passed on 19.4.2006; effective from: 1.5.2006, some provisions from 1.1.2007

Submitter: Ministry of Health of the Slovak Republic

Intention of the Measure: deregulation of prices between health care providers and health insurance companies; efficient management of public finance in the health care industry

Contents of the Measure:

- following the deregulation of prices in February 2006 (for services in oncology, cardiology, cardio surgery) and in April (for the performing of dialyses and nurses' services) also the prices of health care services in general and specialised ambulance health care, in stationeries, by transport into and from hospitals and between them, in hospitals and spas have been deregulated since May 1st, 2006
- the State will still determine the official prices for services provided by providers of first aid medical services, emergency services and services provided for so called social purposes as well as maximum prices for services paid directly by a patient alone
- since 1.1.2007 cancelled regulation of rent for non-residential rooms in health care facilities

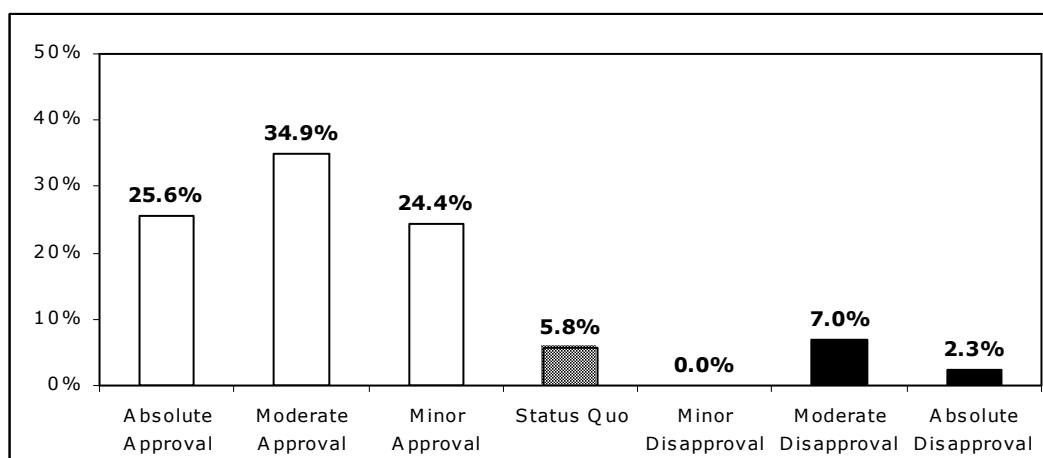
Opinions of Proponents:

- health care providers and health care insurance companies gained the possibility (alone without official (State) determination of prices) to agree on an appropriate payment mechanism and the price for health care services thanks to this measure – it means that doctors, hospitals or spas can ask insurance companies for reimbursement of real costs related to patients' treatments and they can also incorporate an appropriate profit into the price
- the step long expected by doctors
- cancellation of the price regulation between providers and insurance companies will not influence the patient directly

Opinions of Opponents:

- deregulation of prices for services will make the negotiations between doctors and the General Health Insurance Company more difficult – health insurance companies will not reimburse real costs of providers because they do not have money themselves
- cancelling of the rent regulation will bring further increase in the rent of ambulances – if the prices grew to the level of commercial rooms this would ruin the doctors

Evaluation of the HESO Experts' Committee:



Miroslav Siváček: "A good decision that leads to the creation of market conditions also in the health care industry, but it can bear fruit only from a long-term perspective. Additionally it is necessary to realise further steps in opening the market for all its subjects. Limitation of the competition by limiting the choice of a health insurance company for insured persons and further

preferential treatment of health care insurance companies owned by the State will devalue this step."

Radoslav Štefančík: "Any liberalisation of the market, also in the case of health care providers and health care insurance companies market sanitises the economy and leads to solving problems arising in the system."

Richard Ďurana: "This measure is a significant step on the way to looking for real prices for provided health care services."

Milan Velecký: "It was a logical continuation of the natural development of deregulation in pricing. Maybe other still regulated prices will come next in the future (in a competitive environment, not e.g. by natural monopolists)."

Juraj Nemec: "These are two different things that can not be evaluated together. The regulation of prices for health care services is necessary and it is implemented worldwide. The rent should be a market issue, otherwise the prices for services are artificially distorted."

Jaroslav Vokoun: "The reforms are made in an interesting way by us. The idea is created – this is of course necessary and when the implementation of ideas comes we begin to hesitate and we lose courage. The whole life is about changes and we may not be afraid to change the changes. So that the flexibility was not just an idea."

Ladislav Balkó: "Our environment is not prepared for this real market measure not in an economic neither in other ways. I consider it to be a Trojan Horse – i.e. an inner alien by improving the quality of health care. The measure is an evidence of sterility of similar liberal measures to the Slovak reality."

Jozef Stránsky: "The measurement can finally harm the interests of citizens that should be primarily protected by the State."

One respondent did not agree with the measure because there were no adequate conditions created for it according to him. "Deregulation should be gradual and managed so that all impacts of the increase were not transferred to a regular citizen indirectly and this way the extent and quality of provided services would be decreased."

5. Increase in social scholarships for secondary schools and university students (connection of a social scholarship to a subsistence minimum; extending of the radius of beneficiaries by an increase of the income threshold for granting the social scholarship)

Primary Sources: a) Announcement of the Ministry of Education of the Slovak Republic No. 102/2006 Coll. on Granting of a Social Scholarship to University Students

b) Announcement of the Ministry of Education of the Slovak Republic No. 343/2006 Coll. on Provision of Scholarships to Secondary and Special Schools Students

Status of the Measure in the Legislative Process: passed a) 15.2.2006; b) 30.5.2006; effective from: a) 1.4.2006, b) 1.6.2006

Submitter: Ministry of Education of the Slovak Republic

Intention of the Measure: to increase social scholarships for students from low-income families so that they can participate in full-value studies

Contents of the Measure:

- a maximum amount of a social scholarship was determined for university students studying in place of their residence at the level of SKK 5,500 and for students studying outside their place of residence (more than 30 km) at the level of SKK 6,600 monthly (until then the maximum amount of the scholarship was SKK 2,000)
- the median value of a social scholarship in a new system (the medium value of the arranged series of values) in 2006 was SKK 2,000 and the arithmetic average – SKK 2,180
- the radius of beneficiaries was extended as the income thresholds for granting the support were increased
- the radius of social scholarship beneficiaries was extended by those secondary school students whose parents have the maximum income at the level of the subsistence minimum and at the same time do not receive social assistance benefits in material need – an increase in beneficiaries by 8,000 (until then 12,000 secondary school students received the scholarships)
- average amount of a scholarship – SKK 890

Opinions of Proponents:

- the new system of social scholarships granting for university students is more addressed, i.e. more fair as the amount of scholarship is calculated on the basis of the individual income

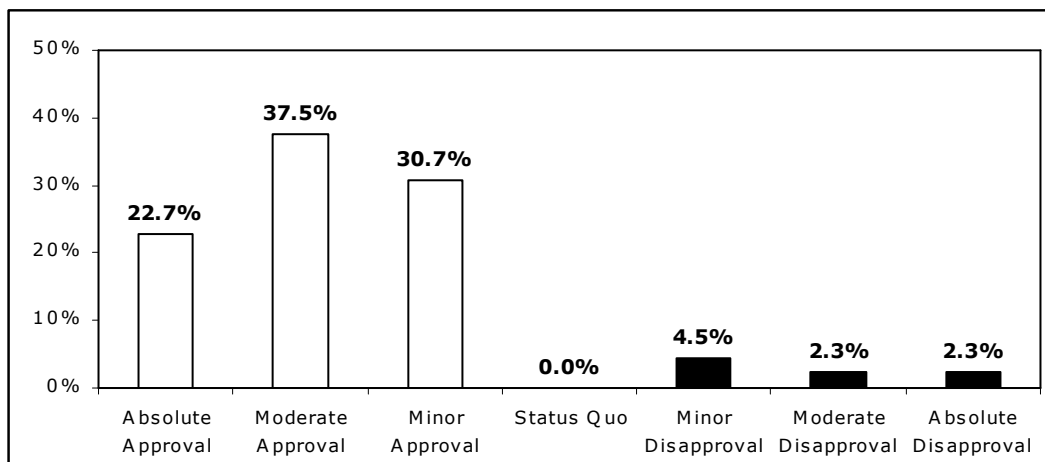
situation of each student - in the old system the amount of the scholarship was fixed at the level of SKK 1,000, SKK 1,500 or SKK 2,00 according to family income

- university students from families with minimum income got the highest benefits
- connecting of the amount of social scholarships to a subsistence minimum and not to receiving of social assistance benefits in material need
- automated valorisation of scholarships by an increase of the subsistence minimum

Opinions of Opponents:

- a populist pre-election measure
- increased burden on the State Budget by absencing reform of the education system

Evaluation of the HESO Experts' Committee:



A new system of granting the social scholarships for university students is more addressed and this way also more fair as the amount of scholarships is calculated on the basis of the individual income situation of each student. The amount of scholarships in the old system was fixed at the level of either SKK 1,000, SKK 1,500 or SKK 2,000 according to family income. But at the same time the measure was perceived by evaluators as giving pre-election presents to a narrow group of electors without solving the more principal system issues of the Slovak education system.

Juraj Lazový: "I assess this as a slightly positive measure but of course especially a complex reform of the school system is needed."

Miroslav Siváček: "A more addressed provision of social scholarships and their increase would in connection with the introduction of payments for education create a good framework for competition in the area of provision of university education."

Radoslav Štefančík: "A very good decision addressed to education. Students will get better conditions during their studies."

Ladislav Balko: "A necessary measure because many gifted young people are currently in a social need and they would not be able to get university education otherwise. But it was again unsystematically introduced in a vision of coming elections."

Jaroslav Vokoun: "I recommend to the opponents of social scholarships to look at most market economies and how they approach social issues. It is obvious that the state with a social model should not throw out money uselessly but a well defined social scholarship will not weaken our fragile state."

Juraj Nemec: "Scholarships at universities (as well as secondary schools) should be mainly derived from studying results not from income. High quality students should study at universities not all the people. Social benefits belong to a social department not to education."

Richard Ďurana: "I consider this a decision to the delay of real problems in a Slovak school system into the future and a further increase in public expenses."

One respondent expressed the idea that higher scholarships for university students "help to concrete current unfavourable conditions in the school system. Originally the increase in scholarships (in any case very generous) should serve as "a sugar for swallowing a bitter pill" of the system of students contribution to financing their studies. It offers a generous income to a certain important interest group without pushing anything to movement in a tense school system. From the social point of view the fact that students in general (not meeting some quite restrictive criteria of the Student Loan Fund) stay dependent in incomes on their parents is negative. I would support a slight increase in scholarships considering the loss of the purchase power of original amounts determined in the more distant past."

6. Decision of the Government on the privatisation of 66% share of the Bratislava and Košice airports by TwoOne consortium consisting of the Vienna-Schwechat Airport, Austrian Raiffeisen Zentralbank and Slovak financial group Penta for a total amount of SKK 19.7bn

Primary Sources: Decree of the Government of the Slovak Republic No. 91 to the proposal for issuing of the decision for privatisation of a part of the State's capital participation in the company Letisko Košice – Airport Košice, a. s., with the seat in Košice

Decree of the Government of the Slovak Republic No. 92 to the proposal for issuing of the decision for privatisation of a part of the State's capital participation in the company Letisko M. R: Štefánika – Airport Bratislava, a.s., (BTS) with the seat in Bratislava

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 1.2.2006; effective from: 1.2.2006

Submitter: Ministry of Transport, Posts and Telecommunications of the Slovak Republic, Ministry of Economy of the Slovak Republic

Intention of the Measure: privatisation of 66% of the State's capital participation in the companies Letisko M.R. Štefánika – Airport Bratislava, a.s., and Letisko Košice - Airport Košice, a.s.

Contents of the Measure:

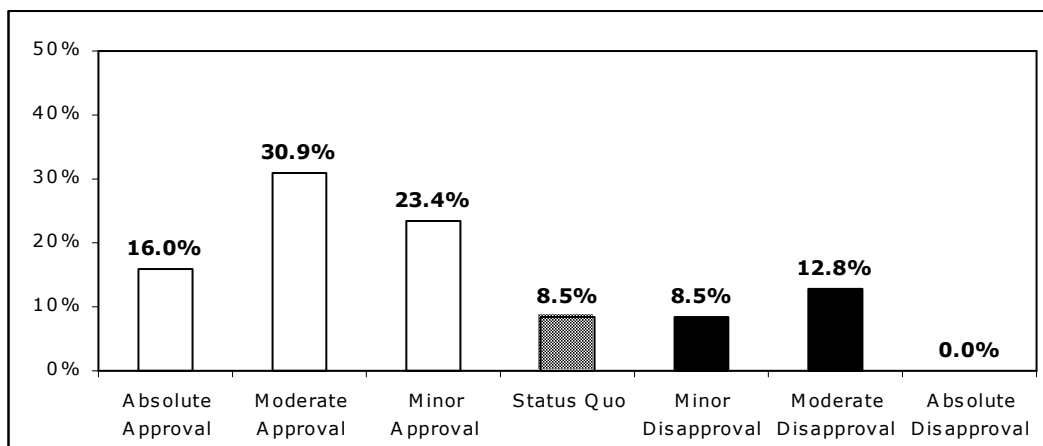
- the Government of the Slovak Republic approved the privatisation of 66% of shares of the airports in Bratislava and Košice to the Austrian-Slovak consortium TwoOne that obtained the highest score in the first round of a tender (consortiums Abertis, ISAP and TAV also participated in a restricted procedure) from the privatisation committee by the Bratislava Airport for the purchase price of the shares, money deposit (for investments), for business plan and for the proposal for Košice airport (only purchase price for shares and amount of investments were scored by the Košice Airport)
- TwoOne and Spanish-British-Slovak consortium Abertis (Abertis, TBI, J&T) also progressed into the second round
- investors increased their offers in the second round while the TwoOne consortium offered the higher price in the second round, too – together with investments it should have paid the sum of SKK 19.7bn for both airports
- The Antimonopoly Office of the Slovak Republic approved the purchase of the Košice Airport but in the case of Bratislava Airport it stated the risk of creation of a regional monopoly (common owner of the airports in Vienna-Schwechat and Bratislava)
- the new Government of Mr Fico backed out of the privatisation contract with TwoOne regarding the Bratislava Airport and it has not started negotiations with the investor which was the second in the order

Opinions of Proponents:

- private companies are better owners than the State
- strengthening and extending the interconnection between Vienna and Bratislava would have a positive impact on the development of both cities
- it would make Bratislava Airport more attractive for passengers and airlines
- the amount of investments would ensure the development of both airports that necessarily need new investments
- a strong investor will bring necessary investments and know-how

Opinions of Opponents:

- a non-transparent privatisation process in disadvantage of Slovakia
- endangering of economic competition by the creation of a regional monopoly – entrance of the Vienna Airport into the Bratislava Airport would decrease pressure on the lowering of prices, threat of cross subsidies, threat of leaving of low-cost airlines, decrease in development of the Bratislava airport, Bratislava airport could possibly become an airport solely for cargo transportation

Evaluation of the HESO Experts' Committee:

Both airports already stagnated in their development for a long time and therefore according to most of the evaluating experts the entrance of a strong private investor would be beneficial for both airports as well as for the development of given regions. Organisation of the privatisation and selection of a concrete investor invoked the biggest doubts by asked persons especially in connection with the Bratislava Airport. Several of them were afraid that the concentration of Bratislava and Vienna airports would limit the economic competition that would negatively influence the development of the Bratislava Airport and the price and quality of provided services for passengers and operators.

Jozef Orgonáš: "A good decision, both airports need investments as a "thunder", especially Bratislava – its expansion even requires it."

Miroslav Siváček: "A good decision that could have ensured the development of the airport. Currently alternative solutions are searched for and possibilities for development of the airport were significantly reduced."

Richard Ďurana: "There is no reason why the State should own the airport. Besides privatisation revenues that will be missing in the Social Insurance Agency by covering the deficit of the Pension Retirement Insurance Fund, the Government of Robert Fico has spoiled more quality services connected to travelling and possible synergy resulting from connection with an airport of world importance for all passengers. A private owner obliged itself to invest significantly more resources into the reconstruction of the airport than the State has available. If the Antimonopoly Office of the Slovak Republic decided against TwoOne consortium, the Government should continue in the privatisation process with the second applicant – Abertis consortium."

Eugen Jurzyca: "The decision was not bad. If there were no premature elections, the former Government would have had the possibility to change the buyer in August (the date until which we waited for the decision of the Antimonopoly Office) and the privatisation would have been realised."

Robert Žitňanský: "A controversial decision but if we speak about the sale not about the rent (which would be smarter in my opinion), this should have been finished. The airport urgently needs enormous investments and a private investor would have brought them. The State was struggling and it will continue to do so – and the passengers, tourism and business, also."

Martin Jaroš: "I do not feel entirely competent to judge whether the best player won the game but I agree with the very decision to privatise the airports. Now, after a certain amount of time we can see (e.g. transfer of airlines to Vienna) that the State is not such a smart guy in the management of the airport."

Juraj Lazový: "I consider the intention to privatise the airports to be right. But I am not sure in the case of the selection correctness as the risk of creation of a regional monopoly from the side of the Vienna Airport would be real in my opinion in the case of a realised purchase of the Bratislava Airport."

Juraj Nemeč: "Privatisation is OK in principle. But this concrete case means minimally the risk of limitation of the competition by a new owner."

Radoslav Štefančík: "I view the decision to privatise both airports very positively but I absolutely disagree with the selection of a privatising body. According to agency news Austrian entrepreneurs as well as politicians welcomed the recommendation of the privatisation committee (based on the proposal of the main advisor from Austria!) to privatise 66% share of Slovak airports by the group connected to Austrian Schwechat. As a reason for their enthusiasm they stated elimination of the threat of creation of a big international airport in the close surroundings

of Vienna. The source for this threat should be a rapid development of the airport in the capital of the Slovak Republic. From the stated expressions it is obviously clear that the Vienna Airport primarily intended to strengthen its own position in the region via the privatisation of its Bratislava neighbour and all this by removal of the dangerous competition for Schwechat from Bratislava. Instead of strengthening the competition the Dzurinda's cabinet almost caused the creation of a dangerous monopoly. Privatisation of the majority part of shares of both Slovak airports was accompanied by many uncertainties from the very beginning. In its substance the selection of the privatising body was very similar to the decision of the former Ministry of Transport Mr Gabriel Palacka not to allow entry of the third mobile operator on the Slovak market. In the case of a tender for the third mobile operator there was also a decision among the financial profit of selected companies (and maybe not only their) or creation of a healthier competition with a positive impact on a customer, or a citizen."

Martin Krekáč: "Privatisation of the Bratislava Airport is inevitable. But connection with Schwechat evokes some fears. Schwechat has currently one of the most expensive airport fees in Europe and the competition from Bratislava with cheaper fees is not in its favour."

Juraj Draxler: "The airport needs a more professional management. On the other side for a city like Bratislava too big expansion of the airport would present an environmental burden. Because of these reasons I would not mind the taking over of the airport by a consortium where the Schwechat Airport plays the prime role. But my total impression from this tender is neither positive, nor negative."

Jaroslav Vokoun: "It is a private business so privatisation is logical. I would use nice statements by proponents as an example how to misrepresent the reality. Unfortunately, the Bratislava Airport was built close to the city and villages. Therefore a significant extension of its capacities can be made only at the expense of the surrounding built-up areas. From the point of quality of life it will be a movement 10 years backwards. A new airport with high performance needs to be built at a greater distance from Bratislava. But nobody will find the courage to do this."

Ladislav Balko: "I am not sure about the correctness of the arguments that the Bratislava Airport would become only a "cargo airport". Especially from the point of return of the investment the investor would not invest almost SKK 20bn together with Košice + new investments only for operation of a cargo airport. But this privatisation "stank" of something different. And participation of all three – four Slovak so called financial groups in any present privatisation does not provide a guarantee for permanent and perspective development of business in any area. I consider such privatisations temporary and after a certain time the privatised property will "move its parking place" to other owners, of course for a different sum of money that the State will never see."

7. A general pardon for concessionary fees debtors of the Slovak Radio and Slovak Television (remission of interests on late payments for all debtors who paid the owing concessionary fees within 60 days, decrease of penalty fees, prohibition of sale of claims against concessionaries to third parties; Amendment to the Act on Concessionary Fees)

Primary Source: Amendment No. 96/2006 Coll. to the Act No. 212/1995 Coll. on Concessionary Fees and to the Act No. 468/1991 Coll. on the Operation of Radio and Television Broadcasting

Status of the Measure in the Legislative Process: approved on 02.02.06 by the National Council of the Slovak Republic in the 3rd reading; effective from: 21.2.2006

Submitter: Member of Parliament Mr Tomáš Galbavý (SDKÚ-DS)

Intention of the Measure: remission of penalty fees (interests on late payment) for concessionary fees debtors who paid owing concessionary fees (principal) within 60 days – reaction on high (in many cases also hundreds of thousands of crowns) penalties for late payment, or non-payment of concessionary fees especially in the case of Slovak Radio (SRO) that started to be collected by a private company – BSP Lawyers Partners, a. s., that bought claims of SRO against concessionaries in September 2005.

Contents of the Measure:

- introduction of a general pardon for concessionary fees debtors of the Slovak Radio and Slovak Television (STV) that by a single application remitted penalty fees (interests on late payments) for unpaid concessionary fees for all who paid owing concessionary fees (principal) not later than within 60 days after this Amendment came into effect
- decrease of penalty fees to 2-multiples of the basic interest rate of the National Bank of Slovakia for each day of delay (until then natural entities – SKK 5,000 for each started month of delay, legal entities – SKK 15,000)

- SRO and STV will not be able to sell the claims against concessionaries, to provide them as a bank deposit or otherwise transfer them to third parties

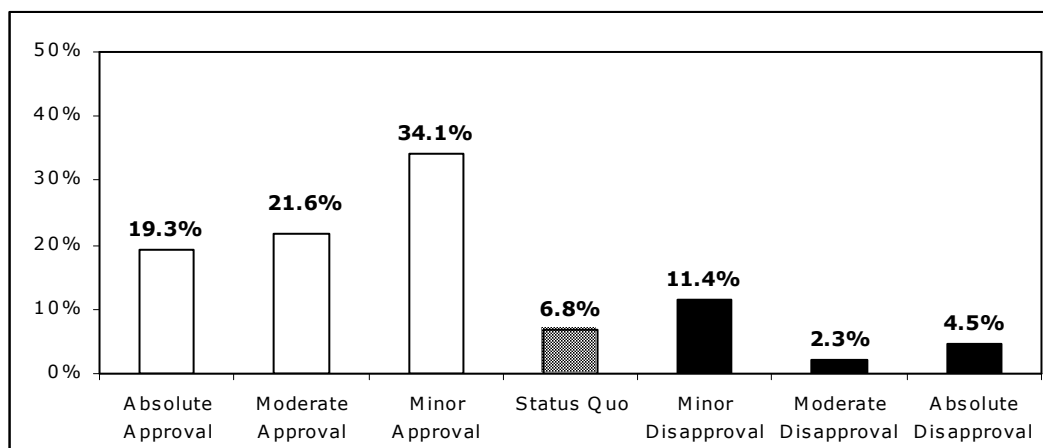
Opinions of Proponents:

- illegitimately high fees on late payment needed to be cancelled
- help to citizens who because of not paying one SKK 40 payment faced existence threats caused by high penalty fees
- the Amendment introduced penalties proportional to wrongdoing
- the general pardon increased the collection of fees and registration of new payers – inflow of liquidity into Slovak Radio

Opinions of Opponents:

- the measure brings uncertainty into the legal environment for legal entities
- a negative impact on discipline of paying households and companies – increasing a moral hazard in society – the general pardon indirectly encourages breaking the law as it softens penalties for its non-following
- discrimination of honest payers of concessionary fees and also of people who closed the contract on debt notation with BSP company by payment of a flat fee of SKK 5,000
- retroactivity of the measure
- a pre-election populist act

Evaluation of the HESO Experts' Committee:



A single-shot remission of penalty fees for concessionary fees debtors of Slovak Radio was evaluated as a slightly positive measure especially because of the amount of interests on late payment that according to one respondent had the "character of usury". According to him their remission was right "regarding possible legal and administrative impacts of their recalculation according to a different key". The problem of repeated general pardons is in the creation of a so called "moral hazard effect" when service consumers calculate with the fact that it is worth not paying. According to one respondent a more efficient method of fees collection should be implemented that would eliminate the risks of a moral hazard. After digitalisation of TV broadcasting it would be best (according to him) to cancel concessionary fees and replace them with a classic subscription.

Miroslav Siváček: "As fees are in their substance unfounded and incorrect, I consider this step to be rational."

Juraj Lazový: "Despite some negatives I assess the general pardon as a positive measure that will prevent absolutely inappropriate penalties."

Juraj Draxler: "Yes, it is a very thick patch on the problem but in a given moment each other solution would just worsen the problem. The whole system was very bad, especially that Slovak Radio suffered great damage in the area of public relations."

Milan Velecký: "This situation was so blind and stretched that there was hardly a different solution."

Jozef Stránsky: "I can only agree with the process but it came too late."

Richard Ďurana: "Draconian fines for non-payment of the fee for service that citizens do not purchase voluntarily are not correct."

Jaroslav Vokoun: "Accommodating gestures need to be done in life, too. Life is not only about punishment. Especially when it is related to such a type of forced purchase."

Pavol Žilinčík: "I agree a little bit more than disagree. It is really a difficult case but I think that from the point of social-legal awareness more damage would be caused by uncompromising recovery of the fees in a given case."

Martin Krekáč: "It is not desired to express that the not paying of concessionary fees is OK. But at the same time it is clear that the amount of penalty fees was unbearably high for a large section of the non-payers."

Robert Žitňanský: "Again a bad precedence that it is worth not paying... But considering the problems connected to the "collection" company, it is acceptable for the moment."

Juraj Nemeč: "It is very complex - pluses and minuses. The principle of legal state is broken, something was collected... Is there a "small damage"?"

Martin Jaroš: "This is an obvious example of a non-systemic extinction of problems resulting from badly prepared legislation. So a slight consent but only because of the fact that although unsystematic but one freakiness is solved. On the other side this is a very good precedence for the collection of the nonsense sick tax outstanding payment from Slovnaft."

Luboš Vagač: "Consent with remission of interests on late payments but it does not change anything in the continuously bad system of financing of these institutions. If there is a public demand for these services (is there?), then they should be paid from taxes."

Radoslav Štefančík: "The Act solves only a partial problem connected to the financing of public media. The problem of "non-payers" will probably exist also after the decision is made. The Government or Parliament should therefore rather think about a new method of public media financing, e.g. cancellation of concessionary fees and the financing of public media directly from taxes."

Ladislav Balko: "I think that this step was motivated by close elections. The problem was known far before that. Even the passing of such an act that determined such high penalties is worth thinking about. Rather than collect penalties it would be worth thinking to collect concessions for radio and television as a part of the electricity payment. You need to take-off the electricity if you want to listen to the radio or watch TV (if we exclude batteries). And if you do not pay for the electricity they will disconnect you, so if anybody did not pay, his/her electricity would be disconnected. And this is a very efficient penalty. The power station would transfer collected fees after deduction of some transaction fees to radio and TV."

8. Decision of the Office for Public Procurement on confirmation of the fine in the sum of SKK 12bn to the Ministry of Interior of the Slovak Republic for reportedly unauthorised utilisation of negotiated procedure without publication for the purchase of fire-fighting tank vehicles – "sprayers"

Primary Sources: Resolution of the Office for Public Procurement from 18.11.2005 on the imposing of the fine to the Ministry of Interior of the Slovak Republic for unauthorised utilisation of negotiated procedure without publication

Resolution of the Public Procurement Office from 7.2.2006 on rejection of partition against the resolution on the imposing of the fine from 18.11.2005

Status of the Measure in the Legislative Process: the Office for Public Procurement definitely decided on rejection of the partition and confirmed the fine for the Ministry of Interior of the Slovak Republic on 7.2.2006; effective since: 10.2.2006

Submitter: Office for Public Procurement (ÚVO)

Intention of the Measure: confirmation of the fine in the sum of SKK 12m to the Ministry of Interior of the Slovak Republic for unauthorised utilisation of the public procurement form – negotiated procedure without publication for the purchase of mobile fire-fighting sprayers

Contents of the Measure:

- the Office for Public Procurement confirmed the fine in the sum of SKK 12,096,644 for the Ministry of Interior of the Slovak Republic (MV SR) in an administration procedure on a partition
- the reason for imposing the fine was that within the public procurement on fire-fighting tank vehicles – sprayers the winning company was selected without a public tender through a negotiated procedure without publication while the conditions of this method were not met by the MV SR according to the ÚVO

Opinions of Proponents:

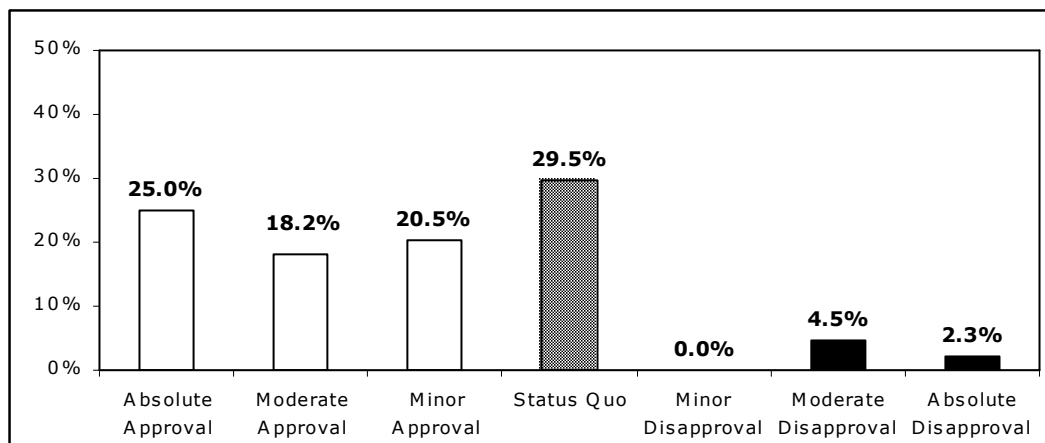
- the MV SR did not meet the conditions required by the law for utilisation of the negotiated procedure without publication

- a negotiated procedure without publication lasted the same time as would other more transparent forms of public procurement last, too
- too frequent procurement by direct appointment limits competition among sellers of goods and services and can make goods and services more expensive for buyers
- purpose-built excuses such as time pressure and similar

Opinions of Opponents:

- the negotiated procedure without publication realised by the MV SR met the conditions for utilisation of this method
- the emergency conditions of the devices used that endangered lives and health of people forced the MV SR to procure necessary devices in the shortest possible time
- unnecessary prolonging of the procurement process that lasted from 2003
- the ÚVO at first informally supported the procurement method used and it subsequently denied this fact

Evaluation of the HESO Experts' Committee:



The fine of the Office for Public Procurement to the Ministry of Interior of the Slovak Republic (MV SR) was not a very important provision according to experts from the social point of view although public procurement represents an important area of public life. The whole "cause" was quite unclear.

Pavol Žilinčík: "I agree. The said manner of public procurement was not rare at the Ministry of Interior of SR, arguments on time pressure for purchase are also a part of good management especially in cases involving a central state administration body. If realisation of procedures expected by the law makes a problem for a state administration body because these procedures are in connection to social reality too complicated, it has to try to change this complicated legal environment. The approach applied by the Ministry would not be surprising for a private company that does not own something called public power. And just because the Ministry does, there is a principle that it can only act the way that is expected by its text and spirit. The other way leads to something that Vladimír Palko does not like – to anarchy. And there is no worse anarchy than the anarchy of state bodies."

Juraj Nemeč: "The Act on Public Procurement is the most violated act in the Slovak Republic. The share of the negotiated procedure without publication is alarming. Statements that there was an emergency status are absolutely unfounded, alteration of devices is planned in companies and it has to be planned in the public sector, too. The worst connection of this case is the Ministry's reaction – approximately "almost nothing happened, the State pays to itself and I have the sprayers". The department of interior is one of two crucial departments responsible for the functioning of the legal state – and its Minister directly implies that laws do not have to be obeyed!!! Such situations may not happen in a developed country. But if the fine is not personalised the Minister is right in something – unfortunately."

Luboš Vagač: "What does a fine awarded to a state body mean? Nothing, just that money from one state institution (MV SR) is moved to another institution (Ministry of Finance of the SR) without the punishing of the responsible persons. Personal liability should be connected (at least partially) to similar acts also in state/public institutions."

Ladislav Balko: "If the Act on Public Procurement was violated, than the penalty is OK. The other thing is that the Ministry of Interior as a budgetary organisation pays this fine only from public sources. And what about the responsibility of those people guilty for violation of the law?"

Radoslav Štefančík: "The MV SR did not fulfil conditions required by the Act and each violation of the law should be punished appropriately. But there is the question why we are speaking about

violation from the side of the Ministry and not from the side of a concrete person that should definitely bear co-responsibility for the decision. The fine was finally paid by tax payers and not by the unqualified people from the Ministry."

Jaroslav Vokoun: *"Again a case of the type – The king is naked. Fire-fighting devices have been in emergency conditions so long that there was enough time for a tender. We are an expensive state. Personal implications are missing – exclude people that organise problematic public procurement from these processes."*

Jozef Stránsky: *"An artificially caused time pressure from the side of the MV SR for a problem that was known for a long time."*

Robert Žitňanský: *"Public procurement is so complicated and unclear that I consider the awarding of any fines (especially in cases that are not clear) to be bad."*

Juraj Lazový: *"Again this is one example of a badly operating public procurement system. It would be desirable that a new Government adjusted this system so that it fulfilled its purpose – efficient procurement of property for the public sector with the minimum risk of corruption."*

9. Increase in salaries of health care employees (in faculty hospitals by 20%, in smaller hospitals by 6% in 2006)

Primary Sources: a) Collective Agreement of a higher degree for 2006 between the Slovak Trade Union of Health Care and Social Services on the side of the trade-union and Association of Faculty Hospitals of the Slovak Republic on the side of employers

b) Collection Agreement of a higher degree between the Slovak Trade Union of Health Care and Social Services and the Association of Hospitals of Slovakia

Status of the Measure in the Legislative Process: Collective Agreements of a higher degree were signed a) 20.4.2006, b) 9.5.2006; effective from: 1.5.2006

Submitter: Ministry of Health of the Slovak Republic (MZ SR), higher territorial units, municipalities as founders of hospitals

Intention of the Measure: to improve remuneration of health care employees

Contents of the Measure:

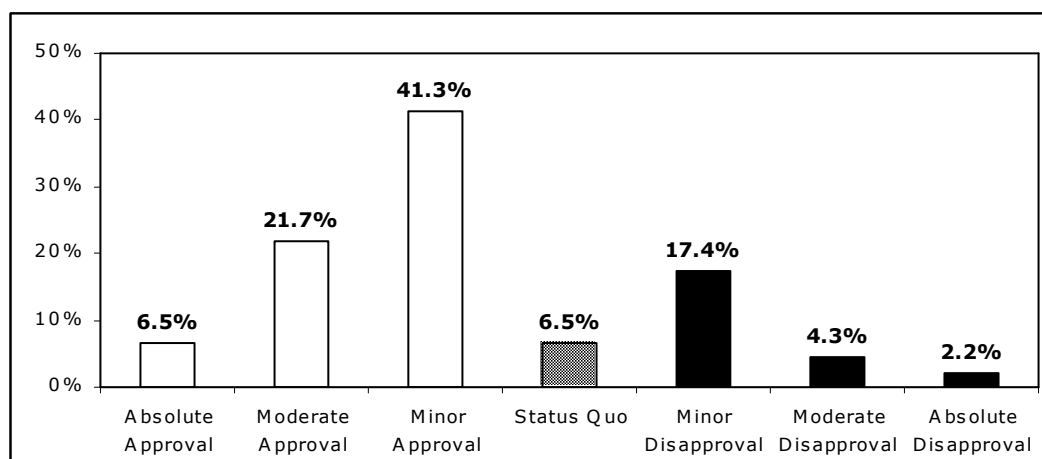
- signing of collective agreements of a higher degree
- increase in salaries in faculty hospitals in 2006 together by 20% - tariff (basic) salaries in state hospitals (in founding competency of the MZ SR) since 1.5.2006 by 10% and since 1.12.2006 by other 10% while the first increase should be realised by 70% in basic salaries and by 30% in the form of an incentive part of the salary, increase in December – tariff component 60%, differentiated part of the salary - 40%
- smaller hospitals (in founding competency of municipalities and higher territorial units) – increase of average salaries of each employee for 2006 comparing to 2005 by a minimum of 6%
- average monthly salary of all employees by the employer should be increased at least by 8%
- increase of the rate of minimum salary demand by at least 5% since 1.7.2006

Opinions of Proponents:

- compromise for the increase of salaries
- relative salaries of health care employees will be improved comparably to the rest of the working population
- an incentive component of the salary will be increased - differentiated remuneration of doctors and nurses according to quality will be strengthened
- pressure on the rationalisation of resources in hospitals

Opinions of Opponents:

- increase in salaries will mean indebteding of hospitals, savings of money that are designated for medicines and sanitary material or reduction in number of employees
- comparing to the average salary in the economy the doctors in Slovakia earn comparatively and in some cases even better than doctors in V4 neighbour States and also in some developed EU countries
- a pre-election populist step soothing striking health care employees in hospitals

Evaluation of the HESO Experts' Committee:

Juraj Nemeč: "Again a too conflicting subject. On one hand there are no doubts that the legal incomes of health care employees are not appropriate to their qualification and demands of work. On the other hand – a significant increase in salaries has to be accompanied by measures for the prevention of a grey economy in the health care industry and for an increase in the quality of health care services. Otherwise it has no system sense. The argument on indebtedness is also incorrect – the financing of hospitals can not be solved by non-payment of real salaries from a long term perspective!"

Juraj Lazový: "Salaries of health care employees are considered low by the public and inadequate to the significance and amount of their work. In this direction I was interested in one piece of information on the comparison of average wages in the health care industry and national economy in individual countries. In any case I think that the salaries of health care employees, financing of health care and operation of this area as a whole will be a never-ending series of often mutually contradictory provisions of individual governmental groups with the result that nobody will ever be satisfied."

Radoslav Štefančík: "The salaries of doctors compared to the countries in the west of our boundaries are undersized in Slovakia. But it is questionable whether this step will stop the brain drain of health care employees."

Milan Velecký: "Underestimation of salaries is a reality and the fact that such steps come mainly in an election year can be understood."

Ladislav Balko: "Although it was maybe a forced increase realised also under the vision of coming elections, it is a necessary provision. Employees in health care are really badly remunerated for an important all-society work - care for the health of people, and the status of a doctor or a nurse which was at the highest level during socialism and recognised in society is laid deeply below the level of standard today. The second thing is if the network of health care facilities is not too dense. But here we have to accept that especially in the country considering the weak social situation of many inhabitants who miss money, do not have cars, public transport has been reduced, the cancellation of some hospitals could cause problem with the availability of doctors for many people."

Jozef Stránsky: "An increase in salaries and their level have to be compared to the situation in other industries which are important for the preserving of life and health of a person. Do we know any other industry that protects health in such a direct way? Compare the level for example with salaries in automobile repair services. Which is more important and demanding?"

Jaroslav Vokoun: "If we do not have to be afraid of something in the Slovak Republic, it is a natural increase of low salaries. After all, multiplication on a small basis does not create a high result. The problem of low salaries in the economy is then reflected into the health care industry so that social security contributions (in %) are devised from low bases (low salaries). So the problem of low social security contributions are exactly those of low wages. On the other side – higher wages mean more money for the health care industry. If we want to feed low wages then let's cancel solidarity in health care, cancel compulsory health insurance. There are countries doing it this way. But – we would go too far from the values of Europe."

One respondent expressed the idea that the salaries of health care employees should be derived from an individual assessment of an employee and that the Government should not enter into this process.

10. The project of cultural vouchers (SKK 200 per pupil and teacher per year for payment of a visit to cultural events)

Primary Source: The project "Voucher system supporting the access of pupils and teachers of elementary and secondary schools to cultural values"

Status of the Measure in the Legislative Process: the project was started on February 1st, 2006; it has been interrupted since the beginning of 2007

Submitter: Ministry of Culture of the Slovak Republic (MK SR)

Intention of the Measure: supporting the relation of children, youth and their pedagogues to cultural values; the creation of conditions for active participation of cultural institutions in the raising and education of school youth; support of competition among cultural institutions with the aim of increasing the quality of their activities; support of directness and transparency of state subsidies to cultural institutions on the basis of the real interest of citizens in their services (not on the basis of the individual assessment of officials and various commissions); overview of children and youth interest in culture and the monitoring of the visit rate of cultural institutions by this age category

Contents of the Measure:

- elementary and secondary schools issued so called cultural vouchers (in the sum of SKK 200 per pupil or a teacher) serving as a payment means dedicated for pupils and pedagogues to visit cultural facilities (also private) and cultural events
- these vouchers were accepted by institutions participating in this project
- the MK SR refunded collected vouchers
- annual validity of vouchers
- estimated cost of the project for 2006 – SKK 210m

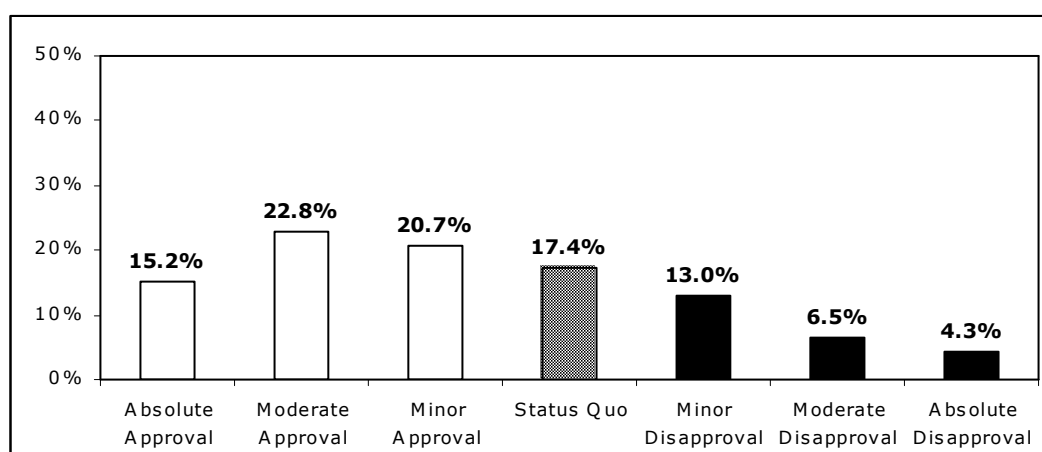
Opinions of Proponents:

- the project will support the visit rate of cultural facilities and events from the side of children and youth and it will allow the monitoring of the interest in them
- transparent allocation of subsidies to cultural institutions – according to the results (visit rate)

Opinions of Opponents:

- artificial increase of young people's "interest" in culture – especially by organised events
- project of cultural vouchers for children and youth was only an experiment
- administrative demands of voucher processing
- delays in payments
- e.g. also private cinemas and their foreign commercial productions are funded

Evaluation of the HESO Experts' Committee:



Most evaluating experts considered the idea behind the project of cultural vouchers to be good, while after removal of certain initial problems they considered the administration connected to the project to be feasible.

Miroslav Siváček: "The project had its rationale and this was to use the resources of the Ministry of Culture of the Slovak Republic for an increase in demand for culture on the basis of individual decisions."

Juraj Nemeč: "Vouchers are not a standard form of financing in the public services area."

Juraj Lazový: "Theoretically I consider this project to be right, but as it was interrupted, it is difficult to evaluate its real benefit for the development of a cultural awareness."

Jaroslav Vokoun: "Such artificial increase of interest can be beneficial. The mistake was that many our projects are not filled by the "soul". But this is done by zealous people and they are missing here. Many teachers miss the spark that lights up."

Ladislav Balko: "Yes, I agree with the cooperation of the Ministry of Culture of the Slovak Republic with the Ministry of Education of the Slovak Republic and the navigation of these vouchers in accordance with the pedagogical process. And also for the continuous and subsequent analysis of utilisation of this form of injecting culture into the nation."

Juraj Draxler: "In principle I disagree with the system of cultural vouchers as this can be solved by a classical decreased entrance fee for certain groups (students), days with free entry, etc. But I appreciate this at least as slightly positive as a certain endeavour of the State to "lobby" the public for alternatives to the TV screen even if it should be a visit to the cinema. So I give the mark "neutral"."

Radoslav Štefančík: "The essential fact is the visit of which cultural facilities can be supported by the State. It is questionable whether a visit to e.g. the cinema or the watching of some American "counter zinger" from Hollywood strengthens the relation of a young person to culture or on the contrary it leads to the decadency of culture of a Slovak spectator."

Milan Velecký: "I really do not like it if the children see Ice Age II for cultural vouchers. I do not understand why I should support the visiting of commercial films in cinemas through taxes (and cultural vouchers)."

Jozef Stránsky: "I definitely agree with opponents. Culture needs to be extended and supported especially by the way of state media. And it is necessary to fully eliminate violence in their broadcasting."

Richard Ďurana: "Cultural vouchers for the development of culture and cultural awareness in society will not do good. They present another increase of expenditures in public finance and an increase of financial burden for all citizens. An increase in the motivation of cultural bodies to compete on the "market", sell their products and improve marketing and access of inhabitants to cultural events is a positive."

Several respondents expressed their belief that there are more efficient methods of ensuring cultural life than cultural vouchers. One of the evaluators pointed out his own experience of how the project of cultural vouchers missed in its effect.

11. The Project Internet for Education (state contribution in the sum of SKK 234 per month during 2 years for 40,000 young (later for all) people that will establish a high-speed internet connection)

Primary Source: The Project Internet for Education

Status of the Measure in the Legislative Process: the Ministry of Transport, Post and Telecommunications of the Slovak Republic presented the Project Internet for Education at the beginning of February 2006; since April 2006 until exhaustion of the limit or until the end of 2006 the applicants for internet subsidised by the State could register with providers; the duration of the project is planned maximally until the end of 2008

Submitter: Ministry of Transport, Post and Telecommunications of the Slovak Republic

Intention of the Measure: to increase the penetration of high-speed internet among young people through a state subsidy so that before the end of 2006 there was an increase of 40,000 new users and by this method to influence their information literacy

Contents of the Measure:

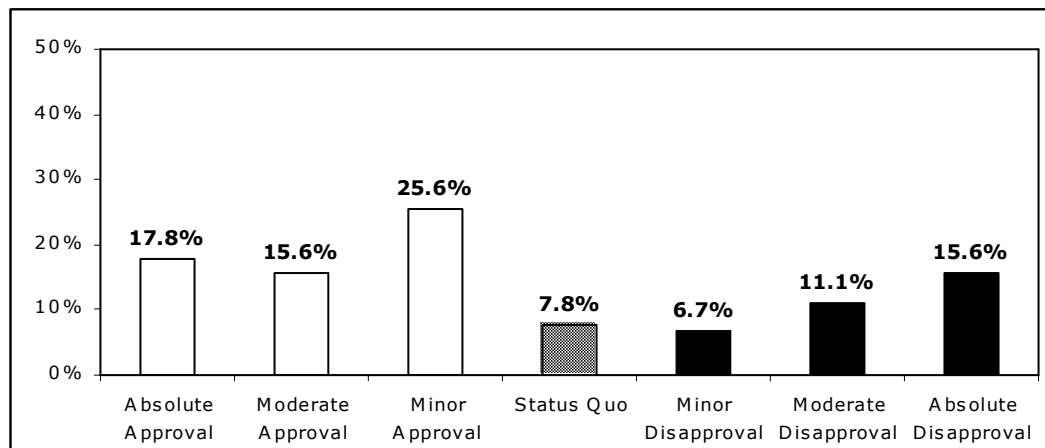
- young people between the ages of 15 to 25 (the project was later extended to all people) that were citizens of the Slovak Republic, with a permanent residence in the Slovak Republic, that do not do business and did not have a high-speed internet connection at home (or in a mobile form) in case that they asked through a provider participating in the project
- limit of 40,000 connected participants until the end of 2006
- a state subsidy in the sum of SKK 6,016 per one participant represents the sum of a single shot contribution to education to the value of SKK 400 and 24 monthly contributions to the sum of SKK 234
- project costs until the end of 2008 – SKK 240m

Opinions of Proponents:

- information literacy of young people will be increased
- increased possibility to get a distance job in the form of so called teleworking for young people
- increase in competitiveness in the labour market

Opinions of Opponents:

- access to a high-speed internet connection is not a "public interest"
- abuse of a high-speed internet connection for fun and not for education
- a state subsidy does not make pressure for a decrease in prices
- discrimination of people that were not able to participate in the project – e.g. a condition of giving the million bail for providers or the age limit for applicants at the beginning
- too many people in Slovakia do not own a computer so they are completely unable to connect to internet
- withdrawal from original intentions of the Government that assumed state support also for the purchase of computers and 3-year support of high speed internet connection

Evaluation of the HESO Experts' Committee:

Several experts presented the idea that the State should rather focus on the creation of conditions for the most intense competition in the area of internet provision what would indirectly support lower prices in this segment. This way there is a risk of inefficiently invested public resources created. Additionally, a high-speed internet subsidised by the State does not need to mean an increase in the educational level of young people because the efficient utilisation of the internet for education is not guaranteed. The measure also expects the ownership of hardware which results in the fact that in the case of beneficiaries we will not speak about the socially very dependent layer of citizens. But provision of internet access and skills to use would be socially most beneficial for dependent groups of inhabitants. If something should be done in this area then it would be more suitable to support projects (e.g. at the labour offices) together with self-governments or non-governmental organisations that would be focused directly on this group of citizens. Some respondents assessed this measure despite several negatives as a positive step that can help by building a so called knowledge economy in which Slovakia falls behind.

Richard Ďurana: *"In a period of the most dynamic growth of the internet in Slovak history I can not see any reason for state intervention in this industry. The internet becomes more accessible thanks to smart providers also in the most distant places of Slovakia. The measure represents discriminatory redistribution of resources because people with internet connection contribute to the internet connection of people who do not have it. Also the selection criteria of adepts for subsidy as well as selection criteria for providers are discriminatory (see the amount of bail)."*

Juraj Draxler: *"In principle I disagree. The State should rather push for a decrease of fees e.g. through improvement of a competitive environment on the telecommunication market. But the measure probably has some positive impact on the informatisation of society."*

Martin Krekáč: *"The very idea to support internetisation in Slovakia is commendable. But the questionable issue is whether support in the form of the project Internet for Education is not discriminatory on one side (only young people will be supported) and on the other side inefficient (also people that do not need it will be supported). Liberalisation of the telecommunications market is more important than similar partial projects."*

Milan Velecký: *"I disagree with the fact that I will contribute to somebody on the internet through taxes and to somebody (let's say poorer but slower) not. I can understand e.g. state support of public access to the internet (e.g. in labour offices, hospitals, schools...) i.e. where this subsidised service can be used by everybody and there is a public benefit from its utilisation (at least small). But to subsidise a private internet for somebody (regardless of what he/she is using it for) is nonsense."*

Miroslav Siváček: "If the State does not work conceptionally, throws out money and deforms the market, in this case it has at least made the importance of the internet visible for certain groups of population."

Robert Žitňanský: "Purely political PR, materially the same stupidity as to subsidise mobile phones in 1997 to be more used..."

Martin Jaroš: "Evidently a pre-election strategy but at least it helped to speed the penetration of broadband internet in the SR. I have already seen worse directed pre-election throw-outs of money."

Juraj Nemec: "All countries support development of the internet e.g. also for "e-governance". Of course each subsidy also has negative impacts - according to the demand and supply elasticity level, but in this case the positives prevail in my opinion. Slovakia has practically the lowest penetration of internet in our region."

Jaroslav Vokoun: "One of the steps that clearly shows value orientation. A better future has been supported. But maybe it would be helpful if we had connection prices in Slovakia similar to worldwide usual prices. But in that case we would need a different t-com and a different regulation office. The reason that this measure is not an optimal one is that it is done by people. By strict view we would not be able to admire anything."

Radoslav Štefančík: "Reading and writing literacy was considered to be the basis of education in the 20th century. On the threshold of the 21st century the ability to work with computers - or handle the internet - was added to these skills. The basic unit of an educated society is a person that can read, write and work with a computer. Therefore I assess the Government's decision positively. The knowledge that the internet is used by young people especially for fun calls for questions but it is written nowhere that also by fun e. g. an unemployed young person can find a job through on-line ads. Searching for a job on the internet is naturally more flexible than advertisements in print media."

Ladislav Balko: "Yes, it is one of the tools for acceleration in this area. The question is why only for 40,000 and not for all. I welcome this provision for young people that do not have income, or their income is low and I think that it would be also suitable to replace the direct subsidy by e.g. the possibility to apply a deductible item from the tax basis for this purpose and not only in connection with the internet but also with the whole computerisation of the population."

Jozef Stránsky: "A good idea implemented unnecessarily too late."

12. Cancellation of the state subsidised organisation Správcovská SND (the Slovak National Theatre (SND)) as the exclusive administrator and operator of its new building

Primary Source: A proposal to supplement the Resolution of the Government of the Slovak Republic No. 582 from July 13th, 2005 on a draft solution for financing the finalisation of a new building of the Slovak National Theatre

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 25.01.2006; effective from: 25.1.2006

Submitter: Ministry of Culture of the Slovak Republic (MK SR) "de jure" but ultimately the Prime Minister Mr Mikuláš Dzurinda

Intention of the Measure: cancelling the concept approved by the previous Government expecting that the new building of the Slovak National Theatre (SND) would be managed by a subsidised organisation of the MK SR "Správcovská SND"; solving the tasks related to the forthcoming house inspection of the real estate as well as to the start of its operation in the fastest and most accommodating way

Contents of the Measure:

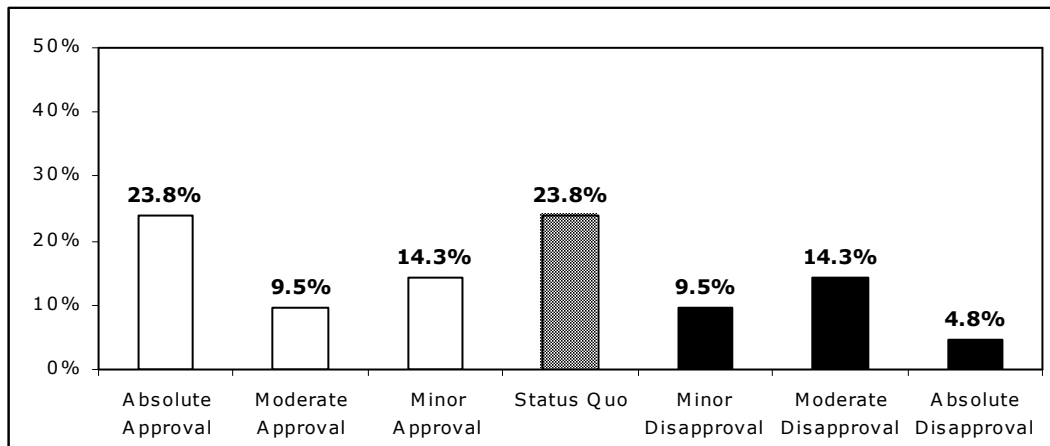
- obligation to cancel the state subsidised organisation in the founding scope of the MK SR – Správcovská SND until 3.2.2006; Správcovská SND was established on 1.1.2006 because of the inability to achieve a consensus between the MK SR and the artists from SND regarding the administration and operation of a new theatre building
- A subsequent agreement that (after the take-over) the new building will be administered by the SND

Opinions of Proponents:

- the artists will have the new building of the SND completely in their own hands
- the building of the SND will in preference serve the theatre and not commercial activities
- resolution of the dispute between the artists (especially from the SND) and the Minister of Culture Mr František Tóth in favour of the artistic community

Opinions of Opponents:

- a populist pre-election step in favour of the opinion-creating actors
- continuous changing of the concepts for financing the finalisation approved by the Government and subsequent administration of the new building of the SND
- operation of the building that was designed in the period of "absolute sufficiency" of all sources will be very demanding from the point of energy consumption while many devices and equipment will demand replacement soon and therefore the administration and operation of the new building of the SND will draw on significant state public resources dedicated to culture
- tax payers will have to contribute to the inefficient operation of the new building of the SND
- the State should have stopped its participation in a new building of the SND a long time ago and it should have sold the building to a private investor in a transparent tender

Evaluation of the HESO Experts' Committee:

One respondent expects "that the measure will lead to a lower efficiency in the management of public resources. Considering the fact that combined managerial and artistic skills are rare there is a very small probability that the insider from an artistic environment at the head of the SND administration will have them both. So we can hardly expect that there will be a skilled manager at the head of the institution's administration who will be able to maximise the return on investment from the new building project when this possibility was refused by the artistic community at first by selection of the object's owner and subsequently by selection of the administrator. To put this into a wider context: the task of the Government is to maximise social benefits from public sources devoted to the area of culture. This does not necessarily mean subsidising or owning institutions. It has already stepped aside in this issue in favour of the artistic community. So this is just another offset for a medially strong interest group." Several experts expressed the opinion that the new building of the SND should have been sold to a private investor long time ago.

Richard Ďurana: "The decision will dig deeper into the pockets of tax payers including those that will never use theatrical services. I consider the selling of the building to the hands of a private owner to be the best solution for the problems surrounding the SND."

Luboš Vagač: "The building should have been sold to a private investor. If there was a public interest in the operation of a theatre in these spaces, it could have been amended in the contract with the investor."

Ladislav Balko: "The SND will have problems with the operation of this building, or the State will have that problem as it will cost it plenty of public resources. Another solution will have to be found in the future for sure."

Juraj Draxler: "I prefer the opinion that such a big building that can not serve only for performances of the SND should be administrated by a specialised company but on the other hand there needs to be appropriate control mechanisms."

Juraj Nemeč: "The evaluated measure is a cancellation of an intermediary. I consider it to be positive. All other arguments are related to the problem of the SND construction en bloc – and this is a "nightmare"."

Jozef Stránský: "An artificial organisation established for purely political reasons was cancelled."

Robert Žitňanský: "An economist should not work as an artistic director and artists should not pretend to be economist-managers."

13. Resolution on the not-making of any privatisation decisions after February 22nd, 2006 until the formation of a new Government (termination of privatisation projects as for 3 energy distribution companies ZSE, SSE and VSE, 6 companies of the SAD, 6 heating stations, Railway Company Cargo and DMD Group)

Primary Sources: a) Resolution of the Government of the Slovak Republic No. 72 to the Declaration of the Government of the Slovak Republic on the not-making of any decisions on privatisation in the III. election period
b) Resolution of the Government of the Slovak Republic No. 166 to the proposal for amendment of the Resolution of the Government of the Slovak Republic No. 72 from January 25th, 2006
c) Resolution of the Government of the Slovak Republic No. 208 to the proposal for the supplementing of the Resolution of the Government of the Slovak Republic from January 25th, 2006 in the wording of the Resolution of the Government of the Slovak Republic No. 166 from February 22nd, 2006

Status of the Measure in the Legislative Process: the Resolution approved by the Slovak Government on a) 25.1.2006, b) 22.2.2006, c) 1.3.2006

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: not to make any privatisation decisions closely before elections

Contents of the Measure:

- declaration of the Slovak Government on the not-making of any privatisation decisions or sales of real estate after February 22nd or 28th, 2006 until the formation of a new Government after the parliamentary elections on June 17th, 2006
- termination of privatisation of energy distribution companies ZSE, SSE, VSE, 6 companies of the SAD (the Slovak Bus Company), 6 heating stations, Railway Company Cargo, armament holding DMD Group and sales of real estate connected to the finalisation project for the construction of a new building of the Slovak National Theatre
- finishing of privatisation projects where privatisation contracts with an investor were signed – Slovak Power Plants and airports in Košice and Bratislava

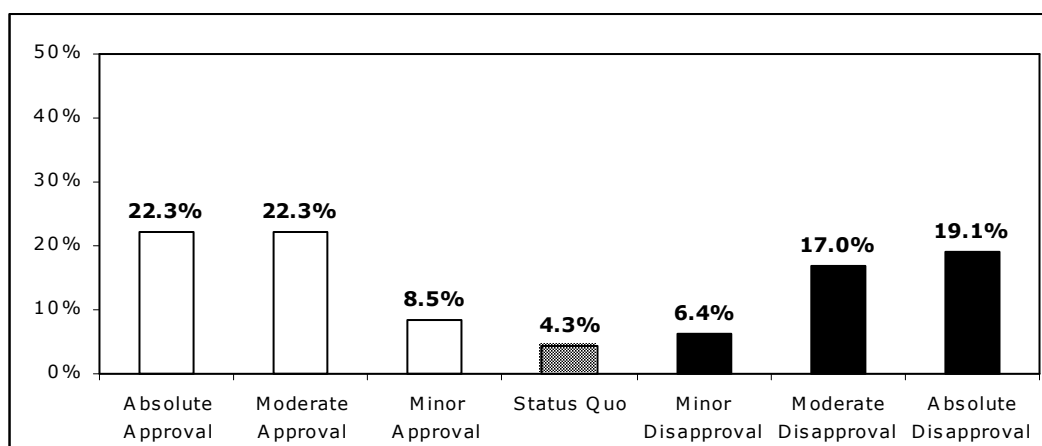
Opinions of Proponents:

- a serious and accommodating decision against political opposition and citizens
- it is not ethical to sell state property shortly before elections
- a new political culture

Opinions of Opponents:

- political but not economical decision – enforced by Members of Parliament leaving the coalition
- the State will loose a part of expected privatisation incomes that could have been used for coverage of transformation costs connected to the pension reform under the influence of a political decision
- threats of lawsuits from companies involved in already started privatisation processes
- worsening of the image of the Slovak Republic abroad
- the State will have to reimburse the costs for projects preparation and pay for privatisation advisers
- a delayed entrance of investors that would bring real resources and new know-how

Evaluation of the HESO Experts' Committee:



A significant number of experts evaluated the termination of privatisation before elections as a political but from the economic point of view doubtful government decision. It could cause negative feedback and mistrust of investors and Slovakia lost the resources it had already counted on. One respondent expressed the opinion that also from the social point of view it would have been better if the sales of state shares in companies prepared for privatisation had been finished. He spoke especially about the Railway Company Cargo and DMD Group. He also repeated arguments in favour of privatisation in the conditions of the Slovak Republic: Better management, investments and import of technologies, lower risk for public finance and lower clientelism. Other arguments – such as a positive effect on prices or quality of services/products etc. - are in his opinion in general more dubious rather than the subject of empirical examination. He also pointed out the fact that the result of elections and composition of a new Government showed that the tactics of non-privatisation failed from a political point of view also.

Richard Ďurana: *"Something is privatised because of economic not political reasons. Therefore privatisation should not be influenced by an election cycle."*

Martin Jaroš: *"I understand the effort of the Dzurinda's Government for political correctness but I do not share the idea that life should be paralysed several months before elections and also a hundred days after them."*

Robert Žitňanský: *"Politically maybe an understandable but otherwise unwise measure – especially in the context of post-election development. The more private owners, the less space for the experiments of politicians."*

Luboš Vagač: *"Termination of the privatisation process was correct from the political point of view but it was surely loss-making for the economy."*

Jozef Orgonáš: *"The decision made the investor more uncertain, which was subsequently confirmed by the non-privatisation of the Bratislava airport."*

Martin Krekáč: *"The decision not to privatise had rather a political than an economical background."*

Ludvík Posolda: *"Operationally (politically) an "understandable" but strategically wrong step."*

Radoslav Štefančík: *"I definitely assess this step as a political one. Government political parties were probably thinking about their electors at those times. Privatisation of the said companies were planned for a long time. It was no "wild" privatisation by unknown companies with seats in uninhabited residential objects and therefore there was no reason to decide in favour of delay, or termination of privatisation. The Government slowed down the investment development of the said companies this way."*

Juraj Nemec: *"There could have been economical costs connected to the delay of the decision, but as (unfortunately) the privatisation is a political process in our conditions, it was necessary. The situation would have been different if we had stopped talking politics and started to make decisions economically. But no, our Government was able to do this to the necessary extent and it is even not possible to do this to the full extent (at least in theory)."*

Miroslav Siváček: *"A neutral evaluation on two levels. In principal it was a bad politico-economic decision but subsequently, after the elections the fast and not fully transparent or maybe not finished privatisation would become only another source of populist attacks from defendants of the State's dominance in the economy."*

Eugen Jurzyca: *"The mandate of the Government is usually not the same during the whole election period. The mandate of the previous Government was evidently going down at the end of the period. So it was legitimate if it decided not to make the steps it had no mandate for and which could be questioned after elections."*

Juraj Draxler: *"The decision was probably motivated by political problems of a minority Government first. The companies controlled by the State are (especially in the period closely before the elections and after them) unfortunately a place where people important for political parties can be placed, or these companies can be utilised as undistinguished party money-boxes. A combination of making important people inside political parties angry and the utilisation of privatisation by the opposition in the pre-election fight was probably an important incentive for management of government parties by their decision on delayed privatisation. In any case, such a decision needs to be appreciated; privatisation so close before elections would be surely complicated by political turbulence. From the group of companies whose privatisation was terminated this way, DMD Group is an interesting one. Companies associated in the DMD portfolio (DMD Holding and DMD Fin in past) realised export of finished goods to countries like Indonesia a few years ago and there were negotiations on sales of some products to serious foreign interested parties. But during Dzurinda's two Governments the company served as a harbour for people closely connected to government parties and it was making profit from the production of intermediate products in daughter companies started in a previous period. But as an umbrella for a part of Slovak engineering the company was not developing in any way. Today its picture is*

represented e.g. by its web site where the company presents itself for "foreign interested parties" in very bad English."

Milan Velecký: "I agree with privatisation and I respect the fact that the Government should govern until the day when it is withdrawn. Despite this it belongs to a certain political culture that principal and non-cancellable (that can be delayed) things are not done shortly before elections. It was a gesture of the former Government although I am not able to guess to what extent it was enforced by its minority position. But a good decision still stays as a good decision regardless of the fact if you need or want to do it."

Jaroslav Vokoun: "It is definitely a good decision although the reasons that led to it were from a different category. If this would have become a standard, it would have been a good milestone."

Jozef Stránsky: "Although it was a speculative resolution of the Government it had its rationale."

Ladislav Balko: "There was an opinion among proponents that it was a new political culture. It was no new political culture. It was rather a reflection of political development where the former coalition was quarrelling and additionally it was supported by illegitimate political solitaires. Maybe it was also an election gesture of government parties relying on the fact that despite public opinion surveys the results of elections will be the same as in 2002 and that the government coalition parties will be able to form a Government and continue in the privatisation process after elections. So the decision on the delay of the privatisation was the sign of a political crisis and in an undertone maybe also the result of politically corruptive intimidation."

14. A general pardon for debtors of the so called "triple tax" (remission of penalties for late payment for all persons who paid owing principals for the inheritance tax, gift tax and real estate transfer tax within 3 months)

Primary Source: Regulation of the Government of the Slovak Republic No. 418/2006 Coll. on cessation of the tax outstanding payment equal to the unpaid penalty related to the paid inheritance tax, gift tax and real estate transfer tax

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 7.6.2006; effective from: 1.7.2006; the general pardon lasted until 30.9.2006

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: to motivate owing tax payers by cancelling the penalties on late payments to pay the owing principal of the already cancelled inheritance tax, gift tax and real estate transfer tax (so called triple tax)

Contents of the Measure:

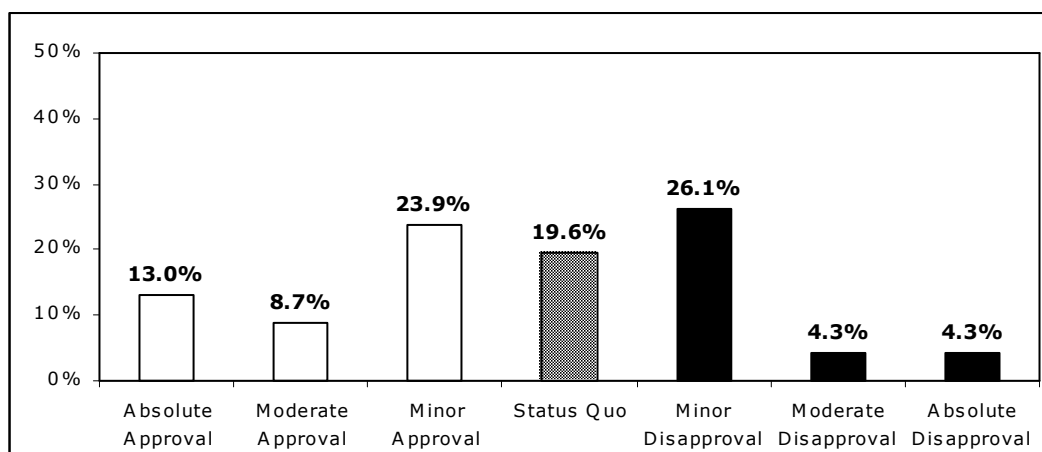
- if a tax payer paid the owing principal of the triple tax within the period 1.7. – 30.9.2006, his/her penalties, fines and sanction interest on late payment were remitted
- outstanding payments for the triple tax at the end of June 2006 – SKK 2.6bn (approx. 20,000 owing subjects), out of this SKK 1.1bn outstanding payment on principal and SKK 1.5bn outstanding payment on penalties
- income from the general pardon – approximately SKK 270m

Opinions of Proponents:

- increase in tax revenues of the State Budget as tax payers will pay at least the principal
- it will especially help tax payers who do not have the money for paying the sanctions
- collection of outstanding payments unnecessarily complicates administration at tax offices and seems to be inefficient

Opinions of Opponents:

- a precedent for violation of the law – increase in the risk of a so-called moral hazard
- pre-election acquisition of votes

Evaluation of the HESO Experts' Committee:

A large section of respondents highlighted the fact that frequently repeated measures remitting any legal duties of citizens and companies whose frequency regularly grows with coming elections creates a big risk (so called moral hazard) that people will get used to such acts of the State and they will start abusing the system and they will stop meeting their obligations. Honest citizens paying all their taxes on time are discriminated against by this act, too. Another opinion was presented by one respondent who considered the measure of the Ministry of Finance of the SR to be a reasonable one "considering the potential income and changes in the tax system increasing the efficiency of collection (moving focus on indirect taxes, more transparent direct taxes)".

Martin Jaroš: "I understand the effort to clean the table from the agenda connected to cancelled taxes but such amnesties should be used only in exceptional cases. We have had them quite a lot in Slovakia during the last few years and this can cause an addiction and waiting of debtors for the future."

Juraj Nemeč: "This case is the same as with concessionary fees - the legal state principle is broken."

Martin Krekáč: "It is not desired to express that not paying taxes is OK. But at the same time this measure ensured income for the State Budget."

Juraj Draxler: "I do not agree with a general pardon in this case. Unlike the status of concessionaires of Slovak Radio this was quite a transparent situation. Maybe we could think about a partial remission of interest, but otherwise this measure went too far."

Juraj Lazový: "I have no decided point of view but I incline to the opinions that similar measures create the risk of a moral hazard."

Jaroslav Vokoun: "One of the steps to an "ordinary person". Growth of a moral hazard. What is sacred in this country?"

Ladislav Balko: "The measure could help clean the debts from taxes that had been cancelled. The administration and collection of this tax should be (after its cancellation) given to the power of municipalities that govern real estate taxes since fiscal decentralisation. Municipalities have a better overview and impact on debtors."

15. Limitation of the possibility to change the Pension Fund Management Company at a maximum of once every 2 years (Amendment to the Act on Old-Age Pension Savings)

Primary Source: Amendment No. 310/2006 Coll. to the Act No. 431/2003 Coll. on Social Insurance amended also the Act No. 43/2004 Coll. on Old-Age Pension Savings

Status of the Measure in the Legislative Process: approved on 21.4.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.8.2006

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to prevent a growing number of speculative changes of Pension Fund Management Companies (DSS); stabilisation of the 2nd (fully-funded) pillar of the pension scheme and especially the efficient valuation of financial funds in the DSS

Contents of the Measure:

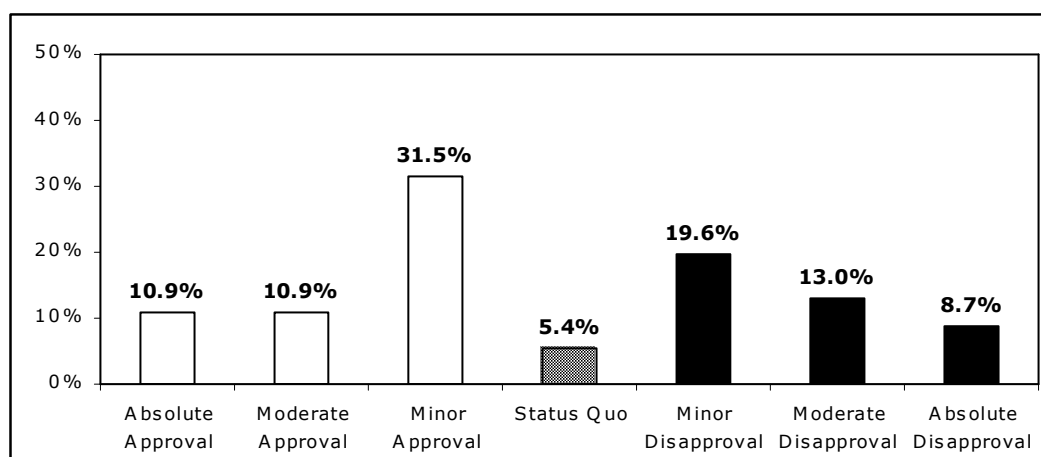
- the Amendment created an administrative barrier for frequent changes of the DSS by clients by limiting the possibility of change to a maximum of once every 2 years by law
- the problem of frequent and speculative changes was also caused by intermediaries who offered high commissions to clients in order to motivate them to change
- since 1.1.2007 the end of intermediaries of the retirement pension insurance – acquisition of clients, closing of contracts and the whole administration agenda went exclusively to DSSs

Opinions of Proponents:

- 2 years represent a sufficient period for a saver to compare the success-rate of his/her savings administration in a particular DSS and consider changing company
- limitation of changes is the only fast and acceptable solution that will calm down the situation with speculative incentives for a change of the DSS for a while
- the wave of changes represents an unhealthy situation that could lead to the collapse of the whole system of old-age pension savings

Opinions of Opponents:

- the better solution would be to allow the companies administering pension funds to apply charges for a change (*note: this was enforced later, effective from 1.1.2007*)
- the rules of the game valid by the entrance into the fully-funded pillar should not be changed but DSSs by themselves should make more effort to reduce speculative changes
- it is an unnecessary limitation of people's freedom to manage their property
- if a citizen wants to change the DSS, this Amendment imposes various administrative obstacles for him/her
- possibility of more frequent change of the DSS creates a natural pressure on better valuation of savers' funds

Evaluation of the HESO Experts' Committee:

The measure aimed to eliminate speculative changes of Pension Fund Management Companies (DSS). It also reduced the administrative burden for the Social Insurance Agency. According to some experts it was a necessary step for stabilisation of the II. pillar of the pension scheme. According to one respondent this measure should have had only a transition character (e.g. 5 years) i.e. until consolidation of conditions in the initial period. The other group of respondents considered any other limitations in the fully-funded pillar to be wrong. *"They are only in favour of existing (dominant) players at the DSS market while the Government should protect the interests of consumers. The measure came before the first phase of building-up a new system was finished. My estimate is that the frequency and number of changes would have stabilised in time. Therefore we can say that in this way the market will be stabilised outside the balanced shares of the market that would reflect e.g. quality and price of DSS services and it is inefficient."*

Martin Krekáč: *"In general it is not good to limit the freedom of an investor, a citizen in this case. Pension administration companies should behave in a market fashion and try to reduce the changes by their own methods, e.g. fees for a change or improved services, etc."*

Richard Ďurana: *"The decision represents a barrier for free decision-making of an insured person by the managing of his/her funds. The regulation of changes should have been done before the voluntary charging of fees for changes from the side of DSS."*

Robert Žitňanský: *"An understandable effort for the system's costs reduction should be solved in another way (e.g. by fees) than by limitation of citizens' rights to dispose of their property."*

Luboš Vagač: *"Introduction of fees for changes (note: that is valid now) would have been sufficient, time limitation once in 2 years is useless."*

Miroslav Siváček: "The limitation is in favour of suppliers and limits the customer. From a long-term point of view it will mean his/her lower comfort and possibility of support by its decision on a change the DSS with a higher quality of the offer and results."

Juraj Nemec: "If they paid real costs connected to a change, it is a regular individual market decision..."

Martin Jaroš: "I do not like it if clients are scared and change companies, but on the other hand I do not think that they should be protected by the law against their own unwariness. And DSSs would not have had this problem if their contract brokers had not talked the clients into changes in such an unsupervised way."

Radoslav Štefančík: "I view the accepted decision especially in connection to speculative changes of pension administration companies by savers. The decision does not change the philosophy of the pension reform in a principal way, it rather "catches flies", and therefore I view it positively."

Juraj Lazový: "I assess this measure as a pragmatic one that will reduce often speculative multiple changes of the DSS by savers. Additionally, conditions regulating the investments of DSSs prevent the creation of more significant differences among the results of individual companies."

Juraj Draxler: "I rather agree. Investment horizons are so long-term and the regulation applied by the law so strictly that short-term changes are really speculative and create destabilisation pressures. On the other hand this is by far not the main problem that needs to be solved considering the pension question."

Ladislav Balko: "I can agree with the measure. Also because we are only at the beginning of this form of ensuring future pensions and so we are "searching for ourselves" in this area. In other countries – especially developed ones – these systems have been in operation for decades – so we especially need to overcome the question of the appropriate economic growth (beside formal childhood diseases) that will ensure performance of the funds saved for decades into pensions that will be then valued appropriately. I assume that life will show the need for several changes. All subjects – the State, Pension Fund Management Companies and savers themselves - will require other new changes for sure."

Jaroslav Vokoun: "If somebody wants to jump, let him do it. At least we can see how these people (jumpers) and DSSs understand the pension reform. But worse things will come, too. They will be called 'balancing naiveté'."

16. Cancellation of the Civil Service Office (loosening rules on selection and replacement of civil servants)

Primary Source: Act No. 575/2001 Coll. on the Organising of Government Activities and Organisation of the Central State Administration Bodies was amended by the Amendment No. 231/2006 Coll. to the Act No. 312/2001 Coll. on Civil Service

Status of the Measure in the Legislative Process: approved on 15.3.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from 1.6.2006, the Civil Service Office was cancelled

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic (MPSVR SR)

Intention of the Measure: to simplify the regime of civil service and soften the administrative burden of the whole process of selection and replacement of civil servants by cancellation of the Civil Service Office

Contents of the Measure:

- by cancellation of the Civil Service Office (ÚŠS) all rights and obligations resulting from civil service relations and employment relations as well as the State's property in administration of ÚŠS were transferred to the MPSVR SR, Government Office of the SR and the highest service offices
- ministries and other service offices will not have to carry out selection procedures by staffing management positions in the state administration
- but if they do perform them, they will set the rules by themselves
- Ministers and State Secretaries can propose withdrawal of head officers who belong under their direct management power also without stating the reason while the Head of the Office who is a nominee of the Minister has to oblige to the Minister's proposals

Opinions of Proponents:

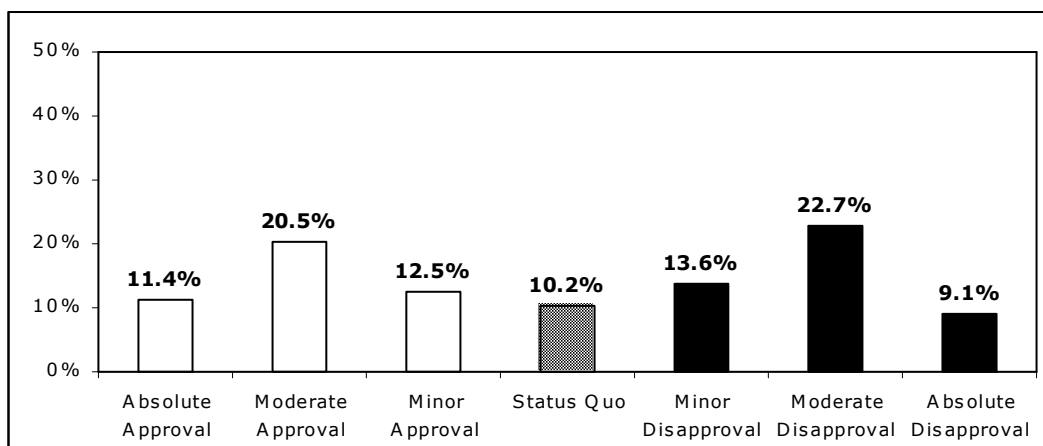
- ÚŠS slowed down the selection of officers, was inflexible, expensive and slowed selection procedures

- ÚŠS avoided responsibility for its activities and shook off its duties resulting from the law by transferring decision-making at the first and second stages to lower administration bodies
- depoliticising the civil service was unsuccessful, corruption was not removed and the Office was losing its competencies by frequent changes of the law and therefore it has become redundant
- Ministers would not be able to work with people they wanted to if they were bound by the results of selection procedures organised by the ÚŠS

Opinions of Opponents:

- repeated politicising of state administration and its destabilisation
- endeavour to put the selection of public employees under the stronger control of politicians
- civil servants will be replaceable much more easier than in the past – lower protection of civil servants
- frustration of the effort in building a professional and apolitical state administration
- it can represent further costs in the future in case that the additional qualification of civil servants will be paid by the State
- the state administration reform has been returned to its beginning

Evaluation of the HESO Experts' Committee:



Several experts agreed that the problem with the Civil Service Office was rather its operation than existence while according to some of them Slovakia is not developed enough for applying the model that has been re-introduced by cancellation of the Office. According to one respondent the Office "had a chance to contribute to the professionalism of state administration and higher quality of its human resources from a long term perspective." He added that "with time it would surely be possible to achieve a system that will be able to match the needs of the Minister to have his/her own people around and state administration that would perform the decisions. This system has a tradition in Great Britain but this tradition was not created in just a few years, too. If there was a problem with the professionalism and flexibility of the Office's management it should have been replaced. But according to my opinion the problem was also in the legal framework – in the state administration organisational structure and in performance of specific functions by the Office, e.g. selection procedures (their content and organisation) that repelled people from a career in state administration by their substance."

Martin Krekáč: "Cancellation of the Office was too radical a solution although the Office was not working as it should have been. At first the operation of the Office should have been reformed and then we should incline to such radical solutions."

Juraj Lazový: "Despite the fact that the Office was probably not working efficiently enough, I consider its cancellation to be a mistake. A change of conditions for its operation should have been the solution."

Richard Ďurana: "A little pressure on the efficiency of state administration has been removed and released the space for political nominations instead of selections based on professional criteria."

Juraj Nemeč: "If we established the Office then why cancel it after such a short time. Similar offices are working worldwide although a centralised selection of employees is mostly overcome. I consider this solution to be a purely political one. The contents of the Office's operation could have been revaluated."

Juraj Draxler: "Human resource management in state administration at the central level is necessary but the Office had no justification in principal. It is a typical (not only) Slovak problem - working on a certain topic starts by the creation of an office. Instead of having a clear plan how to

manage the civil service where the establishment of a control office would be only the climax. The civil service needs to be more professional. Selection procedures could contain general tests of verbal and numerical skills. The civil service needs a clear plan of continuous education for officers, a plan for improvement of "company culture" (procedures by negotiations, working with documents, etc.), implementation of natural managerial techniques into its work (strategic planning, continuous control of achieving set targets, etc.), maybe some soft quotas for recruitment of people with foreign skills, etc. But a strategic plan has to be in place before the establishment of some office. So nothing happened by cancellation of the Office but another thing is that this could have been done more professionally (see the arguments around the fact whether the position of the Head of Office was cancelled by the appropriate norm or not)."

Ladislav Balko: "It is a paradox that the Office was cancelled by the same Government (or political streams) that had initiated its creation. The civil service tenure can be built without an office, too. Let's look at the operational regime of the tenure during the first Czecho-Slovak Republic (1918-1938). Personal performance of state administration was not changed after creation of the Office. Let's not close our eyes to the fact that political nominations of suitable and desirable persons were enforced through the Office. They were enforced and the Office was just a simulation for state administration depolitising. It was just a decorative feature. And a civil servant is an indestructible feature. According to my experience most of the civil servants will appear in another office in a short time after being released. We should better look at the fact that Slovakia is really flooded by civil servants and State's management costs the economically active subjects either legal entities or citizens paying too much tax."

Radoslav Štefančík: "It is questionable whether a person with a political background and without a selection procedure could have been employed in the civil service through bypassing the valid legislation also during the existence of the Civil Service Office. In this case the existence of the Office would have been senseless. In Western European countries the performance of certain functions in state administration requires either education in a specific field (e.g. public administration specialisation) or long term experience. In the case of a consolidated democracy and advanced political culture the Office would be useless because by changes of the Government only the highest state functions are replaced. In the case of Slovakia the change of Government after 2006 and appointment of its "own" people (although without appropriate education, or sufficient working experiences) to different functions in state administration by a new Government garniture recall questions regarding the cancellation of the Office. In case of its existence there would have not been such a drastic change of positions also at the lowest levels of state administration after each change of the Government as we could see after the last parliamentary elections."

Miroslav Siváček: "At first I considered the measure to be a correct one but after the elections it showed that the Office could play a certain positive task by defending the interests of state employees against political interventions after elections."

Jozef Stránsky: "Agreement with proponents. Selection of candidates for key positions was always a political issue and no office has ever changed it and it never will do."

Martin Jaroš: "I found the Civil Service Office to be suspicious from the beginning. I do not like the fact that several officers could select other officers into departments they have no influence on. Ministers should have the possibility to select the subordinates they trust. The fact that political culture is not working in Slovakia and employees are sometimes replaced also at very low levels may not be an excuse for the existence of such an institution. Current staffing at the Ministry of Finance is a swallow showing that things can be changed also in this field and that politicians do not always do clean-outs just because they can."

Milan Velecký: "With a lithe exaggeration: cancellation of any office is a good message for a citizen. And especially of the Office whose mission (depolitising of state administration and stress on its professionalism) was successfully bypassed."

Robert Žitňanský: "The first step on the way to a contract system of bureaucracy. Unfortunately, another missed opportunity. But finally a right decision. No life-long secured employment and life-long table growths of salary in state administration can be in state administration if there should be at least a little use for citizens."

17. Introduction of an employer's obligation to pay the Guarantee Insurance contributions in the amount of 0.25% also for persons working under a Work Performance Agreement or under a Brigade Work of Students Agreement (Amendment to the Act on Social Insurance)

Primary Source: Amendment No. 310/2006 Coll. to the Act No. 461/2003 Coll. on Social Insurance

Status of the Measure in the Legislative Process: approved on 21.4.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.8.2006

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to increase the protection of employees' rights by insolvency of their employer also for employees working "on agreement" (outside an employment relationship)

Contents of the Measure:

- effective from 1.8.2006 employers have to pay the guarantee insurance premium in the amount of 0.25% of the income also for persons working for them under agreements on work performed outside the employment relationship (Work Performance Agreement and Brigade Work of Students Agreement)
- so far the employer was paying only the casualty insurance premium in the amount of 0.8% of the income for employees working on the basis of these agreements

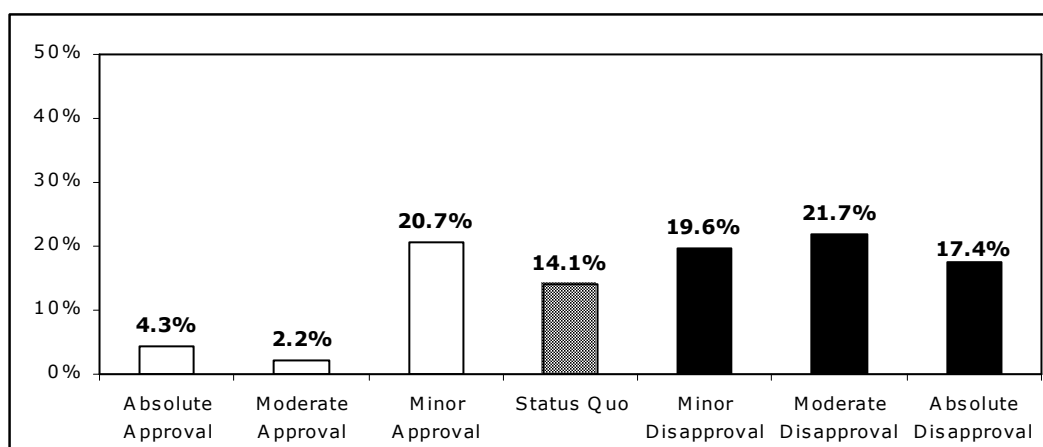
Opinions of Proponents:

- higher protection of employees "working on agreements" in case of insolvency of the employer – claim for guarantee insurance benefits for payment of social security contributions of an employee
- equalisation of employees "working on agreement" with employees in a proper employment relationship

Opinions of Opponents:

- the labour price will be increased – the payroll taxes burden of employers will increase
- the level of maintenance and creation of new jobs for people "working on agreement" will decrease – these are often students, pensioners and mothers – a socially looking measure that can turn against the interest of socially weaker layers to work and earn money
- even a relatively low payroll tax will increase the administrative burden of employers' accounting

Evaluation of the HESO Experts' Committee:



It is a transposing of the EU directive into the legal order of the Slovak Republic. According to many experts the negative side of the measure is the fact that it increases the payroll taxes burden for employers and this fact can slow down the process of new jobs creation for so called "on agreement workers".

Ladislav Balko: "A nonsense measure. If the employer has a problem, the "on agreement workers" are the first to go so their protection is completely useless. Finally this is against "on agreement workers" because if employers have to pay another payroll tax for them they will not be interested in employing them."

Richard Ďurana: "There is no rational reason for such a decision as the Guarantee Insurance Fund collects approx. 40% more of contributions than it is paying out in benefits, so it serves for

cross-subsidising of the Basic Fund of Pension Security. I see no reason for another increase in the payroll taxes burden and in this way in increasing the labour price."

Martin Jaroš: "Clearly, another unpretentious increase in payroll taxes. Thank you very much!"

Radoslav Štefančík: "The long term intention of the Government should be decreasing payroll taxes not introducing new ones. The labour price is increased by this measure, which can lead to a decrease in employment."

Juraj Lazový: "It is a measure that decreases the labour market's flexibility. I think that in the case of employment on the basis of agreements the conditions should be set up so that they would not unnecessarily increase the price of labour."

Jozef Orgonáš: "Worsening of conditions for employment, lower flexibility for labour employment."

Martin Krekáč: "The principle of the agreements on work performance and on brigade work of students is the minimum possible administrative burden for an employer so that it was worth employing students, pensioners or socially weaker citizens. No additional administrative burden is desired as it can limit the creation of new "on agreement" jobs."

Juraj Nemec: "One of the taxing principles is simplicity and low administration costs and this is not followed here. We can really discuss whether there is any real protection ensured or not."

Eugen Jurzyca: "The Guarantee Insurance should be cancelled. But until it works, it should be paid by everybody."

Miroslav Siváček: "I agree with the statement that the tax burden decreases the interest of an employer to employ but as a positive thing I view the effort to balance the differences among different types of employment relations."

Juraj Draxler: "I rather disagree. The State should try to prevent the fact that work "on agreement" becomes a regular tool for employment ("chaining" of contracts with one employee etc.), but certain preferences for this very flexible employment tool should remain valid."

Jozef Stránsky: "This should have been done far sooner. Now it is necessary to detect illicit labour especially by students that was surely increased by the introduction of such a duty."

Jaroslav Vokoun: "We are just afraid how the labour price will go up. But we are at the tail of Europe. Anybody who has such fears should state his/her average monthly income behind his name in brackets so that it was clear what is the power of the argument we are dealing with. I think that this measure was well prepared and it reacted to the status of the matters."

18. Annual settlement of public health insurance premium payments

Primary Source: Announcement of the Ministry of Health of the Slovak Republic (MZ SR) No. 239/2006 Coll. on details on reporting of advanced public health insurance premium payments, on the annual settlement of insurance premium payments and obligations by annual settlement and templates for annual settlement of public health insurance premium payments

Status of the Measure in the Legislative Process: the Announcement was approved by the MZ SR on 4.4.2006; effective from: 27.4.2006

Submitter: Ministry of Health of the Slovak Republic

Intention of the Measure: to find out how many, where and what insured persons exist, who is an insured person of the State and for how long and also the effort to prevent leakage by payment of contributions for health insurance. The task of the annual settlement is to calculate the premium for the whole calendar year and compare it with really contributed (not contributed) advance payments

Contents of the Measure:

- determine the duty for payers of the health insurance to submit the annual settlement of the health insurance (comparison of total contributed advance payments with a calculated real premium for the whole year) by fulfilment of the appropriate form and sending it to the health insurance company and to pay the outstanding payment or ask for an eventual overpayment
- the annual settlement of health insurance contributions was realised by approximately 80% of obliged persons while the error rate by fulfilment of forms was in approx. 15% in average
- estimated outstanding payments by health insurance payers – approximately SKK 1bn, overpayments SKK 265m

Opinions of Proponents:

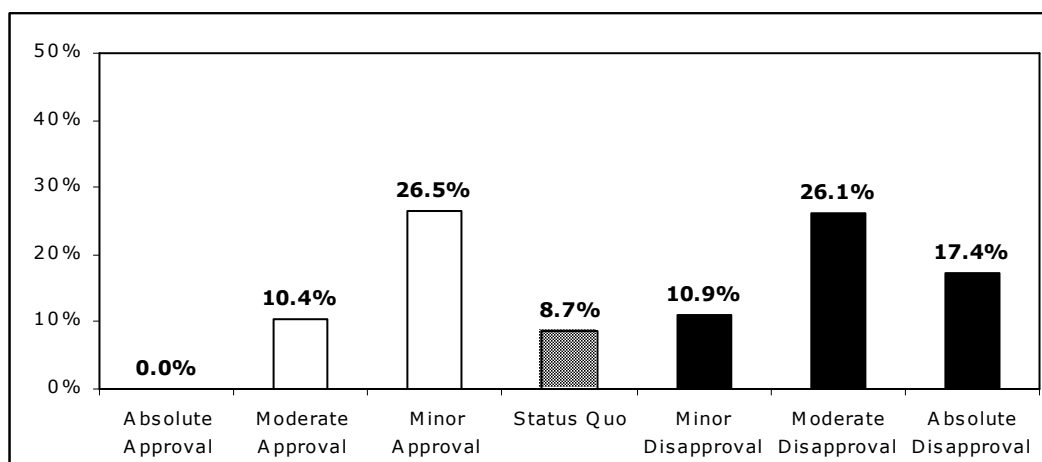
- prevention of leakage by payment of contributions for public health insurance because the premium is paid for the total income for the whole year

- preparation for simplification of the whole process that could be achieved if tax, health and social insurance would be calculated from the same assessment basis
- the real number of insured persons of the State was discovered
- determination of the ceiling for the contributed health insurance is a positive and the system returns overpayments for employees and employers that contributed more than the determined ceiling on health insurance
- the possibility to submit the annual settlement of health insurance premium payments in an electronic form

Opinions of Opponents:

- a very complicated, non-transparent, bureaucratic system of annual settlement of health insurance contributions
- an unclear Announcement with 13 different types of forms – even the health insurance companies had a problem with advising the right type of form to some insured persons
- increased costs connected to the annual settlement for employers – fulfilment of forms inappropriately burdens the payroll accounting of companies
- health insurance companies were not able to process and verify the amount of data of insured persons and employers
- expected costs for implementation of the insurance settlement were high
- at the time of submitting of settlements the guidelines to settlement were only in the “finalisation” phase – late approval of the Announcement that contained the templates of forms for the annual settlement caused chaos
- in 2005 one version of the rules for the settlement was valid until August and the second one subsequently until the end of the year and this fact caused complications with settlement
- a non-systemic measure that increased the administrative burden and served only for the collection of additional money into the public health system and led to an increase in the payroll taxes burden of employers and employees and therefore this obligation should be cancelled
- the annual settlement of health insurance contributions should have been applied only when it had been prepared properly from an organisational point of view

Evaluation of the HESO Experts' Committee:



A significant majority of evaluating experts criticised the bad administration side of the annual settlement of public health insurance premium payments that complicated the situation for both the employed and their employers. One respondent summarised *“that costs and benefits of the measure are balanced”*. He incorporated an *“additional regulation burden on the private sector”* among the costs. *“New money is coming to the health care sector by the increased efficiency of premium collection. But at the same time, again there is an increase in payroll taxes especially for higher income groups while the counterargument could be on progressivism of health care financing, social injustice, tax leakage or an increase in the efficiency of public services. Maybe it would have been better to wait, decrease the regulation chaos by more proper preparation and implementation of the settlement with a complex reform of tax and premium collections.”*

Martin Krekáč: *“This measure introduced a too complicated bureaucratic process. The measure could be useful if e.g. collections of taxes, contributions etc. were systematically joined under one roof which would simplify the current complicated bureaucratic process for citizens and entrepreneurs.”*

Ludvík Posolda: *“A beautiful example of bureaucracy and chicane of a citizen by public offices.”*

Radoslav Štefančík: "The decision brought chaos among insured persons. I felt it as a chicane of citizens from the state administration. I think that the state bodies completely failed in this case. Neither offices nor citizens were sufficiently prepared for the settlement. But the citizens are excused by a complicated system prepared for them by the State."

Juraj Lazový: "It was a very badly prepared action, which with a high probability, did not meet its aim (to introduce better order into the system and ensure more resources for health care) in 2006. I can not judge whether the system of the annual settlement is necessary or not (of course based on the condition that it would be a functional and uncomplicated system)."

Milan Velecký: "Administratively a very costly and expensive means how to prevent speculation. What about a more simple solution: to cancel the maximum assessment basis for calculation of the premium? Then it will not matter that a speculator will earn a minimum wage for 11 months in a year and he will get SKK 1m in December. He/she would pay the same contributions as if the money were divided into balanced monthly incomes. And this also without a complicated settlement whose processing and control costs health insurance companies big money."

Juraj Nemeč: "Administrative and recalled costs were surely bigger than the income. In principal yes, but not this way!"

Miroslav Siváček: "In principal a right decision to make the settlement of the insurance premium on an annual basis was devaluated by an administrative burden of the whole act."

Richard Ďurana: "Despite an understandable intention of this measure its realisation was not mastered and it represented significant time costs for insured persons."

Robert Žitňanský: "A substantially correct measure but realisation was organised extremely badly. Chaotic, complex, unclear, mistakes were made also by health insurance companies."

Martin Jaroš: "An administration giant. I do not mind the settlement in principle but the way it was prepared or unprepared was an example of incompetence. Continuous delays, late Announcement, legal uncertainty, chaos, mess. And this year again the same."

Jaroslav Vokoun: "It is worth doing something for this billion. But such an unhappy solution was chosen. Such decisions should be consulted with entrepreneurs – not whether they agree but which solution would be efficient for both sides at the same time."

Juraj Draxler: "More yes but the question is if the administration side of the issue was set properly."

Ladislav Balko: "I can agree with the measure. It introduces justice into the system of health insurance contributions also from the point that if somebody has more employments and his/her contributions overreach the set threshold, he/she will get the money back. The other thing is whether it could not be done automatically – each health insurance company knows how much contributions it received and for whom and if this would overreach a certain limit is it a problem to return the money back to the insured person? The intention is definitely good but the realisation is limping – it burdens payroll clerks who do double the work and in the case of annual settlements they have lots of unnecessary batch work that could have been saved by the health insurance company."

Eugen Jurzyca: "It is a prevention against speculation."

19. Not-appointing of Mr Vladimír Tvaroška as vice-governor of the National Bank of Slovakia by the President of the Slovak Republic because of supposed not-meeting of the conditions for sufficient expert knowledge and experience

Primary Source: The standpoint of the President of the Slovak Republic to the not-appointment of Mr Vladimír Tvaroška as vice-governor of the National Bank of Slovakia

Status of the Measure in the Legislative Process: the President of the Slovak Republic did not appoint Mr Vladimír Tvaroška as vice-governor of the National Bank of Slovakia (NBS) on 6.6.2006

Submitter: President of the Slovak Republic Mr Ivan Gašparovič

Intention of the Measure: not-appointment of Mr V. Tvaroška as vice-governor of the NBS because of not-meeting the legal presumption of appropriate professional skills and experience in the monetary area or in the area of finance

Contents of the Measure:

- the President of the Slovak Republic did not appoint Ing. Vladimír Tvaroška as vice-governor of the Slovak central bank with an explanation that he does not meet the conditions set by law for performance of this function

- according to the valid Act on the NBS only a natural entity with a university education and at least 5 years of experience in a scientific or pedagogical function in the monetary area or in the area of finance can be appointed a vice-governor
- according to the President it was not possible to devise the conclusion on meeting the legal condition on appropriate professional knowledge and experience of V. Tvaroška based on the received legally relevant details with reference to fulfilling at least 5 years of experience in a managerial, scientific or pedagogical function in the monetary area or in the area of finance
- the National Council of the Slovak Republic (Slovak Parliament) approved the government proposal for appointment of the State Secretary of the Ministry of Finance of the Slovak Republic Mr V. Tvaroška as vice-governor of the NBS before that

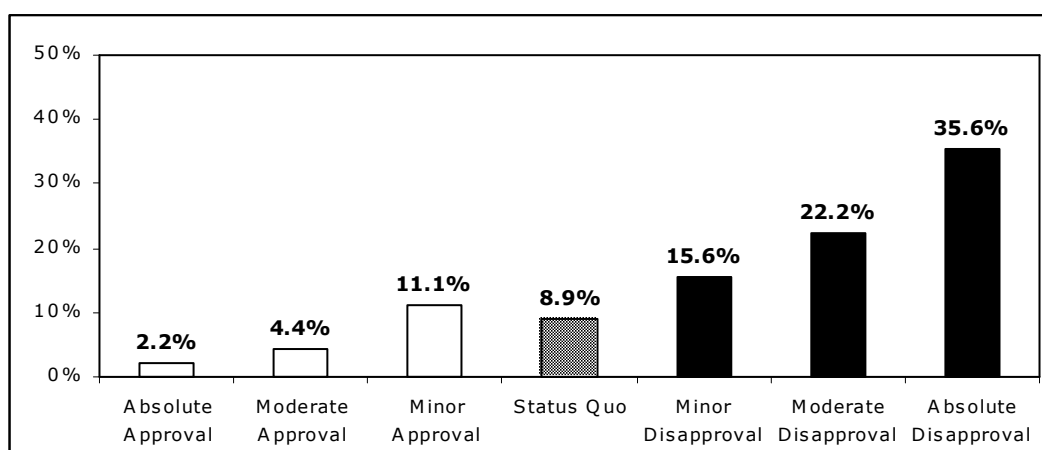
Opinions of Proponents:

- V. Tvaroška did not meet conditions set by the law for performing of the function of a vice-governor
- Mr Tvaroška would not be able to carry out the position of vice-governor of the NBS from a professional and experience point of view
- selection of Tvaroška for the position of vice-governor was politically motivated

Opinions of Opponents:

- the decision of the President was a political decision without looking at the indisputable qualities of the applicant for the vice-governor's position
- exceeding the constitutional competences of the President
- an increased political pressure could have endangered the credibility of the NBS in front of foreign investors and limit its independence
- V. Tvaroška met conditions set by the law for performing the function
- Mr Tvaroška is respected by domestic as well as professional public
- a long-time unoccupied position of the vice-governor of the NBS negatively influences the activities of the central bank, especially activities leading to the Euro adoption

Evaluation of the HESO Experts' Committee:



The long term vacant position of vice-governor of the National Bank of Slovakia (NBS) was considered to be a serious problem by the professional public that complicates the work of the NBS in the period of preparation of the Slovak Republic for Euro adoption. Most of the Experts' Committee viewed the step of the President of the Slovak Republic Mr Ivan Gašparovič who refused to appoint Mr Vladimír Tvaroška as vice-governor of the NBS as a politically motivated decision not respecting the qualification and credit of V. Tvaroška by the professional public.

Richard Ďurana: "It is a purely political decision that is not based on professional criteria."

Miroslav Siváček: "A political decision that endangered the operating power of the NBS."

Radoslav Štefančík: "The President was not entitled to investigate whether the candidate meets or does not meet the conditions, the President should have appointed the candidate proposed by the Government and approved in the Parliament. This way the President took part in coalition-opposition fights and by his activities he raised doubts about the independence of his office. From the side of the President it was a purely political decision where he acted expressly against the former Government garniture."

Martin Krekáč: "Considering the fact that V. Tvaroška gained support in Parliament I consider the decision of President I. Gašparovič to be a non-standard one. The NBS is an important institution with high credibility and vacancy of the position of vice-governor could have made the markets uncertain."

Milan Velecký: "According to my opinion the President exceeded his competences. The Government (also on the basis of the President's stipulation) supplemented that the candidate approved by the Parliament meets the legal conditions. Despite this fact the President insisted on his opinion that the candidate does not meet the conditions. By such understanding of the President's competencies the President's competencies would be extended in a significant way – in fact he could block anything."

Martin Jaroš: "An absolute failure of the President as an independent Head of the State. He claimed that he decided by himself but unfortunately it was visible how he gets his wisdom from the SMER party. If Gašparovič wanted to express a negative statement he should have done this immediately and not to stretch the time. And it is also perverse that the new Government wants to withdraw the filing from the Constitutional Court of the Slovak Republic, so if the Court will satisfy it we will never know where the President's competencies reach."

Robert Žitňanský: "Scandalous behaviour of the President without understandable arguments, intriguing. There is a just suspicion that the decision-making of the Head of the State on the vice-governor was influenced by politicians from the SMER party (or at least they tried). The President acted at least on the edge of the Constitution and Fico's Government removed the filing from the Constitutional Court."

Juraj Nemeč: "This is dominantly politics."

Jozef Orgonáš: "What a shame, it is not possible not to utilise a highly qualified person in the right place."

Eugen Jurzyca: "An incorrect decision. Mr Tvaroška proved that he is capable. He will prove it again for sure although not in the NBS. It shows that the NBS will stand its ground in its biggest challenge so maybe it is good for society that Tvaroška will be useful somewhere else."

Juraj Draxler: "I view the proposed appointment of Mr Tvaroška rather than a "reward" from the Minister of Finance for his services in the position of the State Secretary. The question of professional knowledge and experience is quite complicated. Tvaroška has no experience in a banking environment, neither is he considered to be a monetary expert so by unclearness of the act the President could have interpreted the appropriate minimum period in his way. On the other side, Tvaroška could have been a benefit to communication with the European Central Bank and other important foreign institutions. It is difficult to expressly take one or another side."

Jaroslav Vokoun: "The rules are here for being kept. So why do we need the rules? A good thing is sometimes lost on this fact. In any case, everybody is replaceable."

Ladislav Balko: "If the act should be valid then always and without stipulations. The Act on the NBS says it clearly. Also with the exact number of years for fulfilment of professional competency. Thought I respect Mr Tvaroška very much, the wording of the law will not allow it and the fact that he was a coordinator of advisors of the Prime Minister, this is really not performance of a managerial function in the area of finance and currency. He performed such managerial functions only as a State Secretary. And he was not there for the required period. Also before that he was in no bank, nor any other financial institution nor in another similar managerial position. Neither does his publication work replace the pedagogical activity as alternatively required by the law. If someone wanted to solve it in this way it should have been amended legally. So if the Government counted on Mr Tvaroška for the position of vice-governor, it should have amended e.g. the Act so that there was not only the area of finance and currency but e.g. activity "in the economic area". Although this nomination was generally expected I did not realise in that time neither expected that the President could object to the not fulfilment of the law. In connection to attacks on the President's decision I think that the President should not only be an "underwriter" of someone's decisions but as Head of State he also needs to guard the keeping of the law. The other thing is that we are too rigorous in this case in Slovakia, i.e. by nominations to the Bank Board. Some countries completely do not require such strict assumption of professional ability and it is left only to government selection because the central bank is really (whether someone agrees with me or not) only a government garniture with a different level of autonomy to which an executive state body responsible for performance in the area of finance and currency – and it is the Ministry of Finance everywhere – transfers competencies defined by the law in the area of currency and in other countries also in the area of provision of credits to the Government. Although the central bank is responsible for implementation of the monetary policy, the Government has this executive responsibility for the situation in this area. So the one who made the mistake was not the President, but the Government which should, as a priority, look to keeping the law. Or it should have amended the Act in this direction in advance."

Jozef Stránsky: "Correctly applied right of the President."

EVALUATION OF SELECTED ECONOMIC AND SOCIAL MEASURES – 2nd HALF OF 2006

(Note: The evaluation of measures represent opinions and views of the HESO Experts' Committee members and do not necessarily reflect the views of their employers or any organisations of which they are members, nor the views of INEKO.)

HESO – Evaluation of Economic and Social Measures – 2nd Half of 2006					
Measures Ranked by HESO-Rating Values (i.e. Contribution to the Economic and Social Development)		HESO-RATING	Quality	Importance	See Page No.
		<i>[-300;300]</i>	<i>[-3 ; 3]</i>	<i>%</i>	
1.	Tender and granting of a licence to the third mobile operator – Telefónica O2 Slovakia	83.1	1.84	45.1	<i>p. 52</i>
2.	Imposing of a SKK 1.35bn fine on construction companies for a price cartel in the tender for construction of a part of the highway by the Antimonopoly Office of the Slovak Republic and 5-year prohibition of participation in public tenders by the Office for Public Procurement	61.4	1.63	37.8	<i>p. 54</i>
3.	Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points in July 2006 and by 0.25 percentage points in September 2006 (basic interest rate – 4.75% effective from September 27 th , 2006)	56.2	1.15	49.0	<i>p. 56</i>
4.	Back payments for already granted disability pensions deprived during 2004 – 2006 by stricter disability qualification (Amendment to the Act on Social Insurance)	31.8	0.90	35.1	<i>p. 57</i>
5.	The 2007 State Budget (State Budget Deficit - SKK 38.4bn; Public Finance Deficit – 2.9% of GDP)	19.6	0.27	73.4	<i>p. 59</i>
6.	Changes in the regulated prices of energies and water for households (from 1.11.2006: gas +4.26%; from 1.1.2007: gas -4.04%, water -4.1%, electricity and heating without changes)	2.5	0.05	50.1	<i>p. 61</i>
7.	Transfer of funding of non-state elementary art schools and school facilities from the State to municipalities (funded from the unchanged share on income tax revenues designated for municipalities; during 3 years a minimum 90% of resources from tax revenues for non-state facilities guaranteed by the law)	2.1	0.07	29.0	<i>p. 63</i>
8.	Introduction of an extra payment to the child birth allowance (only for the first child) in the amount of SKK 11,000 (together with the child birth allowance - SKK 15,460)	-3.2	-0.09	34.7	<i>p. 65</i>
9.	Strengthening of the altitude influence by calculating the municipality's share on natural entities' income tax revenues (municipalities situated higher will get more money compared to those situated lower; Amendment of the Regulation on Allocation of Income Tax Revenues to Municipalities)	-5.8	-0.21	27.2	<i>p. 66</i>
10.	Increase in health insurance premium rate for so called state insured persons from 4% to 5% during the first 4 months in 2007; postponing of deadline for the annual settlement of health insurance premium payments in 2007 (Amendment to the Act on Health Insurance)	-9.3	-0.24	39.1	<i>p. 68</i>
11.	Introduction of the state mortgage bonus for young people under the age of 35 with not significantly above-average income (in 2007 – 1.5%; Amendment to the Act on Banks)	-17.1	-0.53	32.1	<i>p. 70</i>

12.	Introduction of the SKK 500 fee for the changing of a Pension Fund Management Company (DSS), obligation to ask the Social Insurance Agency for issuance of an acceptance letter; introduction of the limit for DSS's expenditures for advertising and closing of contracts (Amendment to the Act on Old-Age Pension Savings)	-19.3	-0.55	35.3	<i>p. 72</i>
13.	The obligation of farmers to report the domestic slaughter of pigs or beef-cattle and to send a sample for a laboratory examination to the Veterinary and Food Administration (Act on Veterinary Care)	-20.4	-1.09	18.8	<i>p. 74</i>
14.	Decision of the Antimonopoly Office of the SR on the non-permitting of the joining of Bratislava and Vienna-Schwechat airports	-24.4	-0.52	46.6	<i>p. 75</i>
15.	Restriction of assignment of 2% of the paid income tax for public benefit purposes (exclusion of human-rights and environmental non-profit organisations from tax assignment and increase in minimum amount for 2% assignment by individuals from SKK 20 to SKK 100, cancellation of non-taxation of income under SKK 300,000 coming from other than main activities of non-profit organisations; 2 amendments to the Income Tax Act)	-40.8	-1.05	38.9	<i>p. 78</i>
16.	Granting of investment incentives in the amount of SKK 12.7bn to almost 50 companies in the period of August 2006 to March 2007 (a shift from the preference of regions with a high unemployment rate)	-45.6	-1.00	45.6	<i>p. 80</i>
17.	Increase in the minimum wage to SKK 7,600 (by 10.1% or SKK 700)	-50.2	-1.19	42.3	<i>p. 82</i>
18.	Introduction of an annual Christmas contribution for pensioners depending on the amount of the pension (SKK 2,000 for pensioners with a pension lower than SKK 3,455, SKK 1,750 for pensioners with a pension between SKK 3,456 – SKK 6,910 and SKK 1,500 for pensioners in the zone SKK 6,911 – SKK 10,365)	-52.5	-1.52	34.5	<i>p. 84</i>
19.	Introduction of the so called millionaire income tax (a gradual decrease of the personal tax-free allowance – starting from the gross monthly income of SKK 47,571 up to an income of SKK 79,952 when the tax-free allowance is cancelled)	-56.3	-1.48	38.1	<i>p. 86</i>
20.	Introduction of the lowered VAT rate on medicines and some medical devices at the level of 10%	-59.0	-1.37	43.0	<i>p. 88</i>
21.	Decision of the Slovak Government on termination of the privatisation contract with the TwoOne consortium (the Vienna-Schwechat Airport / Penta Group) and not continuing in the privatisation process of the Bratislava Airport with the second applicant in the public tender (the Abertis / J&T consortium)	-71.8	-1.52	47.1	<i>p. 90</i>
22.	Prolonging of the deadline for finishing of the transformation of state medical facilities and introduction of protection for state, regional, municipal and transformed non-profit medical facilities against executions until the end of 2007 (Amendment to the Act on Health Care Providers)	-72.9	-1.40	51.9	<i>p. 92</i>

23.	Allowing the Government to withdraw the Chairman of the Health Care Surveillance Authority for any reason (Amendment to the Act on Health Insurance Companies and Supervision of Health Care)	-74.2	-1.98	37.5	<i>p. 94</i>
24.	Cancellation of some lump sum fees for services related to the provision of health care (cancelled SKK 20 for a visit to the outpatient department and SKK 50 per day for a stay in hospital; decreased fee for a drug prescription (from SKK 20 to SKK 5); fees for a visit to the emergency room, spas and for health transport retained)	-94.1	-1.85	50.8	<i>p. 95</i>
25.	The Programme Declaration of the Slovak Government (for the 2006 – 2010 period)	-94.6	-1.25	75.7	<i>p. 98</i>
HESO-Rating / Quality / Importance of the 2nd Half of 2006		-22.2	-0.52	42.3	

1. Tender and granting of a licence to the third mobile operator – Telefónica O2 Slovakia

Primary Source: Decision of the Telecommunications Office of the Slovak Republic No. 5701/10/06

Status of the Measure in the Legislative Process: approved on 25.8.2006 by the Telecommunications Office of the Slovak Republic; effective from: 7.9.2006

Submitter: Telecommunications Office of the Slovak Republic (TÚ SR)

Intention of the Measure: development of a competitive environment in the telecommunications market in the Slovak Republic

Contents of the Measure:

- the Telecommunications Office of the Slovak Republic issued permission for Telefónica O2 Slovakia, s.r.o. on the basis of realised selection procedure
- 3 companies participated in the tender – mobilkom Austria, AG, consortium B Four, a.s. (investment group Penta and Czech Radiokomunikace) and Telefónica O2 Slovakia, s.r.o.
- criteria of the TÚ SR for selection of the winner:
 - contribution of the participant to strengthening of the competitive market in the area of electronic communications – weight 50%
 - preparedness and time sequence of network building and provision of services – weight 20%
 - experience of the participant in provision of electronic communication services – weight 15%
 - extent of services provided in frequency blocks per call – weight 10%
 - price offered for the licence (minimum of SKK 100m) – weight 5%
- price proposals for the licence: B Four – SKK 400m, mobilkom Austria – SKK 250m, Telefónica O2 – SKK 150m
- the final order according to the 9-member selection committee (the members were appointed by the Chairman of the TÚ SR) on 2.8.2006:
 1. Telefónica O2 Slovakia, s.r.o., 2. mobilkom Austria, AG, 3. B Four, a.s.
- permission (licence) was issued by the TÚ SR for 20 years for provision of a public mobile telephone service and public data and multimedia services in a public electronic communication network GSM and UMTS
- obligations of Telefónica O2 Slovakia:
 - to start its own mobile GSM network within 6 months from the day of validity of the permission and a mobile UMTS network (3G) within 12 months
 - to put 400 basic GSM stations into operation within 12 months and 800 stations within 24 months
 - to reach 12% coverage of population with its own network within 12 months and 45% within 24 months
- Telefónica O2 started its operation on the Slovak market in the form of national roaming after agreement with T-Mobile Slovakia
- defeated participants submitted a complaint to the Attorney General and the European Commission regarding the process of the tender

Opinions of Proponents:

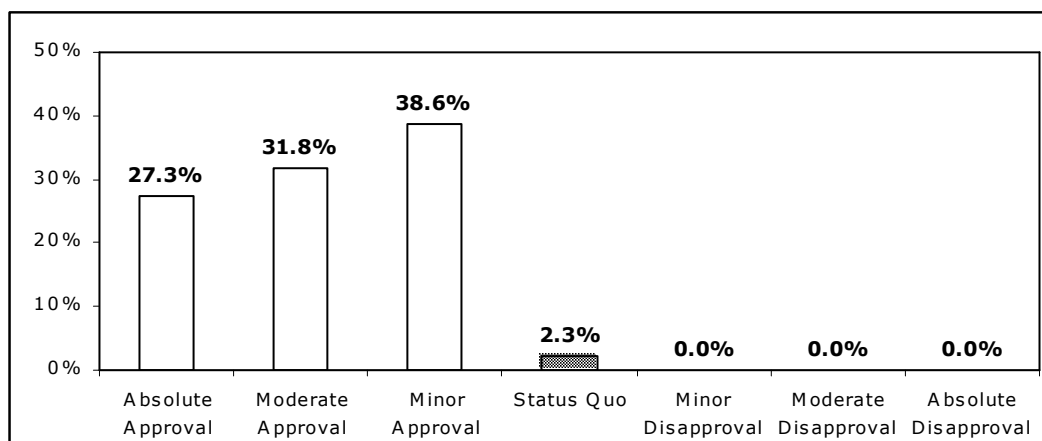
- competition on the Slovak telecommunications market will increase and it will also bring pressure for a decrease in the price of domestic calls and foreign calls as well as a better quality of services and investments into innovation in the whole sector
- larger selection for consumers
- the tender was won by a strong, internationally renowned company that provides a guarantee for the development of offered services
- the tender process was in accordance with the Act on Electronic Communications – this Act does not determine the exact time of appointment of the individual members of the selection committee neither their exact number – the important thing is that the committee was created before the opening of envelopes with applicants' offers; according to the Act the selection criteria determined in advance does not need to have weights assigned – the weights of the evaluation criteria were not determined by the Committee but by the TÚ SR and it provided them to the evaluation committee before the opening of the envelopes

Opinions of Opponents:

- unsuccessful participants objected to the non-transparency of the tender, listed criteria as well as interventions into the process of the tender, that the fact that the selection procedure was not realised in accordance with the Act on Electronic Communications – during the tender the number of members was increased from 5 to 9; they also criticised the fact that there were people in the committee with indirect connection to the winner of the tender – Telefónica O2
- a broken principle of objectivity and transparency because weights of the selection criteria were determined by the TÚ SR only after the submittal and opening of proposals –

- inappropriately wide space for the selection committee that could adjust the criteria for the winner after receiving the proposals (*note: statements of unsuccessful participants*)
- the proposal with the lowest sum won while the weight of the criterion "offered price" was too low (5%)
 - fulfilment of the criterion "contribution of the participant to strengthening the competitive market in the area of electronic communications" which had the highest weight can not be sufficiently measured while the very entrance of any third operator would cause strengthening of the competition
 - the third mobile operator should have come earlier (at the end of the 90s), now the Slovak market is occupied by two strong players and is saturated and also the European mobile market is consolidated and saturated so the big mobile players do not have many resources for expansion to new markets, they have to maintain their already obtained positions

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "The successful start of a new mobile operator proved the incorrect estimate of the former Minister of Dzurinda's Government Mr G. Palacka according to whom the Slovak market was insufficient for another operator. Today a new operator provides its services, has its customers and it has created a healthier environment in the market of telecommunication services providers and this way it retroactively set the former Minister of Transport, Posts and Telecommunications into the shadow of suspicion of unfair practices by decision-making on assignment or non-assignment of the licence to a new operator."

Miroslav Siváček: "Now we know that the third operator put the market into movement. The tender was therefore a benefit."

Jozef Orgonáš: "Finally. Logically it was necessary to rap the fingers of the two dominant players who protect their territory intensely because prices were unacceptable and services were improving too slowly."

Adrián Ďurček: "I think that it served for improvement of the competitive environment."

Jaroslav Vokoun: "For consumers it is important that we have the third operator. Problems around the tender are known only to participants so they should resolve it."

Juraj Nemec: "Another operator was necessary, deregulation of the market and competition is the basic principle for EU telecommunications policy. And hoping that the tender would be transparent would be quite naive..."

František Okruhlica: "It is difficult to assess the correctness of the tender. The entrance of the third operator is a positive result for a competitive environment."

Vladimír Benč: "I would be glad if the market was fully liberalised, i.e. no licences. Therefore I view the admittance of another operator positively and I hope that others will come. But I view the process as a problem because of the low transparency of the tender on one hand and because of (in my opinion) badly set tender conditions."

Richard Ďurana: "Criteria in the tender were set subjectively; the price should have been the only criterion."

Ladislav Balko: "A desirable competition in telecommunications services is extended this way. But the question is whether it will find a place for application in the small Slovak market. Creation of a more competitive environment is also questionable. In principle, current operators provide their services almost at the same price level as if they acted in the spirit of a quiet cartel agreement. Improvement in the competitive environment is hardly visible."

2. Imposing of a SKK 1.35bn fine on construction companies for a price cartel in the tender for construction of a part of the highway by the Antimonopoly Office of the Slovak Republic and 5-year prohibition of participation in public tenders by the Office for Public Procurement

Primary Sources: a) Decision of the Antimonopoly Office of the SR No. 2006/KH/R/2/116
b) Methodical Regulation of the Office for Public Procurement

Status of the Measure in the Legislative Process: approved on a) 16.10.2006; b) 27.11.2006; effective from: a) 6.11.2006, b) 27.11.2006, or June 2004

Submitter: Antimonopoly Office of the SR (PMÚ SR), Office for Public Procurement (ÚVO)

Intention of the Measure: to give sanctions for violation of the economic competition rules

Contents of the Measure:

- the Board of the PMÚ SR as the appealing body at the second level imposed a record-breaking fine in the sum of SKK 1.35bn for the cartel (an agreement limiting economic competition) for construction companies: Skanska DS, a.s. (Czech Republic) (2,5% from the company's turnover representing SKK 270.5m), Inžinierske stavby, a.s. (2,5% of the company's turnover = SKK 91m), Strabag, a.s. (Czech Republic) (2% = SKK 368m), Doprastav, a.s. (2% = SKK 198m), Betamont, s.r.o. (1% = SKK 4m), and Mota – Engil, S.A. (Portugal) (1% = SKK 481m) because they coordinated their behaviour in advance of the public tender of the Slovak Road Administration for the delivery of construction works for construction of the first part of the highway D1 Mengusovce – Jánovce, while according to the opinion of the Board of the PMÚ SR the responsibility of individual participants for the closing of the agreement was the same
- the highest possible fine could be in the amount of 10% of an entrepreneur's turnover – in this case the Board of the PMÚ SR decreased the fine of the first-level body by SKK 120m and decided on a lower percentage of the fine rate as it was only one specific tender and not the whole scheme of tenders
- the PMÚ SR (especially by the analysis of proposals of individual participants) came to the conclusion that construction companies closed the mutual agreement containing direct determination of prices – the decisive proof was the equality of price proposals (indexes of unit prices for unit items) of the tender participants which was significant, non-standard and it was not possible to explain it objectively and it did not occur with other tenders
- the ÚVO imposed on the fined companies a 5-year (retrospectively since June 2004) prohibition for participation in public tenders
- construction companies appealed to the court against the decision of the PMÚ SR (it delayed the duty to pay the fine for some companies)
- the European Commission confirmed the decisions of the PMÚ and ÚVO (note: EU is financing the part of the highway under the High Tatras by 80% share)

Opinions of Proponents:

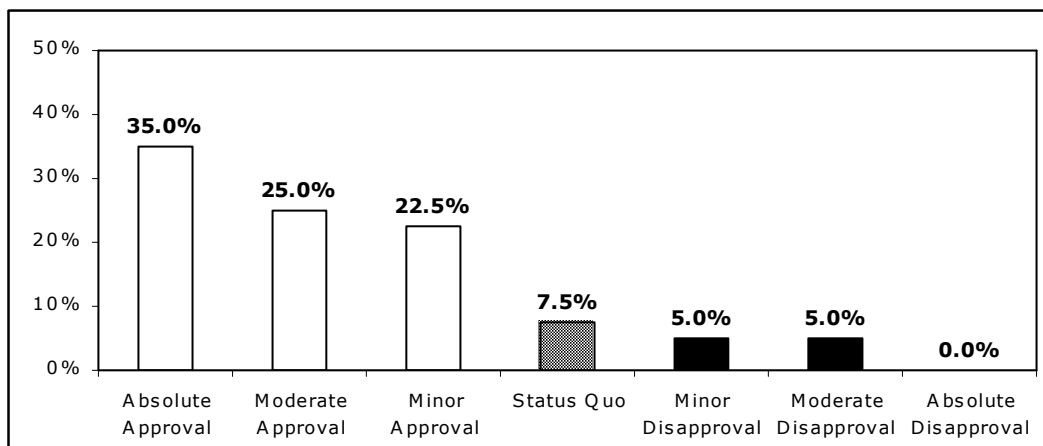
- serious violation of the economic competition rules - the penalties are therefore legitimate (this was also confirmed by the European Commission) while the validity could have been extended to the whole territory of the EU
- agreements limiting the competition classified as serious cartels (among which we also classify the agreement on prices and collusion in public procurement) belong to the most harmful and at the same time the most punished limitations of economic competition – high penalties have the aim of discouraging competitors from similar anti-competitive practices
- the price agreement related to the public tender significantly influences the whole sector of highway construction – it brings a limitation of competition, paralysing of the system for selection of the most suitable proposal and to incorrect conclusions regarding the intensity of competition in the given sector
- price agreements among companies can negatively influence the trade exchange among the EU member states also because of the reason that they can cause a closure of the market for the future, i.e. such agreements can distract other potential interested parties (including foreign interested parties) from participation in public tenders
- price competition is very important, it keeps prices for goods and services at the competitive level and helps the optimal allocation of resources and as such it brings benefits for consumers

Opinions of Opponents:

- imposed penalties are ineffective because daughter companies of the fined companies can participate in public tenders while the Ministry of Transport, Posts and Telecommunications of the SR as well as the National Highway Company did not recommend excluding the fined construction companies from public tenders as it was proposed by the ÚVO

- too high a fine and threat of prohibition of participation in public tenders over the next few years can cause a lower disposable number of companies able to build highways on the small Slovak market and that means lower competition that could in paradox reflect in more expensive construction of highways than by price agreements while the fined companies will have to release their employees because of the lack of work (note: Doprastav is the biggest highway constructor in the Slovak Republic)
- the Office for Public Procurement abused the decision of the Board of the PMÚ SR while it should have waited for the final decision of the court on indictment of a cartel and it should have not imposed other punishments for the fined companies
- strict penalties against construction firms were also accepted because the European Commission threatened Slovakia with the possibility that it will require the return of some money from Eurofunds if the State would have allowed the accused companies to participate in public tenders

Evaluation of the HESO Experts' Committee:



František Okruhlica: *"Absolute agreement. It was a dangerous act out of accordance with business ethics. It is necessary to show "competing" companies that it is unacceptable behaviour."*

Anonymous comment*: *"By price cartels the penalty has to have also the deterring effect if it should have some sense. In this case there are no doubts on the correctness of the findings, but there are some about the strictness of the penalty. According to my opinion it is appropriate and responds to the seriousness of the wrongdoing it was imposed for. The more such "punishments" the bigger hope that highways in Slovakia will be built only a little bit more expensive and slower than in the west Balkans."*

Vladimír Benč: *"Finally a good decision but half-backed. It should relate also to daughter companies. The penalties should have been even stricter – everybody is crying that we have expensive highways and how slowly we build them but besides this step there was no other improvement of the status."*

Jozef Orgonáš: *"Finally, but it needs to be finished until consequences. The construction mafia and cartel agreements destroyed the quality of the construction market in Slovakia. We are building the most expensive highways; we are building how someone wants without conception. This is an absolute catastrophe!"*

Miroslav Siváček: *"If the agreement was proven then everything is OK."*

Radoslav Štefančík: *"I can only agree with this."*

Richard Ďurana: *"The State has to amend the wrong set up of public procurement by fines of the Antimonopoly Office of the SR."*

Juraj Nemeč: *"Public procurement is not working and fines (high) are maybe the only way. But prohibition of participation in tenders is problematic but it will be bypassed nevertheless."*

*The respondent did not want to be named.

3. Increase in interest rates of the National Bank of Slovakia by 0.5 percentage points in July 2006 and by 0.25 percentage points in September 2006 (basic interest rate – 4.75% effective from September 27th, 2006)

Primary Source: Resolutions of the Bank Board of the National Bank of Slovakia (BR NBS) on the setting of interest rates

Status of the Measure in the Legislative Process: approved at the BR NBS's meeting on a) 25.07.2006, b) 26.9.2006; effective from: a) 26.07.06, b) 27.09.06

Submitter: National Bank of Slovakia (NBS)

Intention of the Measure: to act against inflation risks via tightened monetary policy

Contents of the Measure:

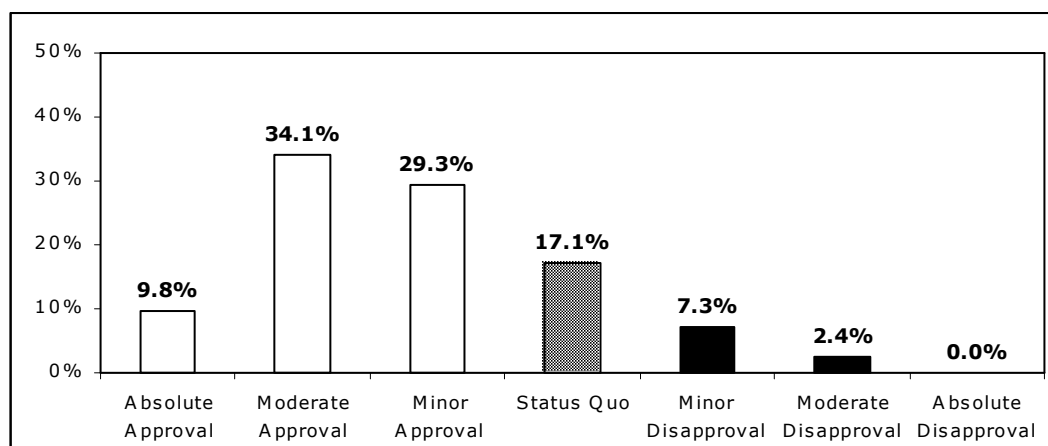
- the BR NBS increased interest rates by 0.5 percentage points **since 26.7.2006**:
- the basic interest rate -4.5%
- the two-week REPO tender limit rate – 4.5%
- the overnight refinancing rate – 6.0% (increase of 1 percentage point)
- the overnight sterilisation rate remained at the level of 3.0%
- The BR NBS increased the key interest rates by 0.25 percentage points **since 27.09.2006**:
- the basic interest rate – 4.75%
- the two-week REPO tender limit rate – 4.75%
- the overnight refinancing rate – 6.25%
- the overnight sterilisation rate – 3.25%

Opinions of Proponents:

- the measure should slow down future inflation pressures and ensure the meeting of the Maastricht inflation criterion necessary for Euro adoption (in 2009 when the SR wants to enter the Eurozone the inflation may not be higher than 1.5% above the average of the three Eurozone countries with the lowest inflation)
- the NBS increased the estimate of the end-year inflation for 2007 (from 2% to 2.8%) in the third quarter of 2006 especially because of an increase in consumer energy prices and this does not meet its inflation goal (2%) for 2007 set in the Monetary Programme of the NBS
- also, other lasting risks of an increase in inflation dynamics in the following period represented a factor for the increase in interest rates – GDP dynamics were faster in the second quarter when compared to the previous one and it overreached the expectations of the NBS. The dynamic growth of the public administration end consumption continues and this can have anti-inflation effects in the following period
- lasting uncertainty regarding the forthcoming development of regulated prices as well as uncertainty regarding the fiscal discipline of the new Government and its preliminary suggested release of fiscal expenses could have been perceived as an inflation risk for future periods
- standard procedure and tool of the NBS's monetary policy

Opinions of Opponents:

- an increase in interest rates will lead to an increase in the interest rates of commercial banks that can especially harm smaller entrepreneurs (more expensive loans)
- the NBS can slow down economic growth by increasing interest rates
- the second increase in interest rates surprised analysts by its timing as it was realised only 2 months after an increase in July
- the change of the NBS's monetary policy set-up represented by an increase in the basic interest rate is more significantly and faster reflected in paying interests on credit while paying interest on deposits grows in a slower and softer way

Evaluation of the HESO Experts' Committee:

Vladimír Benč: "A logical step of the NBS with the aim of maintaining inflation. I think that we can expect similar increases to last if the Government succeeds in maintaining the current high economic growth."

Ladislav Balko: "A legitimate fight of the central bank with inflation effectively supported by government policy in the area of the fight against the energy monopolies' prices. Increasing rates helped to slow down currency devaluation and to stabilise the fulfilment of Maastricht criteria. We could also consider whether a more "courageous" jump of the NBS to increase the rate by 0.75% back in July would not have helped."

Luboš Vagač: "The increase in July was a legitimate reaction to statements making the market uncertain and the unclear fiscal policy of a new Government."

Miroslav Siváček: "Now after a year we can state with satisfaction that it was a good decision. It has not endangered growth and it has decreased the threat of inflation."

Juraj Nemeč: "Macroeconomics is difficult – fortunately, a more significant impact on the exchange rate was not proven."

Jaroslav Vokoun: "The NBS is a trustworthy institution considering its decisions. Therefore it surely had reasons for its steps. And if it will help to decrease unbalances; it is correct. Finally, the politics of commercial banks in some segments are fully autonomous."

Jozef Orgonáš: "A logical decision. High competency and quality of decision-making in the NBS."

Adrián Ďurček: "I consider this to be an inevitable measure for Euro adoption."

František Okruhlica: "I think that it is an important priority to fulfil the Maastricht criteria before our entrance into the Eurozone. And to build steps in the monetary policy based on this fact. The procedure of the NBS also has negative side effects but they have no significant influence as a criterion."

Radoslav Štefančík: "An increase in interest rates by the national bank usually leads to an increase in the interest rates of commercial banks. This usually results in an increase of price for credit for entrepreneurs, which has a negative impact on employment and growth development in the national economy."

4. Back payments for already granted disability pensions deprived during 2004 – 2006 by stricter disability qualification (Amendment to the Act on Social Insurance)

Primary Source: Amendment No. 529/2006 Coll. to the Act No. 461/2003 Coll. on Social Insurance

Status of the Measure in the Legislative Process: approved on 07.09.06 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.10.2007

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: alignment of the legislation amending the provision of disability pensions and partial disability pensions granted before 1.1.2004 with the Constitution of the SR and with application of the absolute justice principle (to back pay the whole amount lost by

disabled pensioners in relation to a revaluation of disability duration according to the Act valid since 1.1.2004)

Contents of the Measure:

- the Constitutional Court of the SR decided with efficiency since 19.7.2006 that by revaluation of disability pensions granted before the end of 2003 the constitutional rights of aggrieved disabled pensioners were violated as the pensions granted according to the old rules were revaluated by stricter criteria – retroactively
- the Social Insurance Agency (SP) will return all deprived claims and money to people whose disability or partial disability pension (granted before the end of 2003) was decreased or deprived within revaluation of the disability duration according to the stricter Amendment of the Act since 1.1.2004 while the recalculation will be managed according to the legislation valid until 31.12.2003 including appropriate valorisation
- a guarantee that a pension will not be decreased after recalculation - the higher pension will be paid
- the measure relates also to testamentary pensions (widow, widower, orphan) whose calculation was influenced by a decrease or removal of the disability pension
- the SP shall decide on new amounts of disability pensions *ex mero motu* not later than on 30.9.2009
- increase in expenses of the SP resulting from back payments for disability pensions during 2007–2010 – almost SKK 2.6bn
- until 18.7.2006 the SP examined (according to stricter rules) 135,474 disability pensioners and the disability pension was deprived in 10,282 cases, there was a decrease in the disability level in 12,907 cases and an increase in the disability level in 4,283
- the average amount of the disability pension in the SR was SKK 4,099 (with the disability level up to 70%) and SKK 7,109 (with the disability level above 70%)
- there are approximately 180,000 disability pensioners in the SR while the SP pays them almost SKK 13bn a year

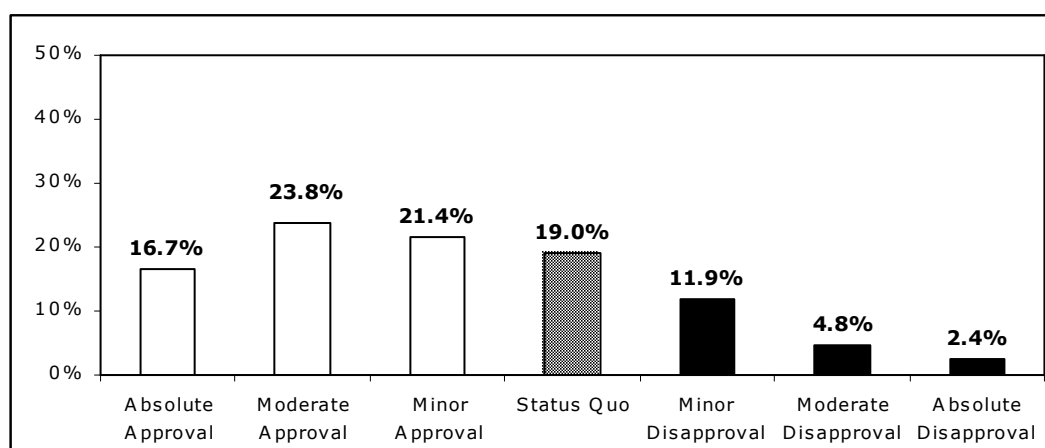
Opinions of Proponents:

- removal of discrimination and mischief caused to disability pensioners in the previous election period – alignment of disability pensioners' rights and claims with the Constitution of the SR
- the claim for a disability pension was revaluated based on different (stricter) criteria than had been used for its granting; this fact brought legal uncertainty to past legal relations – removal of retroactivity
- the previous status where some diagnoses were underestimated by stricter appraisal of disability was corrected
- help to the most dependant groups of the population that can not take full-value care of themselves

Opinions of Opponents:

- according to the decision of the Constitutional Court of the SR the deprived amounts of disability pensions did not have to be paid retroactively for the whole period (2004 – 2006), it would be sufficient to pay since the date of the decision of the Court (19.7.2006) - the decision of the Government and Parliament was "more papal than the Pope"
- the measure will bring administrative and financial problems to the Social Insurance Agency
- all contributors to the Social Insurance Agency will have to contribute to higher pensions also to various people who were not qualified to receive disability pensions and benefits resulting from them

Evaluation of the HESO Experts' Committee:



Radoslav Procházka: "It is only fair and correct if the State - after "somebody finds out" that it acted to the detriment of private entities and out of accord with the basic Act of the State (Constitution of the SR) - reimburses this detriment at least partially. If this can be done directly as in this case, it is even better."

Juraj Nemec: "The measure of the previous Government was defined as wrong; it is the State's obligation to correct the mistake."

Vladimír Benč: "Decisions of courts should be respected. Unfortunately, Dzurinda's Government (namely Mr L. Kaník) did not master this agenda. So we will continue in contributing to the pensions of people who do not deserve it."

Miroslav Siváček: "Back payments are OK if it was the decision of the Constitutional Court of the SR."

Jaroslav Vokoun: "We are really a sunny country if we are going to save on disability pensions. If the disability pension is paid illegitimately, it should be solved but not at the expense of legitimate disability pensioners."

Ladislav Balko: "Deprivation of the disability pension by the previous Government testifies about the anti-humanity of right-wing and liberal economic streams. Not each disabled person is a smuggler. Intervention of the Constitutional Court of the SR has proved that the law needs (and if it is necessary it is able) to predominate over the hard economy. A developed society has to be able to take care of this group of inhabitants, too. It is not sufficient to establish false foundations and pull money out of people on false charity for the needy who should be taken care of by the State within the social solidarity."

František Okruhlica: "A clear political decision. The finding of the Constitutional Court of the SR "improved" by the Government with a present for improvement of preferences. Otherwise agreement."

Jozef Orgonáš: "A non-systemic and redundant precedent for the future. It was necessary to set the rules of the game and act according to them."

Adrián Ďurček: "A non-systemic measure, I can not express my opinion to its necessity."

5. The 2007 State Budget (State Budget Deficit - SKK 38.4bn; Public Finance Deficit – 2.9% of GDP)

Primary Source: Act No. 681/2006 Coll. on the State Budget for 2007

Status of the Measure in the Legislative Process: approved on 12.12.06 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: continue in public finance consolidation and fulfilment of the key Maastricht convergence criterion for Euro adoption – decrease the public finance deficit to 3% of GDP in a sustainable way

Contents of the Measure:

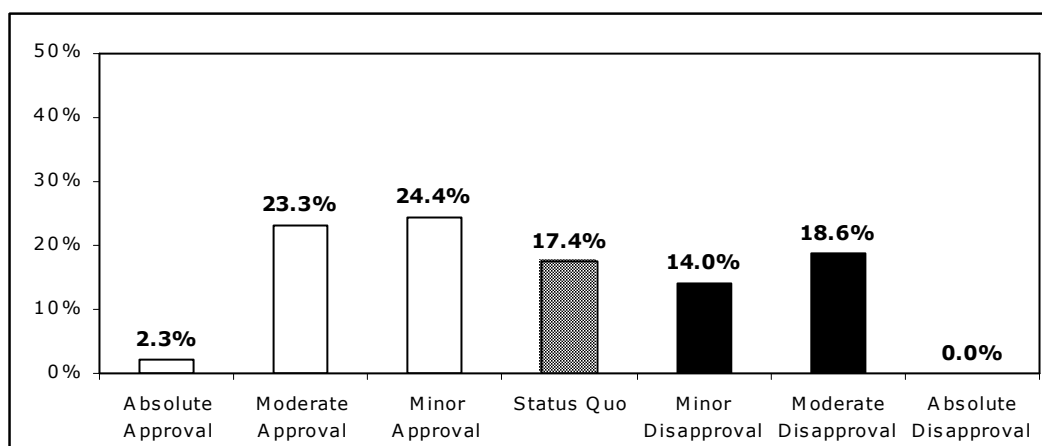
- the budgeted public finance deficit in 2007 expressed in the ESA 95 methodology – 2.9% of GDP (SKK 52.6bn) including the influence of the implementation of the second (fully-funded) pillar of the pension scheme (influence 1.1% of GDP)
- the planned state budget deficit for 2007 expressed on the basis of the cash principle - SKK 38.4bn
- state budget revenues should be increased by 13.8% comparing to 2006 (to SKK 130.47bn) and expenses by 5.7% (to SKK 348.88bn)
- areas with the highest increase in expenditures in the State Budget: health care (+10%), social affairs (+6%) – the increase in these sectors exceeds the increase in total budget expenditures
- lower growth of expenditures than the growth of total expenditures of the State Budget: agriculture (+4.9%), education (+3.1%), defence (+2%)
- the highest decrease in expenditures comparing to the previous year: environment (-48.2%), economy (-22.2%)
- expenditures for universities in 2007 – in nominal expression increase in 2.2%, expenditures for science and research – decrease in nominal expression by 8%
- direct payments for agriculture – the budgeted volume of SKK 10.9bn represents the maximum possible level of direct payments balancing to the level of 70% of the level in EU 15 countries in 2007 (direct subsidies to agriculture represented SKK 7.4bn in 2006, i.e. 54% of the EU 15 level)

Opinions of Proponents:

- with the public finance deficit under 3% GDP the country should meet the budgetary criterion for Euro adoption in 2009
- fortunately, expenditure oriented promises reaching tens of billions of crowns were not reflected in the Budget; the heaviest populist, false pro-social and antireform rhetoric used before the elections and by the creation of the Government Programme has been dropped
- the State Budget proves it is possible to build a social state and at the same time maintain financial discipline in Slovakia
- a balanced budget with real estimates of economic development and tax collection
- the Budget does not bring more principal changes in tax and social benefits system and it more or less continues the trend from previous years

Opinions of Opponents:

- the Government does not cut expenditures in the approved Budget although there is a big space for expenditure reduction thanks to record-breaking economic growth
- the Budget does not strive to direct economic policy towards the building of a knowledge economy but it continues in the inefficient funding of agriculture
- the Budget does not support education, highways construction or informatisation sufficiently
- potential additional revenues for liabilities coverage are allocated in advance in the Budget; ministries automatically expect that a tenth of expenditures is preliminary frozen and current expenses should be decreased by this amount and investments for Government priorities should be increased; but if the expected savings will not be realised to the full extent this will represent an unfavourable change in the Budget's structure
- some items in the Budget such as Christmas pensions, pensions for State insured persons and subsidies for the railways are not covered by revenues
- the first budget where no modifying suggestion from opposition Members of Parliament was accepted

Evaluation of the HESO Experts' Committee:

Vladimír Benč: "Although it is positive that the Budget supports the aim of Euro adoption, unfortunately, it does not utilise opportunities provided by economic growth. At the same time it is controvert to the Programme Declaration of the Government in many areas and the worst thing is the decrease in support for science and research. I also do not understand the fact that the "socialistic" Government is against the environment. But at least we will have enough corn, carrots or kohlrabi..., if the weather is nice."

Luboš Vagač: "Efforts to fulfil the criterion for entrance into the Eurozone (deficit < 3% of GDP) represent the main positive point. Increased subsidising for agriculture (whose effect on the economy and employment is low and decreasing) at the expense of investments into a knowledge economy (education, science and research, innovations) represents the main minus."

Eugen Jurzyca: "The deficit is planned responsibly, some priorities are selected in an out-of-date manner, e.g. agriculture is supported at the expense of education."

Radoslav Štefančík: "As an employee working in a university I definitely can not agree with such a budget. Like previous Governments, this one does not take dynamic economic growth into consideration and provides only a slim part to universities that does not respond to growth. A nominal increase in finance expressed in percent is even lower than the expected inflation. The Government resigned from the building of knowledge and an informatised society. Government parties have probably assessed their voters according to their education and added funds where they find support. If there was no aim to adopt Euro in 2009, the budget would be probably drafted and approved with a higher public finance deficit."

František Okruhlica: "It is necessary to monitor the fulfilment of Maastricht criteria so this fact is OK. Only a very bad budget structure is selected that does not support direction for the development of a knowledge economy. It is a long term process that needs to be established today. Are we going to be assembly plants also in the future?"

Miroslav Siváček: "Lost opportunity. Considering the increase in revenues by almost 14% a year (who else in the EU has it?) there was a great chance to prepare a budget that would be more sensitive to the needs of future generations. An increase in expenditures by more than 5% means an inclination to redistribution."

Richard Ďurana: "Expenditure is growing faster than inflation. High tax revenues could be utilised for a decrease in the tax and social security contribution burden instead of the State's spending increase."

Juraj Nemeč: "There was a space for a decrease in the deficit and revaluation of expenditure structure, but it was not utilised."

Eduard Žitňanský: "The deficit is within the "rules" but no priorities mentioned by the Government in the Programme Declaration are highlighted in the structure."

Adrián Ďurček: "Better than expected."

Jozef Orgonáš: "Stricter steps should be accepted."

Ladislav Balko: "The approved Budget proves the balanced government policy in the area of fulfilment of basic intentions by building a social state with Slovakia's aim of entering the Eurozone. Despite the strict Maastricht criteria in the area of public finance the budget proves the efforts of the Government to join both these targets. The aim of the accepted budget is to ensure the operation of public power in Slovakia during the first year of the election period. It is necessary to realise that there are still three years of the election period to implement some programme targets. The year 2007 is crucial for the judging of Slovakia from the point of realising Euro adoption. And the Budget oriented at funding of priorities in the area of social affairs, health care, education and agriculture aims at this."

Jaroslav Vokoun: "The State Budget is a big game with numbers that can not be seen from the outside. Anything can be hidden in cells. In this case the numbers mean the Euro adoption game."

6. Changes in the regulated prices of energies and water for households (from 1.11.2006: gas +4.26%; from 1.1.2007: gas - 4.04%, water -4.1%, electricity and heating without changes)

Primary Source: Individual price decisions of the Regulatory Office for Network Industries (ÚRSO)

Status of the Measure in the Legislative Process: approved by the ÚRSO on 29.9.2006 (gas), 29.11.2006 (gas), 30.11.2006 (electricity), December 2006 (water, heating); effective from: 1.11.2006 (gas), 1.1.2007 (gas, electricity, water, heating)

Submitter: Regulatory Office for Network Industries

Intention of the Measure: reaction to movements in oil prices on world markets and in the SKK exchange rate against the dollar and related changes in the level of legitimate costs and appropriate profit of regulated subjects

Contents of the Measure:

- from November 2006 – the increase in price of **natural gas** for households on average by 4.26% because of record-breaking summer prices of Brent oil on the world markets
- SPP (Slovak Gas Industry) originally asked for an increase from October by 15% but the ÚRSO halted the procedure several times and asked SPP to complete the details; the oil price started to drop from the second half of August and SPP asked for an increase of 8.7%
- from January 2007 – a decrease in gas prices for households on average by 4.04% thanks to the favourable SKK exchange rate against the dollar and world oil prices that created approximately 60% of the gas end price for households
- SPP asked for a decrease by 3.07% but the ÚRSO had the opinion that there is a bigger reserve for a decrease in prices
- total average **electricity** price for households has not changed since the beginning of 2007
- electricity distributors (ZSE, SSE, VSE) originally asked for an increase of 13% but they stepped aside due to ÚRSO and Government pressure on a decrease in the energy process at the expense of profit dropout but not greater than if they had been obliged to contribute to the so-called social fund
- **heating** prices were on average at the level of 2006; a slight increase in heating prices by approx. 220 suppliers (out of more than 400) that did not ask for a price increase in 2006;

heating stations (92 producers) that increased prices from October by 5–6% on average (heating stations asked the ÚRSO for an increase of 7% on average) shall reduce the prices from January

- a decrease in the **water** price for households on average by 4.1% (water rate -4.2%, drainage -4.1%)
- ÚRSO achieved a decrease in water prices via limitations in the structure and extent of planned legitimate costs (e.g. a decrease in property write-offs) and especially by a significant decrease in the maximum allowed profit of water supply companies

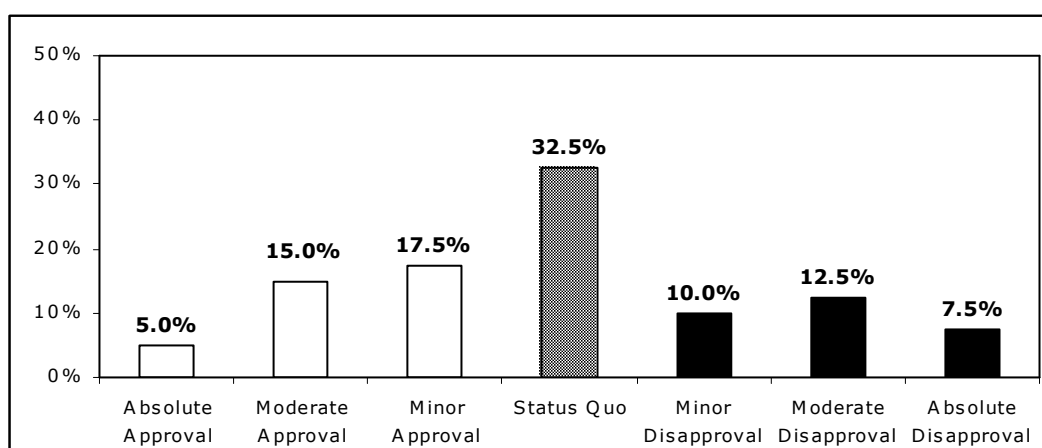
Opinions of Proponents:

- the decision to decrease the price of energy and water for households in 2007 or keep prices at the level of 2006 responds to programme targets of the Slovak Government
- energy prices should also be derived from the population's purchase power; a fact that has not been kept so far
- it is the State's and especially the Government's task to protect the interests of citizens as well as the business sector that is reliant on a large supply of gas or electricity
- some amendments of prices upwards were inevitable so that some market segments would not be in loss and there was no deformation of the price structure what would be out of accord with Slovak and European legislation – prices have to cover costs
- removal of cross subsidies by the last regulated commodity – drainage
- a positive effect on inflation and by this also on one of the Maastricht convergence criteria for Euro adoption

Opinions of Opponents:

- the Regulatory Office should set prices according to legitimate costs and appropriate profit and should not fulfil the social function that belongs to the Government
- energy prices deformation is the worst kind of social policy as it is ultimately inefficient and unfair and it helps the rich but not the poor
- the Government strives to create pressure on energy prices decrease by administrative and power pressure on the regulator and energy suppliers
- efficient decreases in energy prices in Slovakia can be achieved by higher competition on the market (reduce network fees, allow new energy producers to enter the market, prevent backward energy purchases)
- a decrease in the level of accepted legitimate costs by ÚRSO out of accord with proposals of regulated subjects – a negative intervention into the creation of companies' own resources – postponing of necessary repairs, maintenance and infrastructure development projects ad infinitum (e.g. finalisation of public water pipe and canalisation network in the Slovak Republic)
- some groups of the population are confronted with an increase in energy prices (e.g. energy consumers with direct heating whose tariffs were increased by 10% on average)
- an increase in energy prices for wholesale customers (companies) is not subject to ÚRSO regulation but it increases the pressure on retail prices despite stagnation or only a slight decrease in energy prices for households

Evaluation of the HESO Experts' Committee:



Eugen Jurzyca: "The regulatory framework has reserves but they will not be removed by "banging on the table". Unprofessional interventions increase the risk that the regulated subjects will find a balanced status by a lower price through a decrease in benefits for consumers, e.g. they will decrease investments into infrastructure."

Juraj Nemeč: "I find the politisation of the topic to be a problem in this case. Prices, also in utilities, have to react to the market and not on the desires of the Government."

Vladimír Benč: "The State should rather support market liberalisation and start implementation of the energy policy than to play in the sand pit with monopolies with doubtful results and impact."

Jozef Orgonáš: "It is necessary to deregulate prices; only profit appropriateness should be controlled."

Adrián Ďurček: "Maybe a short-term help but how will we keep inflation in the Eurozone under control when prices will have to be corrected?"

Richard Ďurana: "Changes are determined by the regulation office on the basis of the regulatory formula that has not been changed significantly by the Government. A decrease in gas prices results from a decrease in prices on the world markets and not from the Government's measures."

Jaroslav Vokoun: "It is still very weak. Look at e.g. SPP, electricity plants, water companies... how they can create costs."

František Okruhlica: "Agreement. It is a trend in the developed world to look at the processes of entrepreneurs in their policy. They have not used earnings for modernisation and restructuring for a long time and it will have negative effects in future. Now they want to catch up."

Ladislav Balko: "Despite numerous critics of energy prices regulation it is a measure that is accepted by many countries. Just look at the situation in France where the State not only owns 80% of EDF but it also regulates it significantly. Pressure from the European Commission will not prevent them from doing this. So Slovakia, do not be afraid of regulated prices as well as of the fact that they could slow down economic development as stated by critics of such a measure."

7. Transfer of funding of non-state elementary art schools and school facilities from the State to municipalities (funded from the unchanged share on income tax revenues designated for municipalities; during 3 years a minimum 90% of resources from tax revenues for non-state facilities guaranteed by the law)

Primary Source: Amendment No. 689/2006 Coll. to the Act No. 597/2003 Coll. on the Financing of Elementary Schools, Secondary Schools and School Facilities and to the Act No. 596/2003 Coll. on State Administration in the Education System and School Self-Government

Status of the Measure in the Legislative Process: approved on 06.12.06 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Education of the Slovak Republic (MŠ SR)

Intention of the Measure: to release funding of non-state art schools (ZUŠ) and non-state school facilities from the Act and determine their funding in accordance with principles of fiscal decentralisation, i.e. from the tax revenues of municipalities and higher territorial units (VÚC); to prevent efforts by several municipalities and VÚC to get rid of the founding scope by displacing their own ZUŠ or school facility from the network of schools and school facilities in favour of the non-state founder (note: approximately an 80% increase of children and youth in non-state ZUŠ and school facilities since 2005; non-state facilities were financed from the chapter of the MŠ SR while the whole share of tax revenues for municipalities and VÚC has not been reduced)

Contents of the Measure:

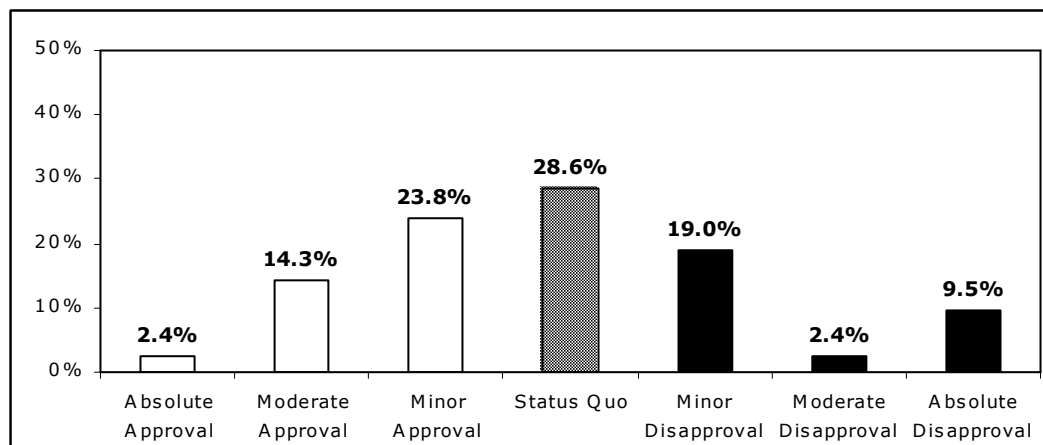
- transfer of funding of non-state (private and clerical) ZUŠ and school facilities (nursery schools, school clubs, leisure centres, language schools, etc.) from the State Budget to the budgets of villages, towns and self-governing regions
- funding from an unchanged share on natural entities income tax revenues designated for municipalities
- higher demands on municipalities and VÚC's budgets should be covered by a greater collection of income taxes thanks to high economic growth (the Ministry of Finance also provided a subsidy to municipalities and VÚC higher than SKK 380m for assurance of a fluent transfer of funding and strengthening of budgets in connection to a new competence)
- MŠ SR provided almost SKK 565m for the financing of non-state ZUŠ and non-state school facilities in 2006
- villages, towns and VÚCs have to pay at least 90% from contribution taxes revenue dedicated for this purpose to non-state ZUŠ and non-state school facilities during 2007–2009
- more than 100,000 out of almost 900,000 elementary and secondary school students attend ZUŠ and school facilities whereas more than 50% of them attend non-state ones

Opinions of Proponents:

- correction of a system error that caused the rapid growth of non-state school facilities at the expense of public ones
- increased number of non-state ZUŠ and non-state school facilities caused a negative impact (interim approx. SKK 72m) on the MŠ SR's budget – i.e. a greater amount of money for the funding of non-state facilities and therefore a lower amount of money designated for normative funding of elementary and secondary school students
- deformation of the criterion for distribution of income tax revenues for municipalities – the total number of students decreases in public ZUŠ and school facilities – the coefficient value for the remaining elementary art schools and school facilities in municipalities within the SR increases

Opinions of Opponents:

- a competence with obligations to finance private and clerical facilities was transferred to villages and towns but without funds; this fact limited the municipality's right to dispose of its own budgetary sources at its discretion – unconstitutional
- during the transition period of 3 years the discrimination of public ZUŠ and school facilities can deepen as the non-state facilities will gain the amount guaranteed by the law so they can receive more funds in reality than public facilities of the same type that will not have this statutory safety
- ZUŠ and school facilities in a municipality's own founding scope could be gradually preferred by the municipality at the expense of private and clerical ones – beginning of the end of non-state education in Slovakia

Evaluation of the HESO Experts' Committee:

Milan Velecký: "This means equalisation with funding of state ZUŠ and school facilities that have already been financed by villages and towns. Then it would be easier for mayors to close state facilities and recommend them to transform into non-state facilities as the State would be paying for them, not a municipality."

Vladimír Benč: "Removal of a system error is positive as well as the decentralisation alone. But where is the "money, money, money"...? A discriminatory measure at the same time."

František Okruhlica: "A good procedure in favour of decentralisation in this area."

Richard Ďurana: "Continuation in decentralisation."

Ladislav Balko: "Municipalities can decide more effectively on the operation of these facilities through funds."

Jaroslav Vokoun: "We will see how this is going to work only in few years. There are many risks. Interest groups in municipalities are already looking for buildings where ZUŠ are operating. So problems in this area will help these interested parties. We are rams as the humanisation activities of ZUŠ can not be replaced by anything else to such an extent."

Juraj Nemeč: "The change significantly violates the principle of ownership form equality in programme funding and it represents a backwards step. The aversion of the new Government to private property in the public sector is visible but (economically) incorrect. There is enough experience in the world to show that the ownership does not matter."

Radoslav Procházka: "Out of accord with the Constitution this measure hits the very substance of the right for self-government and after acceptance of the proposal the peace principle was "beaten", too."

8. Introduction of an extra payment to the child birth allowance (only for the first child) in the amount of SKK 11,000 (together with the child birth allowance - SKK 15,460)

Primary Source: Amendment No. 676/2006, Coll. to the Act No. 235/1998 Coll. on the child birth allowance and on allowances for parents who have 3 or more children born at the same time or twins more than once in two years

Status of the Measure in the Legislative Process: approved on 06.12.06 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to contribute to moderation of initial high family expenses related to the birth of a first child by direct financial support; to increase the motivation to establish a family

Contents of the Measure:

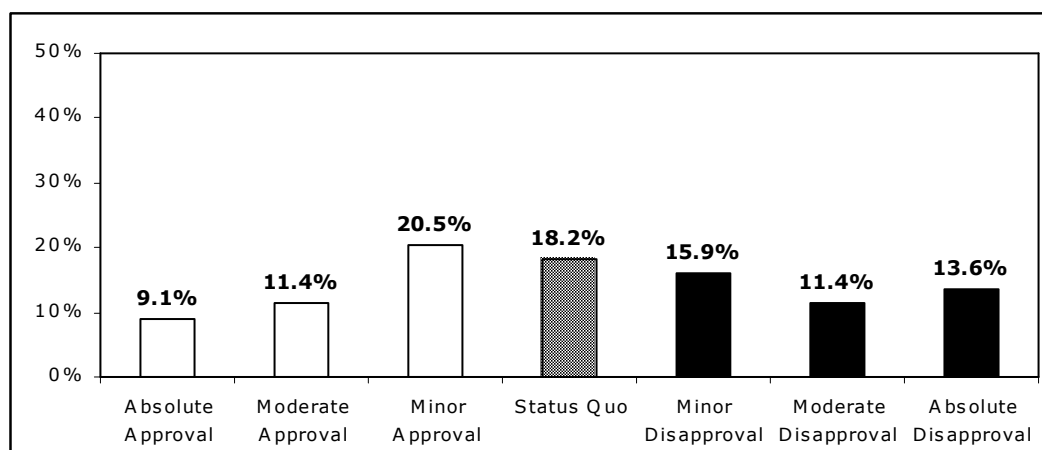
- introduction of an extra payment to the child birth allowance in the amount of SKK 11,000
- an extra payment to the child birth allowance is a new social benefit paid by the State for increased expenses related to ensuring the necessary needs of a child born to a mother as the first one and living at least 28 days (in certain cases the father can be an entitled person)
- together with the child birth allowance (paid in the sum of SKK 4,460 by the birth of each child), the family where the mother gave birth to the first child (each year more than 25,000 children are born as the first ones) receives a combined SKK 15,460 as a lump-sum from the State
- no right for an extra payment to the child birth allowance was created if the child was born before January 1st, 2007
- the Government can adjust the amount of the extra payment to the child birth allowance annually on September 1st
- funding of the extra payment to the child birth allowance will require approx. SKK 288m in 2007, the amount of SKK 294m is expected in 2008 and SKK 300m in 2009

Opinions of Proponents:

- the birth of the first child is connected to increased initial expenses for ensuring his/her needs therefore each help for costs moderation is welcomed
- the State strives to provide motivation during this period of low natality in Slovakia
- support for young starting families that belong to the most endangered social groups in Slovakia

Opinions of Opponents:

- a populist and non-systemic measure that has no influence on how many children will be born – the Government introduced a new and relatively generously subsidised social allowance related to the birth of a child but at the same time it has not adjusted the tax bonus per child, and it increased the child benefit and the parental allowance only in a symbolic amount
- a certain social group is preferred by this measure (first-born children) and it is discriminatory in relation to second-, third-born, etc. children
- it would be better to help families in the form of tax or social contribution relief and by the creation of conditions for finding and retaining employment
- the extra payment to the child birth allowance will be also provided to a juvenile mother
- the extra payment can provide a single-shot pleasure for families from so called disadvantaged social groups that have a tendency to abuse the state social support and the social assistance and subsequently its absence affects them in a demotivating and frustrating way
- socially not-endangered rich families who do not miss such an allowance will get this extra payment to the contribution, too
- the intention of the Ministry of Labour, Social Affairs and Family to increase the sum of the extra payment at a faster rate than the child birth allowance will deepen discrimination of multi-children families even more
- financing of the extra payment to the child birth allowance will require additional resources from the State Budget that are not available according to the Ministry of Finance

Evaluation of the HESO Experts' Committee:

František Okruhlica: "Again non-systemic. Each child should be eligible for the extra payment."

Eduard Žitňanský: "Discrimination of families with more children."

Vladimír Benč: "And what happens to the other children? Do they belong to a neighbour? Definitely a discriminating step with a significant populist undertone."

Adrián Ďurček: "Unfair for people with more worries."

Richard Ďurana: "A non-systemic and not-addressed measure."

Miroslav Siváček: "A populist and non-systemic measure. Young families and children always play on people's emotions. It will not influence natal growth but probably it will influence voting preferences."

Radoslav Štefančík: "A temporary and non-systemic solution that should be replaced by other more permanent forms of support for young people with newborn children in the near future (e.g. by a tax bonus)."

Juraj Nemeč: "Demographic development in Slovakia is "bad" but will this measure work effectively as motivation???"

Jaroslav Vokoun: "Let's be glad for each child born in Slovakia."

Milan Velecký: "I partially agree but I vote for the support of each newborn child. Societal problems are solved this way and it should be some "investment incentive" for families."

Ladislav Balko: "Although it is not a giant amount especially for more solvent people, this "injection" related to the arrival of a new life will be helpful for young families (as it is related to them). This contribution for family enlargement is very suitable next to the worries that young families experience along with the cost of accommodation and other costs of living. Besides the measure confirming the social-orientation of the Government, this measure motivates population growth. But the allowance should be higher. Slovakia should take care of its future population also this way. Of course it is useless to present the known fact that also this can be motivating for desirable population development to the proponents of the pure market economy speaking again about populism and non-systemic steps."

František Chovanec: "The only positive measure of Fico's Government with impact on the whole of society that will probably stimulate demographic development in the country in a positive way."

9. Strengthening of the altitude influence by calculating the municipality's share on natural entities' income tax revenues (municipalities situated higher will get more money compared to those situated lower; Amendment of the Regulation on Allocation of Income Tax Revenues to Municipalities)

Primary Source: Resolution of the Government of the SR No. 519/2006 Coll. amending Resolution of the Government of the SR No. 668/2004 Coll. on Allocation of Income Tax Revenues to Municipalities

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 16.08.2006; effective from: 1.1.2007

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: to solve the differences by funding of municipalities' basic needs relating to a different geographic location (higher energy consumption of schools and school facilities, cultural, social, sporting and other municipal facilities, operation of municipal offices, more demanding maintenance of municipal roads resulting from geographic conditions) within the system of fiscal decentralisation in a more significant way

Contents of the Measure:

- the geographic location of municipalities will be taken into consideration by allocation of contribution tax revenues to municipalities in a more significant manner than previously – municipalities at a higher altitude will get a larger share of tax revenues at the expense of municipalities at a lower altitude
- 57% (SKK 3.6bn) of the tax revenue allocated on the basis of the number of people with permanent residence in the municipality (23% of the total tax revenue dedicated for municipalities) will be recalculated by the altitude index (so far 44% (SKK 2.8bn))
- increase in the altitude index's steepness from the extent from 0.85 to 1.35 (index 1 - a municipality situated 374 m.a.s.l.) to the values from 0.75 (Klin nad Bodrogom, Svätá Mária – 98 m.a.s.l.) to 2.00 (Lom nad Rimavicou – 1,015 m.a.s.l.) (index 1 – municipality situated 282 m.a.s.l.)
- change in the index's steepness – a positive impact on towns and villages located at a greater height above sea level – SKK 219.9m; boundary of the negative and positive impact – 277 m.a.s.l.
- a negative impact of the measure on 1,581 municipalities (62.4% of Slovak population) (Bratislava SKK -37.7m), a positive impact on 1,306 municipalities (37.6% of inhabitants) (Poprad SKK +13.7 m)

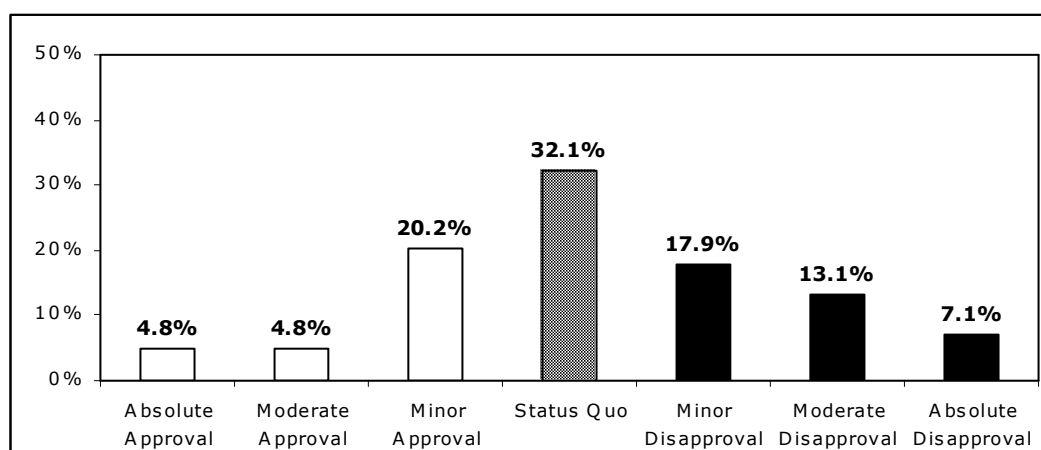
Opinions of Proponents:

- strengthening of the impact of a municipality's geographic location by calculation of its share on natural entities' income tax revenues – higher compensation for the increase in price for fuels and energies as well as for the stronger previous winter for towns and villages situated higher above sea level with higher expenses for heating and winter maintenance of roads
- tax revenue adjusted by the altitude index will be increased
- balancing of regional differences
- a neutral impact on public finance

Opinions of Opponents:

- regarding energy demands it would be more suitable to apply the criterion of real local climate in the municipality (long term average of temperature, rainfall, wind) rather than the altitude of the centre of the municipality
- "energy demands" of two municipalities with the same altitude could differ significantly – it depends on the surface, continentality (west versus east) of the climate, etc.
- a municipality's centre as a criterion can handicap municipalities where the rest of the territory is situated higher
- preferential treatment of the north of Slovakia compared to the south
- municipalities situated lower above sea level have higher costs in summer months that are not compensated
- an altitude criterion by allocation of the tax revenues to higher territorial units (VÚC) that would take into consideration increased energy demands of VÚC located higher above sea level is missing

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "Municipalities situated higher above sea level usually have higher costs resulting from snow storms in the winter period but municipalities situated lower above sea level have to face floods in summer. The Government measures municipalities with two different meters."

Ján Pokrivčák: "It is not a good solution. For sure there are municipalities situated high above sea level that are rich. They benefit e.g. from tourism. And for sure there are municipalities located lower above sea level which are poor, have high expenditures for water pipes, etc. This Amendment reflects only the preferences of politicians who prefer municipalities situated higher above sea level. There is no "fair" criterion for the allocation of money among municipalities."

Vladimír Benč: "I am basically against the application of this principle in the system of tax redistribution. Every winter is different and who can predict whether there will be a snow calamity or only a slight winter? Then we could use also criteria such as the risk of floods, storms, etc. The measure is therefore nonsense."

František Okruhlica: "It is nonsense. Even within one location there are differences among municipalities in the access to energy assurance. Exactly because of softening in conditions municipalities will not care about energy savings. Additionally, municipalities could restructure their energy demands from business activities in the location that is the most attractive for tourists. And what is more, southern municipalities have increased energy consumption during the summer season. So is it necessary to count also with them? It reminds me of previous times."

Juraj Nemeč: "The principle is generally OK - it is always difficult to find an optimum formula. I incline to the opinion that this simplified approach to calculation does not solve the aim."

Jozef Orgonáš: "Basically I agree, the reason is to allocate fairly. Who will set the standard?"

Ladislav Balko: "The measure aiming at the practical application of fiscal decentralisation can partially contribute to the desired regional development of Slovak locations situated higher above sea level that are more undeveloped thanks to fiscal malpractice. I consider it to be a manifestation of domestic regional solidarity that should also be displayed in a domestic approach, not only asked within the European cohesion policy."

Jaroslav Vokoun: "So we are against equalisation but when somebody shows the differences we are all in on this. It is a model that has an idea behind it and reality will show what is necessary to adjust. If it is such a great advantage for municipalities situated higher above sea level we should record the transfer of some citizens from lower situated to higher situated municipalities."

10. Increase in health insurance premium rate for so called state insured persons from 4% to 5% during the first 4 months in 2007; postponing of deadline for the annual settlement of health insurance premium payments in 2007 (Amendment to the Act on Health Insurance)

Primary Source: Amendment No. 673/2006 Coll. to the Act No. 580/2004 Coll. on Health Insurance

Status of the Measure in the Legislative Process: approved on 06.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Health of the Slovak Republic

Intention of the Measure: to increase funds for health care for a limited period of time necessary for the implementation of rationalisation measures in the health care sector by increased premium payments from 4% to 5% of the average salary for citizens where the State is the payer; postponing of deadlines for the annual settlement of public health insurance premium payments for 2006 in order to create a time window for the preparing of the annual settlement's simplification

Contents of the Measure:

- from 1.1.2007 to 30.4.2007 the premium rate for the State is 5% (so far 4%) from the assessment base (an average salary in the economy), i.e. SKK 864 a month for one state insured person (in 2006 – SKK 633; a lower amount also due to a lower average salary in the Slovak economy for 2003)
- so called state insured persons for whom the State pays the premium are: children, students, non-working pensioners, mothers on maternity leave, recorded unemployed, disabled to work, etc.
- demands on the 2007 State Budget - SKK 2.1bn (for 4 months of the increased rate)

- increase of funds in health care should serve to increase the salaries of health care employees according to the Government, however, health care insurance companies and individual health care providers (directors of hospitals) will decide on their real utilisation
- there is no money allocated for increased state payments for the rest of the year (after April) in the State Budget for 2007 – increased demands of the Ministry should be solved by the Minister of Health through the finding of financial reserves – by realisation of rationalisation measures (reduction of hospital beds, ambulances and diagnostic workplaces – cancellation of hospitals)
- if the Government assess the rationalisation measures to be efficient and there will be still missing funds in health care even after their implementation, it can decide that the State will continue in payment of increased contributions for its insured persons
- repeated (similarly as in 2006) postponing of deadlines in 2007 related to the annual premium settlement of public health insurance for 2006 – the settlement needs to be submitted until 30.6.2007 (originally until March 30th) and the outstanding payment or the overpayment has to be paid/returned until 31.10.2007 (originally June 30th) by the employer or the health insurance company

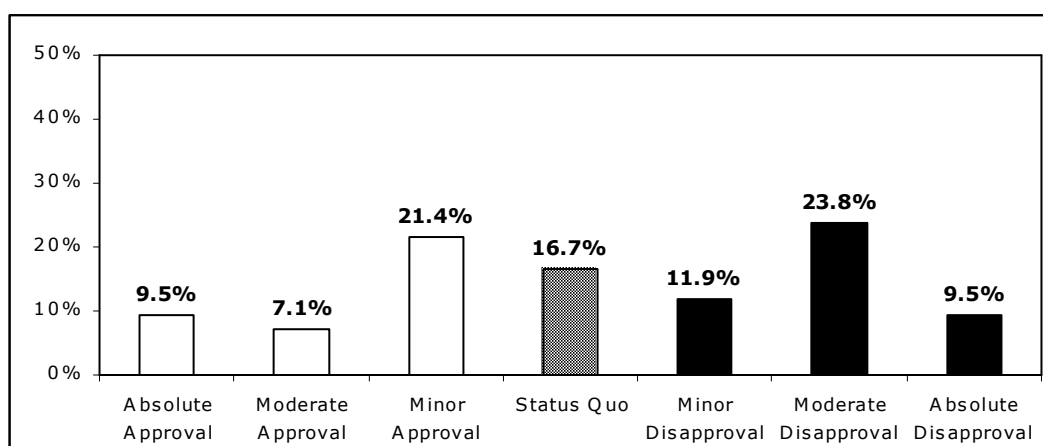
Opinions of Proponents:

- more funds for health care – for an increase in salaries of health care professionals and better health care
- pressure on rationalisation measures in health care
- the Ministry of Health will get time for elaboration of a new, easier method for the annual settlement of health insurance contributions, health insurance companies will have more time for the processing of annual settlements as well as insured persons for submitting the annual settlement and payment of outstanding payments

Opinions of Opponents:

- a non-systemic measure – there is no money for the 5% premium rate after April in the State Budget for 2007
- different rates during the year – SKK 2.1bn should have been divided equally throughout the whole year – in which case increase the rate to 4.33%
- high demands on the State Budget by growing health care indebtedness (growth by almost SKK 1.2bn in 2006)
- self-payers (voluntarily unemployed, etc.) will pay a lower premium (SKK 691) than the State for its insured persons
- health insurance companies and directors of faculty hospitals claim that an increase of SKK 7.6bn obtained by the health care sector compared to 2006 will not be sufficient for the already approved and promised increase in salaries, compensation for doctors for cancelled fees and payment of debts
- the annual settlement of health insurance contributions should have been cancelled and not postponed; it is worthless to strive for a more simple mechanism of the settlement as this will not be found

Evaluation of the HESO Experts' Committee:



Vladimír Benč: "A non-systemic measure that will hardly be sustainable. And at the same time it is not accompanied by rationalisation measures. The only positive fact is the prolongation of the annual settlement deadline. But this also should be reformed and especially connected to tax declarations and reporting for the Social Insurance Agency."

Richard Ďurana: "This measure mirrors the reality that the Government does not have a conceptual solution for the lack of funds in health care. It is a non-systemic measure with a short-term effect."

Eugen Jurzyca: "A non-systemic measure. It has only postponed the pressure on the creation of a systemic solution."

Anonymous comment*: "I do not feel that it would lead to a stabilisation of the system, rather vice-versa."

Miroslav Siváček: "The measure will not help and at the same time the rules and conditions for an efficient economy were released. Postponing of the deadline did not help to simplify the annual settlement's system. The same thing will happen to higher contributions into health care."

Eduard Žitňanský: "An unlucky chess game that helped the sector only a little."

František Okruhlica: "These non-systemic steps will not be sufficient for solving the health care problems. We would rather solve the problem of the annual settlement."

Juraj Nemeč: "The annual settlement should have been cancelled; the administration is more demanding than the volume of collected funds. A temporary increase in the rate is in principle a non-systemic measure."

Jozef Orgonáš: "Not for 4 months but forever."

Milan Velecký: "Slovak health care suffers from long-term under-funding. Each increase in funds will help (although in the form of non-standard 4 months). The previous Government wanted to increase the rate to 4.5% (and then annually by 0.5%) and the current Government implemented its intention only by 2/3rds this year."

Ladislav Balko: "I agree. Solidarity is necessary in a socially oriented state. And also by participation of the State."

11. Introduction of the state mortgage bonus for young people under the age of 35 with not significantly above-average income (in 2007 – 1.5%; Amendment to the Act on Banks)

Primary Source: Amendment No. 644/2006 Coll. to the Act No. 483/2001 Coll. on Banks

Status of the Measure in the Legislative Process: approved on 06.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Finance of the SR, National Bank of Slovakia

Intention of the Measure: to support accommodation opportunities for young people through the State's support of mortgages

Contents of the Measure:

- the State's support for mortgages is dedicated to people under the age of 35, while their average monthly income for the previous calendar year may not be higher than a 1.3 multiple of the average monthly salary for the previous quarter that preceded the application for a mortgage (approx. SKK 24,000) (an eventual wife/husband has to meet these conditions, too)
- the age and income threshold for granting the state bonus is met by approx. 20-30% of the applicants for mortgage loans
- the state bonus for young people is a percentage by which the State decreases the interest rate determined in the mortgage loan contract while it is provided for a period of 5 years but each year can be different
- the state bonus for mortgages for young people is determined annually in the State Budget Act
- the state bonus will be provided only if the bank will oblige itself to provide a young mortgage debtor for 5 years since the beginning of provision and mortgage loan interest bearing with:
 - a decrease in interest rates in the same amount (but maximum by 1 per cent) as the state bonus
 - permission to suspend the instalments of mortgage principal and
 - permission for an extra instalment of the mortgage without charges
- in 2007 young people can gain a privileged interest rate for a mortgage that is lowered by 2.5% (1.5% - state bonus plus 1% the bank)
- most of the non-subsidised mortgages in Slovakia are currently bearing interests in the amount of 6-7%; 3% in the Eurozone
- the state bonus can be applied only by mortgages lower than SKK 1.5m and only for one piece of real estate

*The respondent did not want to be named.

- the impact on the State Budget – SKK 50m in 2007, SKK 100m in 2008 and SKK 150m in 2009
- the state mortgage bonus for everybody was gradually decreased and has been zero since 2005

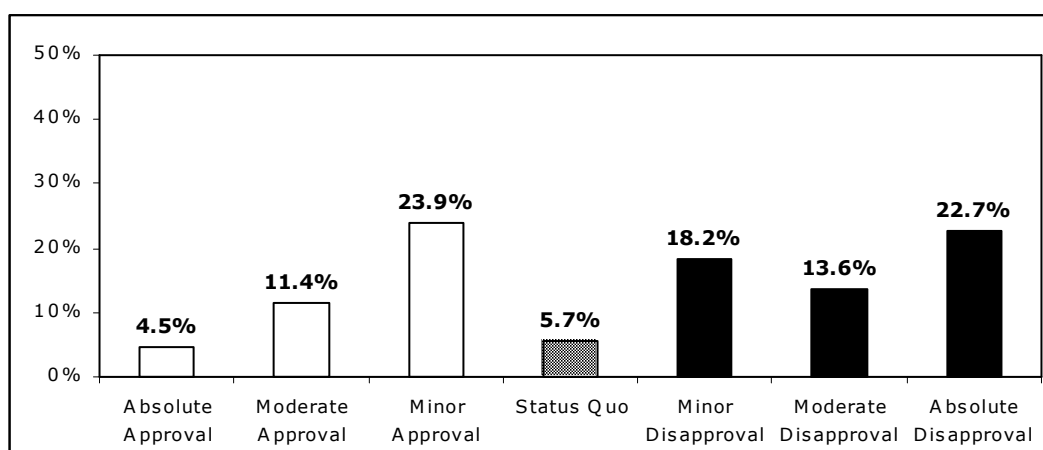
Opinions of Proponents:

- easier access of young people and families to accommodation
- a privileged mortgage loan for young people is financed also by banks beside the State – lower state budget expenses
- young people can save more than SKK 145,000 (loan SKK 1.5m, maturity period 30 years) thanks to the state bonus

Opinions of Opponents:

- advantage for a certain type of financial product provided by private subjects and for a certain group of people
- it is more efficient to support certain groups of the population (e.g. young families) by an addressed support through state social benefits
- past experience shows that the state bonus for mortgages is more advantageous for banks rather than for clients – the market decides on the level of interest rates so it is possible that the banks will gradually increase the rates by a significant part of the state bonus and that the subsidised loans will bear higher interests than those loans without state support
- the support for mortgages is guaranteed for 5 years from the closing of the contract but the level of this support can be changed each year - also to zero, which contributes to uncertainty and the possible subsequent disillusionment of many young beneficiaries of mortgages with bonuses
- income limit for a subsidised mortgage will be changed too frequently – according to the amount of the average salary in the past quarter – no seasonal amplitudes are taken into consideration (e.g. traditionally above-average 4th quarter)

Evaluation of the HESO Experts' Committee:



Anonymous comment*: "The measure causes that the limited amount of funds dedicated for the support of accommodation is dispersed. A target group supported by the measure does not belong to the most reliant groups while public finance should be preferably directed to projects with the highest social benefits. And if the selected target group should be supported, there are possibilities more respecting the rules of markets operation – capital market and market with accommodation."

František Chovanec: "A non-systemic, non-addressed and useless measure that does not reflect the real status of the mortgage market."

Miroslav Siváček: "A non-systemic favour for a part of the population."

Ján Pokrivčák: "It deforms the market. It is a bad solution for the whole of society, but it is a good one for the selected group of inhabitants."

Vladimír Benč: "I understand the effort to support a certain disadvantaged group of people but unfortunately this is a bad way."

Radoslav Štefančík: "Too populist a gesture that was insufficiently explained to the public and so it created the false impression of the Government's willingness to meet the needs of young people. Thanks to the set criteria it is almost impossible to obtain a privileged loan in Bratislava"

*The respondent did not want to be named.

region if only one individual applies for a mortgage (e.g. a young university teacher). This decision supports accommodation for young families only in certain regions with lower flat prices. I still miss the statistics that would show me the efficiency of this decision. In my opinion its inefficiency would be proven."

Juraj Nemeč: "Accommodation and its availability is a problem and this is one of the potential solutions although analyses question its real efficiency."

František Okruhlica: "The long term character of mortgages represents a problem. Their conditions may change during such a long period. So this maybe has sense only for the starting of mortgages."

Ladislav Balko: "The support is low. What is it the saving of SKK 145,000 from a SKK 1.5m mortgage over 30 years thanks to a bonus? Despite this fact the measure is still desirable considering the economic situation of many young families in Slovakia. However, this type of benefit should bring more safety as it is not stable and it changes too often."

Jozef Orgonáš: "Young people do not have any chance to buy a new flat because developers or thieves pushed the prices up to very high levels. It is not possible to sell a 150 m² flat for SKK 20m while the construction costs will not overreach SKK 8m. But we help young people at least in this form. It is the worst positioned group from the financial point of view – even worse than the old-age pensioners!"

12. Introduction of the SKK 500 fee for the changing of a Pension Fund Management Company (DSS), obligation to ask the Social Insurance Agency for issuance of an acceptance letter; introduction of the limit for DSS's expenditures for advertising and closing of contracts (Amendment to the Act on Old-Age Pension Savings)

Primary Source: Amendment No. 677/2006 Coll. to the Act No. 43/2004 Coll. on Old-Age Pension Savings and to the Act No. 461/2003 Coll. on Social Insurance

Status of the Measure in the Legislative Process: approved on 07.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Member of Parliament – Mr Róbert Madej (Smer-SD)

Intention of the Measure: to prevent groundless and speculative changes of Pension Fund Management Companies (DSS) by introduction of an administrative and finance barrier

Contents of the Measure:

- introduction of the SKK 500 fee for changing of a DSS while the change is still possible at a maximum of once every 2 years
- the SKK 500 fee will be paid by a changer directly to the Social Insurance Agency (SP)
- on demand, the SP will have to issue an acceptance letter to a changer
- decrease in maximum monthly remuneration for the DSS for pension fund administration (from 0.070% to 0.065% from average monthly net value of the property in the pension fund; decrease from 0.080% to 0.075% during the first 3 years)
- introduction of a limit for DSS's expenditures related to the closing of contracts on old-age pension saving (a maximum of 6% of the average monthly salary in the Slovak economy per calendar year that for 2 years precedes the calendar year when the contract was closed per one contract; for 2007 it is maximum of SKK 1,036) and expenditures for pension fund promotion and advertising (a maximum of a 1,000 multiple of the average monthly salary in the Slovak economy per calendar year per that for 2 years precedes the calendar year when these expenditures were incurred; for 2007 it is a maximum of SKK 17.274m)
- decrease in fines for the Social Insurance Agency for delayed payments to personal pension accounts of savers

Opinions of Proponents:

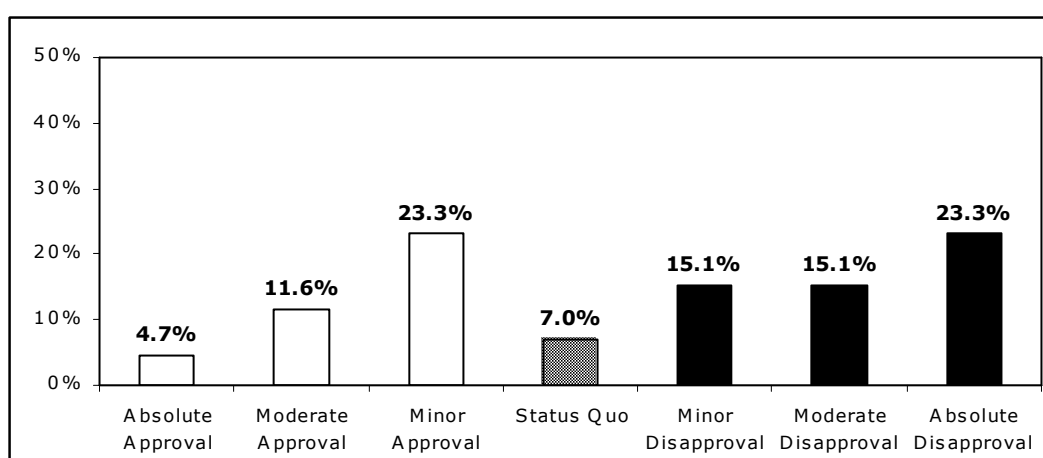
- the Amendment saves money and makes the whole system of the fully-funded pension scheme cheaper but does not change it in principle
- 2-year period for changes between DSSs proved to be inefficient therefore the fee for a change was implemented
- imposing of fees for changes will be compensated by the lowering of fees paid by savers for pension fund administration
- the acceptance letter, the process connected to its issue as well as a charge paid by the saver should represent a barrier that would prevent groundless and speculative changes by savers - stabilisation of the retirement pension insurance system

- according to calculations by the Association of DSSs an average saver will save approximately SKK 17,350 for the whole period of saving thanks to a decrease in fees for a fund's administration

Opinions of Opponents:

- the Amendment is the result of lobbying by some DSSs that want a guarantee of clients' liabilities at a minimum period of time and after its lapsing they are interested in the biggest possible barriers for changes
- the Amendment is non-systemic, illiberal and it plays against the interests of savers – limitation of the freedom of choice and an increase in costs in the case of a client's dissatisfaction with DSS's services
- why should we molest a saver in the second pillar by issuing an acceptance letter by the SP and paying for a change to another administrator for his/her savings?
- in the following 10 years DSSs will lose approximately SKK 1bn thanks to lower fees for pension accounts administration
- introduction of limits for DSS's expenditures related to the closing of contracts on old-age pension saving and to advertising and promotion – an increase in regulations in a very regulated sector

Evaluation of the HESO Experts' Committee:



Richard Ďurana: "Possibility to voluntarily set the fees for a change with the aim of preventing the leaving of insured persons should have been left for DSSs. I consider the State's intervention to be inadequate."

Adrián Ďurček: "In my opinion it is a limitation of a personal freedom."

Eduard Žitňanský: "It is proof that the second pillar lies in the Government's stomach and it will not give up its efforts to destroy it."

František Okruhlica: "A non-systemic step."

Radoslav Štefančík: "The resolution violates the market rules on one hand, but it limits activities of various speculators earning money on savers changing pension administration companies on the other."

Vladimír Benč: "Positives slightly override – especially stabilisation of the system as well as a partial saving for savers."

Luboš Vagač: "Introduction of a payment without a time limitation on changes would have been sufficient."

Juraj Nemeč: "Frequent changes increase the transaction costs of the system, some limitations are possible."

Ladislav Balko: "The fee is not high. If it is for the second pillar then I am against the frequent turnover of its clients. It is a question of what can be offered by another DSS when the rules of investment activities are supervised and basically the same in all DSSs. It depends only on a portfolio managers' skills how and where they invest. The Slovak market is too small for significant variations. The valuation of funds in DSSs connected to foreign markets through their mother or sister companies (large banks and insurance companies) is a different issue. But almost all DSSs operating on the market belong to this group. So what specifics can be offered by DSSs?"

Jaroslav Vokoun: "I especially miss a deeper view of DSSs on happenings in the pension system. Why do they keep silent?"

13. The obligation of farmers to report the domestic slaughter of pigs or beef-cattle and to send a sample for a laboratory examination to the Veterinary and Food Administration (Act on Veterinary Care)

Primary Source: Act No. 39/2007 Coll. on Veterinary Care

Status of the Measure in the Legislative Process: approved on 12.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.2.2007

Submitter: Ministry of Agriculture of the SR

Intention of the Measure: to guarantee safe food from domestic slaughters dedicated for private domestic consumption; protection of human health against possible contamination by trichinella from pork products and BSE (Bovine Spongiform Encephalopathy) from beef products

Contents of the Measure:

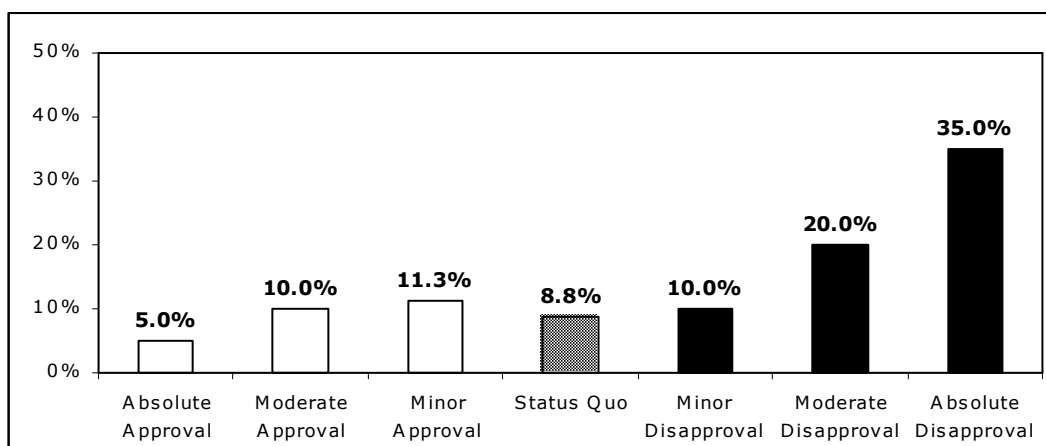
- the killing of beef-cattle and pigs by a farmer for private domestic consumption is permitted only if the slaughter was reported (by phone, fax, e-mail, or mail) to an appropriate Regional Veterinary and Food Administration (RVPS) at least one working day in advance
- the farmer is obliged to hand over (without undue delay personally or by carrier) samples from the killed pig or beef-cattle together with a filled accompanying document for laboratory examination to the place of collection (municipal office, appropriate RVPS, State Veterinary and Food Institute or State Veterinary Institute in Zvolen); the appropriate RVPS can also carry out haulage of samples and in this case it is necessary to keep the sample in the refrigerator until the time of haulage
- costs for the laboratory examination are covered by the State Budget (the price for one examination: SKK 55 – 100)
- if the farmer is not informed about the result within 3 days from delivery of the sample to the collection place he/she can consider the laboratory examination to be satisfactory
- monitoring of domestic slaughters of pigs in February 2007 – number of reported domestic slaughters: 5,723 – 5,137 negative laboratory examinations of samples, 0 positive
- approximately 300,000 domestic slaughters take place in Slovakia per year
- 399 cases of trichinella transmission to a human being have been recorded in Slovakia since 1994 (average costs for treatment of a person with this disease in the EU are higher than SKK 100,000)

Opinions of Proponents:

- it is in the interest of a consumer that the meat he/she is consuming is examined and safe and the State supported this interest because the examination is free of charge
- protection of people against contamination by trichinella or BSE
- prevention of high costs connected to treatment
- possible controls by vets – motivation to increase the hygiene of domestic slaughters and breeding

Opinions of Opponents:

- chicane of small private farmers breeding animals for their own consumption
- uselessly strict measure above the framework of the EU legislation in this area (e.g. neither in the Czech Republic nor in Hungary samples from domestic slaughters are controlled)
- return to a totalitarian regime which wants to control everything
- unnecessary bureaucracy – new obligations also for municipal offices
- the Government assigns new tasks for municipalities without creating conditions (cooling boxes, etc.)
- who will guarantee the correctness of sampling, sample storage, authenticity and impossibility for sample swapping?
- inefficiency of the measure – only the annual costs connected to the laboratory examination of samples could cost approximately SKK 30m annually from the State Budget while the average treatment costs for the treatment of the average number of people being contaminated by trichinella in Slovakia (data since 1994) are SKK 3m

Evaluation of the HESO Experts' Committee:

Radoslav Procházka: "The State, snooping where nobody needs it once again, implements rules that nobody monitors and this way it only deepens the gap between the proclaimed law and norms that are really applied. The deeper this gap is, the lower authority the legal system has and the more costly its operation is."

Radoslav Štefančík: "It is a "textbook example" of citizens' chicane by the State's bureaucratic decision that goes above the framework of the European Union directives."

Jozef Orgonáš: "A step that was not necessary."

Ladislav Balko: "Nonsense. It is a tax for our membership in the EU although we are again more accommodating in Slovakia and likely without our own opinion. People – especially in the Slovak countryside – breed domestic animals and there have been no problems for hundreds of years. Farmers know how to handle stock breeding and they do not need the "inventions" of officials from behind green tables."

Vladimír Benč: "A useless measure. Creation of a chicane and the hassling of citizens – not even mentioning the unnecessary bureaucracy. The State could have devoted more money to veterinary enlightenment, improvement of animal welfare, etc."

Juraj Nemeč: "If I remember correctly, it has already been cancelled. It is an example of zero functionality of an "Impact Assessment" which is formally done in Slovakia but in reality is not – let's look into Slovenia where they have a relatively functional system preventing the burdening of citizens and entrepreneurs by nonsense obligations..."

Miroslav Siváček: "It has worked so far. People have to be able to behave responsibly also without the State's supervision."

František Okruhlica: "In principle I agree. It solves the risks we are already watching throughout the world. There is never enough foresight. Just to fulfil it consistently."

14. Decision of the Antimonopoly Office of the SR on the non-permitting of the joining of Bratislava and Vienna-Schwechat airports

Primary Source: Decision of the Antimonopoly Office of the SR No. 2006/FH/3/1/105

Status of the Measure in the Legislative Process: approved by the Antimonopoly Office of the Slovak Republic on 11.9.2006; effective from: an appeal against the 1st instance decision was filed

Submitter: Antimonopoly Office of the Slovak Republic (PMÚ SR)

Intention of the Measure: to forbid the joining of Bratislava and Vienna airports in order to prevent the limiting of efficient economic competition

Contents of the Measure:

- the Antimonopoly Office of the SR forbade the joining resulting from the fact that the Vienna Airport, Penta company and the Ministry of Transport, Post and Telecommunications of the SR will take control over the M.R. Štefánik Airport in Bratislava – the PMÚ SR alleged the risk of creating a regional monopoly (a common owner of both airports, Vienna-Schwechat and Bratislava)
- the PMÚ SR analysed the impact of the joining on several relevant markets; it considered the market of providing the infrastructure for private regular regional flights to be a problematic

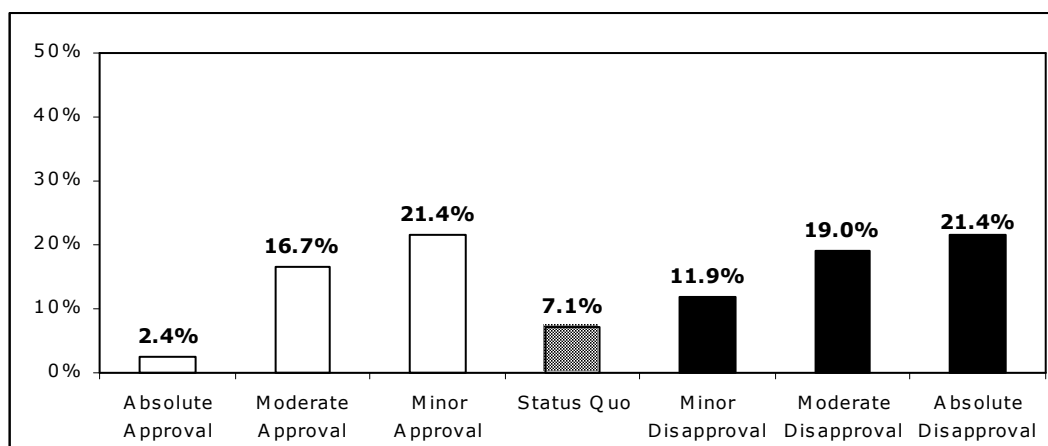
- one as Bratislava and Vienna airports are mutually changeable on this market and there is competition ongoing between them for airlines and passengers in the given region
- according to the PMÚ SR the joining would lead to the elimination of the only efficient competitor and in this way remove current and potential competitive pressures on the relevant market and considering the high entrance barriers on the market and non-existence of any potential competitors a regional monopoly with a dominant position would be created after the joining which would result in significant barriers for efficient economic competition and this is forbidden by law
 - the PMÚ SR invited participants to submit the proposal of conditions that would remove the problem identified by the Office, however, the Office alleged that the submitted conditions did not resolve the problem of limiting competition
 - the Vienna-Schwechat Airport together with the Slovak financial group Penta and the Austrian Reiffeisen Zentralbank were members of the TwoOne consortium which was the winner of the public tender for purchase of 66% share of Bratislava and Košice airports
 - the Austrian Antimonopoly Office permitted the joining of airports in April 2006

Opinions of Proponents:

- in the case of permission for the joining of the airport in Vienna-Schwechat would not have been exposed to significant economic competition and considering its economic power it could have behaved as a monopolist on the regional market
- the joining of Bratislava and Vienna airports would limit efficient economic competition that would negatively influence the development of Bratislava airport and the price and quality of services provided for passengers and operators
- the joining could have led to the redirecting of transport without the approval of airline operators, an increase in payments for airlines, decrease in number of lines and loss of choice for passengers
- Vienna airport primarily pursued the aim of strengthening its own position in the region by privatisation of its Bratislava neighbour that could have been achieved by removal of a dangerous and rapidly developing competitor for Schwechat from Bratislava

Opinions of Opponents:

- the entry of a strong private investor would have been beneficial for Bratislava airport as well as for the development of Bratislava region (e.g. construction of the high speed track between the airports)
- synergy resulting from connection with an airport of worldwide importance could have brought more quality "world" services connected with travelling, too
- according to TwoOne the PMÚ SR did not take into consideration the details questioning the existence of the current efficient competition between the airports in Vienna and Bratislava on the relevant market – so the competition could not have been limited by the joining as the competition does not exist today
- the PMÚ SR in principle helped the Government to finish the privatisation of the company Letisko M.R. Štefánika – Airport Bratislava, a.s., by this measure and thereby it slowed down the development of Bratislava airport for a long period
- the process of how the PMÚ achieved the final verdict (it postponed the decision on permission of the airport's sale twice and at the end according to TwoOne it made the decision more than one month before the lapse of the extended period in order to catch the deadline recommended by the Government to the Ministry of Transport and the National Property Fund of the SR to back out of the contract) is bad news for the development of the business environment and for investors, especially foreign ones – it is a precedent that recalls fears whether the Antimonopoly Office of the SR does not copy the moods of changing governments and whether it will remain to be a politically independent body
- the threat of claims against the SR from the TwoOne consortium before international courts

Evaluation of the HESO Experts' Committee:

Vladimír Benč: "The privatisation would have brought benefits to the airport, in my opinion. The Office's decision was made under big political pressure in my opinion. The form of the decision's realisation significantly harmed the reputation of the Slovak business environment, too."

Anonymous comment*: "I highly negatively evaluate the fact that the Office's actions create suspicion of political influences on the operation of the institution whose independence is an important presumption for the good operation of the (imperfect) market economy."

Richard Ďurana: "The decision is not based on an effort to achieve the best services for consumers but it strives to put reality into a fictional model of perfect competition."

Eduard Žitňanský: "The suspicion that the Office acted under political pressure is extremely strong because it did not provide any arguments."

Adrián Ďurček: "The question is whether it was a political or a qualified decision."

Radoslav Štefančík: "A good decision but the question is whether the Antimonopoly Office of the SR made the decision independently or under pressure from the Government's representatives. But the notification of the Chairman of the Cabinet on close cooperation between Bratislava and Vienna airports brings many questions into the decision of The Antimonopoly Office of the SR."

František Okruhlica: "I agree with the procedure. It is necessary to assess the location of Bratislava airport that has unique possibilities. On the other hand, its subsequent privatisation is necessary. For sure the violation of regional competitive conditions would have been caused."

Juraj Nemeč: "It is quite difficult. But to agree with the fact that Vienna will probably not develop Bratislava is probably real."

Jaroslav Vokoun: "But this question should especially bother Penta. It does not touch 99.9999% of the population. They will be touched much more if the construction around the airport increases and aeroplane after aeroplane flies above populated areas."

Ladislav Balko: "Countries smaller than Slovakia have their own airports. The period of last three-four years proved that Bratislava airport has the potential for its own development. It has been growing from several hundreds of thousands to millions of passengers a year. Besides questions regarding joining and competition in this area I think that the existence of independence and sovereignty by operation of its own airport in the capital city aims also to a persistent need for the visibility of Slovakia also through its own "airline port". Bratislava is still little perceived as the capital of a sovereign State. And by travelling through European cities we can see that it does much for the State if a passenger can read at prominent airports that it is also possible to fly to Bratislava. And if the flights would have gone mainly through Schwechat, it would have been even worse than it is now. And not only because of feelings but this also has an economic impact. Also the awareness of investors and business people: what sort of State is it when it is not possible to fly there?"

*The respondent did not want to be named.

15. Restriction of assignment of 2% of the paid income tax for public benefit purposes (exclusion of human-rights and environmental non-profit organisations from tax assignment and increase in minimum amount for 2% assignment by individuals from SKK 20 to SKK 100, cancellation of non-taxation of income under SKK 300,000 coming from other than main activities of non-profit organisations; 2 amendments to the Income Tax Act)

Primary Sources: a) Amendment No. 688/2006 Coll. to the Income Tax Act No. 595/2003 Coll. b) Act No. 76/2007 Coll. on International Assistance and Cooperation in Tax Administration

Status of the Measure in the Legislative Process: approved on a) 6.12.2006, b) 31.1.2007 by the National Council of the Slovak Republic in the 3rd reading; effective from: a) 29.12.2006, b) 01.03.2007

Submitter: Ministry of Finance of the Slovak Republic (MF SR)

Intention of the Measure: to decrease public administration expenses for the administration of the tax assignment and to increase state budget revenues by restriction of the tax assignment; unified taxation of legal entities incomes – of entrepreneurs and non-profit organisations

Contents of the Measure:

- increase in the minimum amount for assignment of 2% from the paid income tax by natural entities (FO) to SKK 100 (proposal of the MF SR – SKK 250; SKK 20 so far), by legal entities (PO) a minimum amount remained at the level of SKK 250 per one beneficiary
- proposed but not approved upper limit for 2% tax assignment - SKK 1m
- leaving of 2% tax assignment by PO (proposal of the MF SR – 0.5% in 2007, 0% from 2008)
- from 2008 (taxation period 2007) limitation of possible 2% beneficiaries by excluding organisations dealing with human rights protection, environment protection, preservation of natural and spiritual values
- the right for 2% receiving remained for the purposes of health protection and support; prevention, treatment, resocialising of drug addicts in the area of health care and social services, support of sport activities for children, youth and disabled citizens, provision of social assistance, preservation of cultural values and support of education
- in 2006 7,100 non-profit organisations received together SKK 1.125bn from 447,000 FO (SKK 352,869) and 17,740 PO (SKK 772,101)
- cancellation of income tax exemption (from business activities including revenue from property rent, sales of property, advertising revenues to the sum of SKK 300,000) for non-profit organisations

Opinions of Proponents:

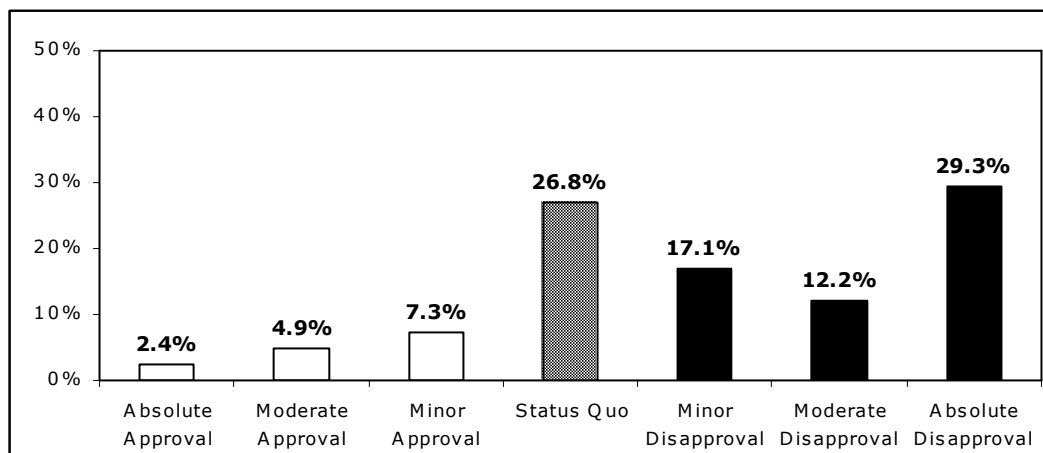
- tax assignment for selected public benefit purposes is a useless, non-systemic and discriminating measure enriching the tax system by another exception
- non-systemic especially by "donors" – PO (firms) – it loses the aspect of personal involvement when an individual decides on utilisation of a part of the tax from his/her own income (tax assignment by PO does not appear abroad)
- a false philanthropy – this is only a voluntary assignment of utilisation purpose for the compulsory paid "state" tax
- an enormous administrative burden especially by low assigned amounts and low revenues
- misuse of funds from 2% tax assignment - especially by large corporate foundations – companies pay several marketing activities for themselves "for free" this way and indirectly decrease their tax burden
- if the State does need this 2% then the tax rate should be decreased
- tax assignment is not very much used in tax systems of other countries (only in Hungary, Lithuania, Poland, Romania)

Opinions of Opponents:

- not-reasoned division of the "third sector" to organisations that can receive 2% and organisations that can not
- discrimination of some organisations and preference of some constitutional rights when compared to others in the tax law
- revenge of the current State's administration against non-governmental organisations (NGOs) that often criticise it
- efforts to make the third sector inefficient and to remove the power to help where the State is not able to help from NGOs – smaller and less institutionally developed non-profit organisations will suffer the most
- a negative impact on people that are dependent on the help and activities of the third sector
- narrowing of the range of people (at the expense of the ones with a lower income) entitled to assign 2% of the tax – NGOs in poorer regions will be handicapped

- demotivation of non-profit organisations for receiving of other revenues for financing public benefit services – higher dependence on public resources

Evaluation of the HESO Experts' Committee:



Vladimír Benč: "I definitely disagree with the Government's decision. A partial return to the "Mečiarism" of the 90s. The Government not only worsens the possibilities for funding of non-governmental organisations from EU funds (especially the system of drawing) but it also limits other sources. I am afraid that this measure will cause a partial decadence of the third sector and this will return Slovakia a few years backwards."

Eduard Žitňanský: "The restriction of freedom and forcing of one's own view over the world."

Adrián Ďurček: "A decision that liquidates or strictly limits the healthy 90% of the system on the basis of errors in 10% of the system."

Jozef Orgonáš: "Another nonsense of this Government. Maybe it was necessary to reevaluate the number of beneficiaries and pseudo-beneficiaries. But where the Government does not know or does not want to solve problems the tax assignment has to come up."

Juraj Nemec: "There are several dimensions of this measure. Regarding the determination of a minimum sum I agree as transactional costs were abnormal. Regarding narrowing of the radius – I rather disagree. Regarding cancellation of the exemption by non-profit organisations – the fact is that they laundered the money but not in substantial amounts, however, another fact is that this measure will uselessly complicate the life of non-profit organisations..."

Radoslav Procházka: "Not very successful from the legal-technical point of view and inconsistent from the matter-of-fact point of view. Differentiation among entitled and not entitled beneficiaries of the assigned tax based on their activities has no reasonable background."

Radoslav Štefančík: "There are two levels in this decision. The first one is the restriction of tax assignment. We could partially agree with this as the current system does not reflect real philanthropy in Slovakia. However, the second level is created by an unfair division of NGOs into two categories. Non-governmental organisations dealing with political issues have significantly contributed to the strengthening of democracy, enlargement of political rights and legal awareness of citizens since the change of the regime. And not only in Slovakia. They supported democratisation processes also in countries where it is still not possible to select political representatives in free elections. If the current Government does not openly want to support democratic opposition forces in existing authoritative regimes, it should at least create suitable conditions for organisations whose activists help to build freedom outside Slovak boundaries as we still remember well the period when we needed similar help. NGOs pointed out the corruption and clientelism of political parties and their representatives. During the Governments of Mr Dzurinda, Mr Mečiar as well as Mr Fico, they recalled social discussions on political issues at the level of the Republic (just to mention a few – discussions on the advantages and disadvantages of Slovakia's entry into the European Union or NATO) but also at the level of regions, towns and villages. Some of them supported gifted students by provision of a scholarship or contributed to young scientists for coverage of costs connected to the issue of their first employment. The idea to divide the NGOs into two groups from 2008 is nonsensical and a danger at the same time. The threat to democracy lies in the way how this proposal was justified because the most used argument of the representatives of the political elite was especially the unwillingness to support the activities of NGOs controlling the activities of our elected representatives."

Ladislav Balko: "As is usual in Slovakia, a typical "folk creativeness" started to operate also in this area and the original intention to support public benefit activities especially through the citizen

sector started to be abused mainly by a strange funding of own activities by the donors of the assigned tax. A good idea is misused and this misuse has to be controlled and prevented. Also in a way which is accepted."

František Okruhlica: *"The already started trend in the development of the third sector should continue. I think that company foundations misused the situation."*

16. Granting of investment incentives in the amount of SKK 12.7bn to almost 50 companies in the period of August 2006 to March 2007 (a shift from the preference of regions with a high unemployment rate)

Primary Source: Individual decisions of the Slovak Government on the provision of state aid (investment incentives) to entrepreneurs

Status of the Measure in the Legislative Process: approved by the Slovak Government in the 2nd half of 2006

Submitter: Ministry of Economy of the Slovak Republic

Intention of the Measure: to ensure the development of the whole country by stimulation of allocation of new investments into regions with high unemployment rates and in this way to contribute to an increase in economic development and living standards in these regions; to grant investment incentives to companies until the end of 2006 according to less strict criteria

Contents of the Measure:

- the Government of the SR provided from the beginning of August 2006 until the beginning of March 2007 investment incentives (state or regional aid) in the amount of SKK 12.668bn for almost 50 private entrepreneurs
- investment incentives were granted in the form of: corporate income tax relieves, contributions for newly created jobs, for general and specific education of employees, for coverage of legitimate costs related to initial investments into tangible property, in the form of a direct subsidy for preparatory work on land, sale of land for privileged prices, state support for the development of the region (also in the form of a direct subsidy for the purchase of land) and State's obligations resulting from closed contracts related to the KIA plant construction were also covered
- 31% of the total amount of incentives went to districts with an unemployment rate above 15%, 6% to districts with an unemployment rate from 10% to 15% and 63% of the amount of investment incentives went to districts with an unemployment rate lower than 10%
- 27% of the amount of approved incentives aimed at regions with an above-average unemployment rate (Higher Territorial Units of Banská Bystrica, Košice and Prešov – 13–15% unemployment rate; Slovak average - 9%) while the self-governing region of Prešov participated by 0%
- the highest amount of incentives went to the regions with below-average unemployment rate – Trnava region (unemployment rate – 5.1%) received 33.6% from the total volume of granted incentives and Nitra region (unemployment rate – 8.6%) 24.8%
- the biggest beneficiaries: Samsung, Trnava (SKK 2.7bn), SONY, Nitra (SKK 1.2bn), Samsung, Galanta (SKK 1.1bn), KIA, Žilina (SKK 0.5bn), Johnson Controls, Lučenec (SKK 0.5bn)
- the Government simplified the rules for providing state aid at the end of November with the aim of speeding up the process of decision-making and approving most applications for investment incentives till the end of 2006 until a new stricter EU regime for provision of the state aid would be applied
- the new rules were valid only until the end of 2006 and they simplified e.g. judging of incentives for big investments, the minimum number of new jobs created was decreased and the region where the company invests was not taken into consideration

Opinions of Proponents:

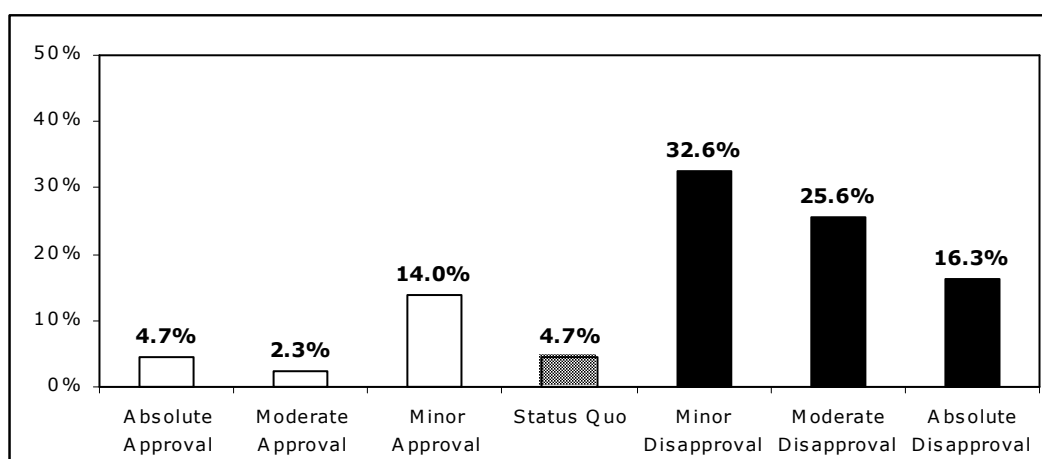
- new big investments bring new jobs and they have a significant multiplication effect on the whole economy
- approval of more benevolent rules for provision of the state aid for a temporary period (December) was an accommodating step by the Government towards investors with applications for investment incentives submitted for longer than a year and in case that the decision on these applications should have been made after 31.12.2006, i.e. according to the new stricter EU regime for provision of the state aid that would have made the access of investors to incentives more difficult and this way it could have caused withdrawal of some already announced investments in extents bigger than SKK 32bn and almost 12,000 new jobs – this can justify the fact that investment incentives in the majority did not go to the regions with high unemployment rates

- the final funding of KIA's claims resulting from the investment contract were not recognised by the previous Government

Opinions of Opponents:

- Trnava Region with the minimum unemployment rate obtained a larger volume of investment incentives than three of the most problematic regions from the point of the unemployment rate (Banská Bystrica, Košice, and Prešov regions) together – this is how the Government sees removal of regional differences that were so criticised by it
- investment incentives give advantage to certain (especially foreign) entrepreneurs over others and this fact deforms the business environment – the Government should not intervene into relations among companies on the market by provision of incentives, i.e. by subsidies for jobs created, retraining or tax relieves but its task should be to strive for the continuous and systematic improvement of the whole business environment, e.g. by improving law enforcement, deregulation or lowering of tax and payroll tax burdens
- the appropriate contracts on provision of investment incentives were not published

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "An inadequate measure that does not comply with the aim of the Government to support mainly poor regions. The question arises why the Government supports selected entrepreneurs operating in the regions with the lowest unemployment rates."

František Chovanec: "The measure with many negative but one positive result that is the disclosure of Government's sanctimony by articulation of the need to balance regional differences."

Vladimír Benč: "If investment incentives, then only to disadvantaged regions. But the contrary has become the truth. I am sick not only because of the Slovak regional policy but also because of the policy for investment incentives. Probably now is the time to create a regional political party under the name "Go East Slovakia Go!"."

Juraj Nemeč: "In general I feel some resistance towards investment incentives as they mean the utilisation of public resources for the funding of the private property. Certain rules were accepted but it seems to me that they have already become obsolete. But there is no clear option how to answer this question as the calculation whether the incentives are efficient or not is too difficult as they do not solve only unemployment."

Richard Ďurana: "Instead of providing resources to selected private subjects the Government could have decreased VAT by 1% flatly. Such a measure would have had a positive impact on everybody."

Adrián Ďurček: "Money won above common sense."

František Okruhlica: "The State can not avoid obligations resulting from past incentives. Otherwise I can not agree that the Government will take the given procedure as standard. The criteria for the provision of incentives should be changed conceptually towards investors with high added value."

Jozef Orgonáš: "It is probably necessary to assign a part of the investment incentives. The question is whether it should be SKK 12.7bn."

Miroslav Siváček: "If State incentives are allowed in the EU (market deformation) then their provision is generally OK. Competition exists also among States so if we did not use incentives we would get into disadvantage especially by larger investments. The low transparency by their provision recalls the disagreement."

Ladislav Balko: "All countries provide incentives. But the question is what and where. It would be definitely more suitable to move from direct financial incentives to incentives based on tax holidays and to motivate investors this way as the economy would lose nothing because if there is no investment in Slovakia it does not generate taxes, too. And with a tax holiday the State will get income tax from employed persons, consumption taxes from production or from money paid by employees for the purchase of goods and services."

Ján Pokrivčák: "The granting of incentives is generally unavoidable as there is competition among countries in the fight for foreign investors."

17. Increase in the minimum wage to SKK 7,600 (by 10.1% or SKK 700)

Primary Source: Slovak Government Regulation No. 540/2006 Coll. Determining the Amount of the Minimum Wage

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 28.09.2006; effective from: 1.10.2006

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to achieve a minimum wage that will represent 60% of the average wage in the Slovak economy in a certain time horizon

Contents of the Measure:

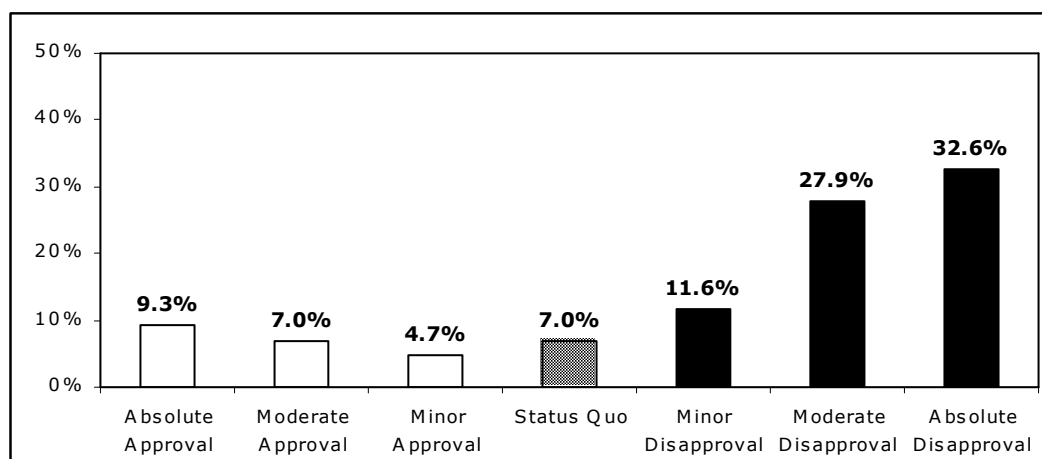
- social partners did not agree on an increase, so the Government had to decide
- alternative proposals by the Government – increase in a gross monthly minimum wage to SKK 7,260 or SKK 7,430 (later SKK 7,500)
- the proposal of the Confederation of Trade Unions of the Slovak Republic approved by the Government – increase in the minimum wage by 10.1% - from SKK 6,900 to SKK 7,600 (an hourly minimum wage of SKK 43.70) – i.e. more than 40% of the average wage in the Slovak economy, by SKK 1,850 higher than the subsistence minimum
- the proposal of the Federation of Employer's Associations of the Slovak Republic – SKK 7,430
- the proposal of the Republic Union of Employers – to cancel the institute of the minimum wage
- the change in the amount of the minimum wage changes also: assessment bases for social and health insurance contributions, conditions for the tax bonus title, judging of material need, activation contribution, some contributions for employment and self-employment, penalties for non-employment of disabled citizens, conditions for assistance of the Centre of Legal Advice, limit for obligation to report the car accident, assessment of certain information, remunerations for representatives of self-governing regions - more than 40 legal acts have to be changed

Opinions of Proponents:

- the minimum wage - an important institute in the fight against poverty – wages of employees with the lowest incomes working for the minimum wage will be increased (approx. 1.0 – 1.5% of employed persons)
- higher revenue of the State from taxes and especially from social security contributions
- higher difference compared to the subsistence minimum
- the ratio of the minimum wage to the average wage in the economy was increased

Opinions of Opponents:

- the payroll tax burden for almost 250,000 self-employed and voluntarily insured persons who are paying payroll taxes from the minimum assessment base (i.e. from the minimum wage) will be increased
- increase in State's expenditures for social security contributions connected to the minimum wage
- increase in payroll costs for employers
- less lucrative employment of cheap low-qualified labour (e.g. in the textile industry, agriculture, etc.) and long-term unemployed persons
- increase in illicit work
- growth of the minimum wage that is not directly connected to the growth of labour productivity leads to an increase in the unemployment rate and cancellation of jobs in some industries and regions

Evaluation of the HESO Experts' Committee:

Radoslav Štefančík: "An increase in the minimum wage usually leads to growth in the unemployment rate. Jobs with the minimum wage are usually occupied by low-qualified labour. At the same time higher wages for the same work could demotivate people from increasing their education."

Luboš Vagač: "The decision of the Government sealed by the agreement with trade unions that brought the economically inappropriate increase in the minimum wage as the labour productivity grew only by approximately 7%. The effort to artificially increase the minimum wage to the level of 60% of the average wage can be turned against the poorest as it makes low-qualified or non-qualified work inadequately expensive. Logically it has a negative impact on the creation of low-income jobs that can make the minimum wage become the institute of poverty and illicit work and not the fight against the poverty."

František Okruhlica: "Disagreement. There will be pressure on an increase in the unemployment rate or transfer to self-employment as a solution for costs reduction from the side of employers. The wage in Slovakia will gradually grow also without these administrative adjustments and interventions by the State as it will be pulled by more qualified work. Low-cost companies will still move to the cheaper east in 8 – 10 years (especially after finishing their tax holiday)."

František Chovanec: "A populist, inappropriate and useless measure harming especially low-income groups of the population mainly endangered by loss of their jobs."

Ján Pokrivčák: "The higher minimum wage will cause lower growth in employment of people with very low or no qualifications especially in the poorest regions of Slovakia."

Richard Ďurana: "It is necessary to cancel the minimum wage not to increase it. The long-term unemployed persons (whose share of the total unemployment figure represents more than 70%) and job applicants with lower education will be even more disqualified on the market by this increase. If the Government wants to solve the problem of long-term unemployed persons it should remove the barriers for their employment – the minimum wage and high payroll taxes."

Vladimír Benč: "I consider the institute of the minimum wage to be bad from its substance. So the increase in the minimum wage is negative. It is a pity that Dzurinda's Government did not succeed in cancellation of this institution as now we can hardly expect it."

Juraj Nemeč: "I personally do not consider the minimum wage to be an appropriate economic tool. It strives to solve something but it causes significant distortions with a small real impact."

Adrián Ďurček: "I consider the minimum wage to be a necessary and fair tool in bilateral or tri-lateral relations."

Miroslav Siváček: "The institute of the minimum wage is a leftover and there are a minimum of people working for the minimum wage."

Eduard Žitňanský: "Incomprehensibly too much effort for improving the position of a small group of people – so it seems to me that is it rather a secondary effect as the minimum wage influences the amount of some payroll taxes."

Jozef Orgonáš: "One of the less-system measures of the Government, a populist one. I personally have nothing against an increase in the minimum wage but under the condition that all regulations that are connected to this measure have to be disconnected very quickly. Who will take into consideration the growing costs of entrepreneurs?"

Ladislav Balko: "Several more developed countries have a much higher minimum wage and it does not handicap their economic growth at all. The labour price has to grow also in Slovakia. It is

a paradox that those who daily decline our incorporation into Euro-Atlantic structures do not appreciate Slovak labour and especially its value. And by colour of costs increase and the threat of unemployment growth they would like to have Slovak labour still at the slavish level – or maybe only at the level of "instrumentum vocalis" (the speaking tool). And this is exactly the double face of the representatives of the economic right wing and liberalism."

Jaroslav Vokoun: "Everybody who is against the minimum wage should try to work for such money and live on it. Everybody who will be threatened by this measure should step out of anonymity. It has to be a business that needs low costs also in other areas (labour protection, environment) and then it is worth nothing."

18. Introduction of an annual Christmas contribution for pensioners depending on the amount of the pension (SKK 2,000 for pensioners with a pension lower than SKK 3,455, SKK 1,750 for pensioners with a pension between SKK 3,456 – SKK 6,910 and SKK 1,500 for pensioners in the zone SKK 6,911 – SKK 10,365)

Primary Sources: a) Act No. 562/2006 Coll. on Provision of the Christmas Contribution to Some Pensioners

b) Regulation of the Slovak Government on Amounts of Christmas Contributions in 2006

Status of the Measure in the Legislative Process: approved on a) 24.10.2006 by the National Council of the Slovak Republic in the 3rd reading, b) 8.11.2006 by the Slovak Government; effective from: a) 09.11.2006, b) 15.11.2006

Submitter: Ministry of Labour, Social Affairs and Family of the Slovak Republic

Intention of the Measure: to provide a Christmas contribution differentiated according to the amount of pension for softening of the social situation of old-age pensioners and disability pensioners

Contents of the Measure:

- a new state social benefit determined by law for beneficiaries of old-age pensions, early old-age pensions (achieved by the parliamentary amending proposal of Mrs I. Radičová (SDKÚ-DS)), disability pensions, social pensions and retirement rents or disability retirement rents (soldiers and policemen) whose pensions (or sum of pensions including widow, widower or orphan pension) did not overreach the limit set by the government regulation (SKK 10,365 in 2006)
- the amounts of Christmas contributions in 2006 were determined based on the amount of the pension:
 - the pension under 20% of the average wage in the Slovak economy for 2005 (i.e. SKK 3,455) – the Christmas contribution SKK 2,000 (approximately 24,000 pensioners)
 - the pension between 20%-40% of the average wage (i.e. SKK 3,456 – SKK 6,910) – the Christmas contribution SKK 1,750 (252,000 pensioners)
 - the pension between 40%-60% of the average wage (i.e. SKK 6,911 – SKK 6,910) – the Christmas contribution SKK 1,500 (724,000 pensioners)
- the amount of Christmas contributions will be determined by government regulation each calendar year until October 31st
- payment of the Christmas contribution by the Social Insurance Agency each year together with the December payment of pensions
- payment of Christmas contributions to pensioners in 2006 increased state budget expenditures by SKK 1.614bn

Opinions of Proponents:

- the Christmas contribution for pensioners represents solidarity and it can help to soften the differences among pensions and difficult social situation of some pensioners
- the fact whether and what amount will be paid will be decided by the Government in its regulation – a higher flexibility and possibility to react on the status of the State Budget
- the Christmas contribution is in accordance with the Programme Declaration of the Government and the Government meets its pre-election promises by this measure

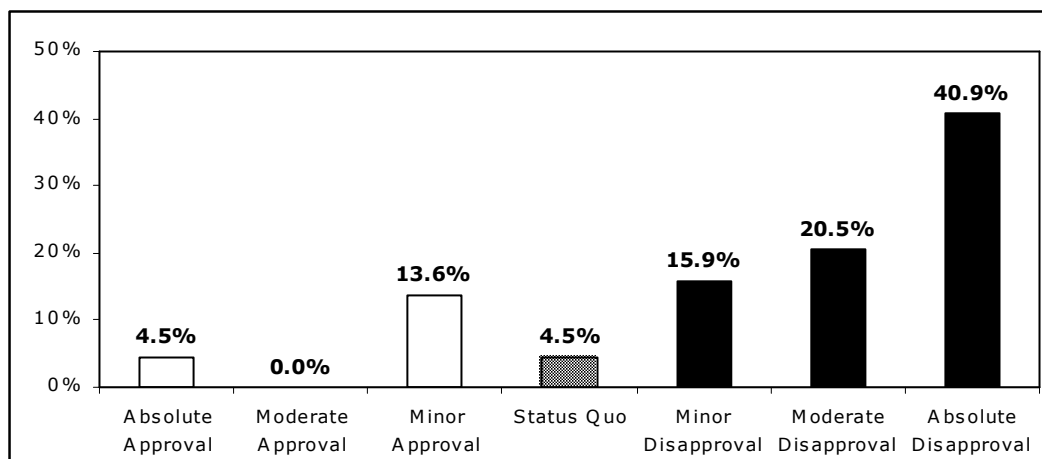
Opinions of Opponents:

- a new non-systemic populist contribution that helps a social group that is not the most endangered in Slovakia (young families with children are the most endangered ones)
- high expenditures of the State Budget, another administrative burden for the Social Insurance Agency
- there are no funds guaranteed for payment of the contribution in 2007 in the Budget
- the Christmas contribution takes the living situation of pensioners into consideration only to a small extent as a significant part of pensioners will receive it - not only pensioners who need it

(the limit for receiving the contribution is higher than e.g. the average wage in hotels and restaurants in 2005 and in companies with more than 20 employees in Bardejov District) – it would be more efficient to recalculate pensions and ensure the permanent adjustment of the lowest pensions

- the contribution should be decreased linearly with the growing pension and not jumping according to zones
- also pensioners who are still working will get the contribution and it does not matter how much they earn (especially relatively young people with a early old-age pension or retirement rent)
- beginning of the deformation of the pension system as it suppresses the natural insurance and desert character

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "It is really a question of whose social situation is worse - a pair of pensioners with a roof over their heads and a regular although low pension or a young family (father, mother, and child) with a mortgage and mother on maternity leave. The Government should reassess its opinion about the most endangered social group of Slovak citizens."

Eugen Jurzyca: "The status of pensioners should be solved in a systematic way and not according to the success rate in fulfilment of the State Budget. According to the Statistical Office of the Slovak Republic pensioners are the least at-risk group."

Ján Pokrivčák: "Ad hoc support policies for selected groups of the population are not a good step to the growth of welfare in the whole of society. The State should rather send signals that it is worth working for the whole life than to have a high pension."

Miroslav Siváček: "A populist and non-systemic measure. Christmas has always played on people's senses. The principle of deserts is being lost. The Social Insurance Agency is in deficit and this will surely not help. It is better to ensure a growth in pensions by systemic measures (economic growth, pension system)."

Vladimír Benč: "I also want something - I am a poor self-employed person beaten by big companies, I even do not dream about a 13th salary so give me something from the State Budget... Definitely a non-systemic step denying the natural insurance and desert character of the pension system."

František Okruhlica: "A non-systematic procedure. And what about the children from socially weaker families? Do they not receive anything for Christmas?"

František Chovanec: "A populist and non-economical measure with a negative impact on the State Budget without any added value for the national economy."

Jozef Orgonáš: "A scandal, the Government throws out money it did not earn, they did not help pensioners but they improved their position before the public."

Juraj Nemeč: "In my opinion this measure is non-systemic and a political move."

Eduard Žitňanský: "Populism and a non-systemic measure."

Richard Ďurana: "A non-systemic and not-addressed measure."

Ladislav Balko: "Mostly rich lawyers criticise this measure so we can clearly see the Slovak "The full does not believe the hungry". For people with low incomes each crown means a great deal. Especially at the end of the year when many pensioners suffer from frustration that they do not have enough money for e.g. small gifts for their grandchildren and many of them used the money

for settlement of outstanding payments connected to accommodation. Arguments about a non-systemic measure etc. will not stand ground. If the State does not have money for more it can do at least this. The addressees deserve these "State alms". Better something than nothing. And the solidarity of others should tolerate this. But also in this case market blindness can not say anything but the magic formula of "non-systematic".

Jaroslav Vokoun: *"It is an organised solidarity. Whoever is against it should organise a petition."*

19. Introduction of the so called millionaire income tax (a gradual decrease of the personal tax-free allowance – starting from the gross monthly income of SKK 47,571 up to an income of SKK 79,952 when the tax-free allowance is cancelled)

Primary Source: Amendment No. 688/2006 Coll. to the Income Tax Act No. 595/2003 Coll.

Status of the Measure in the Legislative Process: approved on 06.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: to burden the highest-income groups of the population with a higher tax burden in order to be able to realise the social policy from obtained funds; efforts to achieve a bigger solidarity in the society through tax policy instruments

Contents of the Measure:

- introduction of a gradual decrease of the standard personal tax-free allowance (the amount deductible from the tax base, i.e. tax-free income - also called the deductible item) by natural entities from a certain level of the tax base
- the tax-free allowance (for 2007 it is a maximum of SKK 95,616 per tax-payer) starts to decrease by the annual tax base in the sum of 100-multiples of the subsistence minimum which represents the level of the gross monthly salary of SKK 47,571 in 2007 – from this income the personal tax-free allowance will be decreased by 25 Haliers (Haliers) with each other Koruna (Slovak Crown) of the tax base up to the limit of the gross income of SKK 79,953 when the tax-payer may not apply the deductible item per tax-payer
- people earning a gross monthly salary of SKK 50,000 will pay income tax more by SKK 1,218 a year and people earning SKK 80,000 will pay the tax more by SKK 18,167
- from the husband's gross monthly salary of SKK 79,953 the non-working spouse tax-free allowance he is applying starts to decrease, too, and by the monthly gross salary of SKK 111,852 this tax-free allowance will also drop to zero
- a husband with a gross monthly salary of SKK 112,000 who has applied the deductible item for his non-working wife in the full amount so far can not do this now and he will pay income tax higher by SKK 36,334
- the measure will affect approximately 90,000 people, i.e. approximately 4-5% of employed persons
- introduction of the decreasing personal tax-free allowance expects the additional personal income tax revenue of SKK 160m in 2007, SKK 1.125bn in 2008 and SKK 1.199bn in 2009

Opinions of Proponents:

- the measure brings higher solidarity to the tax system while the change affects only higher-income layers of the population
- the tax-free allowance represents a social aspect in the tax system whose aim is to decrease the tax duty for the lowest-income groups while these social advantages (or social aspects of the tax decreasing the tax burden) are not necessary for people with an above-standard income
- it is fair that the people with above-standard incomes should pay higher taxes and this way contribute more to the state budget revenues
- higher tax revenues for the State Budget
- the low elasticity of the measure – i.e. the low probability that the aggrieved tax payers will regroup their incomes to a large extent and avoid the provisions of this Act
- the modification of the tax system is not very extensive and the changes are not so principal as the Government originally wanted

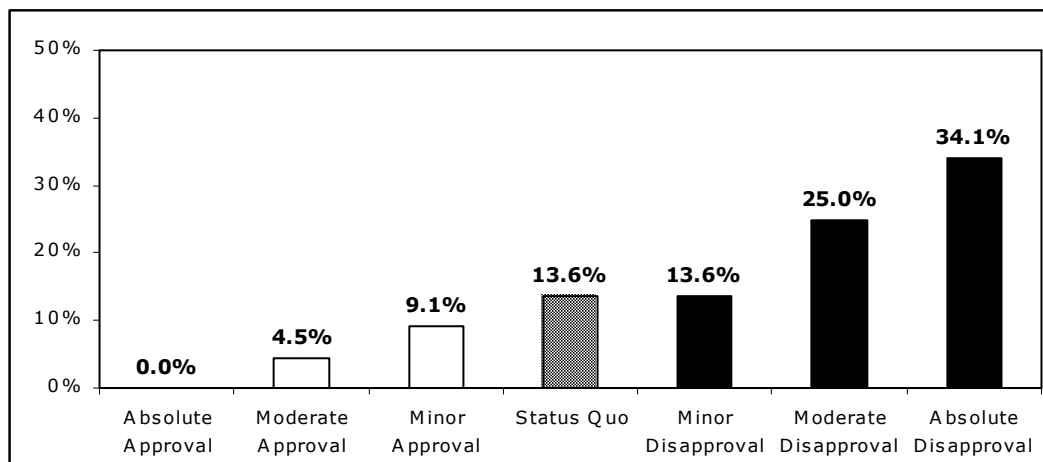
Opinions of Opponents:

- decreasing of the tax-free allowance complicates the current relatively simple tax system
- progressive taxation of incomes was ensured in the previous system, too
- the higher taxation of higher incomes is a penalty for success and it is demotivating for people trying to earn more; it is also a punishment of educated and skilled people
- the so called millionaire tax – i.e. decreasing of the tax-free allowance will burden the medium-higher layer the most (judges, prosecuting attorneys, some university teachers,

doctors, managers and people with a good education) and not the highest-income groups that are able to better optimise their tax duty and for whom it is not a problem to change residence and tax domicile – so the planned growth in tax revenues is questionable also because of this reason

- a subjective determination of the limit for decreasing the deductible item

Evaluation of the HESO Experts' Committee:



Luboš Vagač: "Compared to the first statements on the millionaire tax the degressive tax-free allowance is fortunately a less harmful intervention than the cancellation of the unified tax rate. Despite this fact it is a negative measure that does not increase solidarity but it punishes hardworking, educated and skilled people."

Ján Pokrivčák: "This measure decreases the motivation to work. The higher taxation of people who earn more leads to inefficient utilisation of time and effort. People try harder to find a way how to skip the payment of taxes and they devote less endeavour to productive work, i.e. production of goods and services."

Eugen Jurzyca: "Complication of the tax legislation increases so called transaction costs, the whole system is more expensive and less efficient. The same amount of work performed in Slovakia will bring fewer benefits."

Miroslav Siváček: "Unequal conditions by remuneration. Enterprises should differentiate incomes according to the performance of employees, and not the State."

Radoslav Štefančík: "It is a big nonsense deceiving citizens with a minimum or no economic education. I incline to the general opinion that implementation of the progressive tax or various restrictions for people with higher incomes is demotivating and it is a punishment for success."

Jozef Orgonáš: "A whip for the skilful ones."

Eduard Žitňanský: "An ideological measure without rational content – it has nothing to do with solidarity."

František Okruhlica: "Disagreement. It will affect those employed persons who do not have the opportunity to optimise their taxes."

Richard Ďurana: "It is a measure with the minimum impact increasing the progressivity of the tax burden."

Vladimír Benč: "Definitely a negative intervention into the well set-up tax system. But we are lucky that even worse proposals did not succeed."

Adrián Ďurček: "Better than the more principal disassembly of the tax reform."

Anonymous comment*: "A small parametric modification."

Juraj Nemeč: "Theoretical principles of tax justice allow higher taxation of the richer; the reform of the previous Government was in favour of the richer so the current Government has the right to "serve" to its voters. Nothing principal has happened."

Jaroslav Vokoun: "And who should pay for the social model? People with the average salary? Big companies with tax exemptions? I believe that rich people will not suffer that much and that it will not be at the expense of their consumption."

*The respondent did not want to be named.

Ladislav Balko: "This measure implemented the intention according to which the Government's aim in the area of direct taxes is to increase the level of solidarity in the tax system and this especially by gradual decrease of the tax-free income but also by an eventual adjustment of the amount of the tax bonus per child. The Government proposed to increase the taxation of natural entities with above-standard incomes in a legal way and this increased the level of solidarity in the area of direct taxes in the tax system. The basic principle lies in the acceptance of the ability of a tax-payer to pay the tax and to respect (from his/her point of view) the benefit from taxation especially in connection to the expected consumption of public goods provided to the tax-payer by the State or the self-government was fulfilled partially. At the same time the social substance of the State lying also in tax fairness was taken into consideration that is the aim of the current Government. We especially may not forget tax fairness from the side of the State, i.e. from the position of public finance. Taxes are not only used for fulfilment of financial funds of the State. They also represent the tool for the softening of differences by redistribution of resources."

20. Introduction of the lowered VAT rate on medicines and some medical devices at the level of 10%

Primary Source: Amendment No. 656/2006 Coll. to the Value Added Tax Act No. 222/2004 Coll.

Status of the Measure in the Legislative Process: approved on 06.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.1.2007

Submitter: Ministry of Finance of the Slovak Republic

Intention of the Measure: to decrease prices for drugs and medical devices by introduction of the lowered value added tax rate (VAT) on medicaments and medical devices and in this way partially eliminate the unfavourable impact of VAT on those people with the lowest incomes, e.g. pensioners

Contents of the Measure:

- introduction of one lowered VAT rate at the level of 10% that has been applied to drugs and some medical devices stated in the Annex to the Act (everything else is subject to the basic rate of 19%) since January 1st, 2007
- according to EU directives the member states can use one or two lowered tax rates that may not be lower than 5% while the member state can apply one basic tax rate that may not be lower than 15%
- estimate of the state budget revenue outage: SKK 2.799bn in 2007, SKK 2.968bn in 2008, SKK 3.155bn in 2009

Opinions of Proponents:

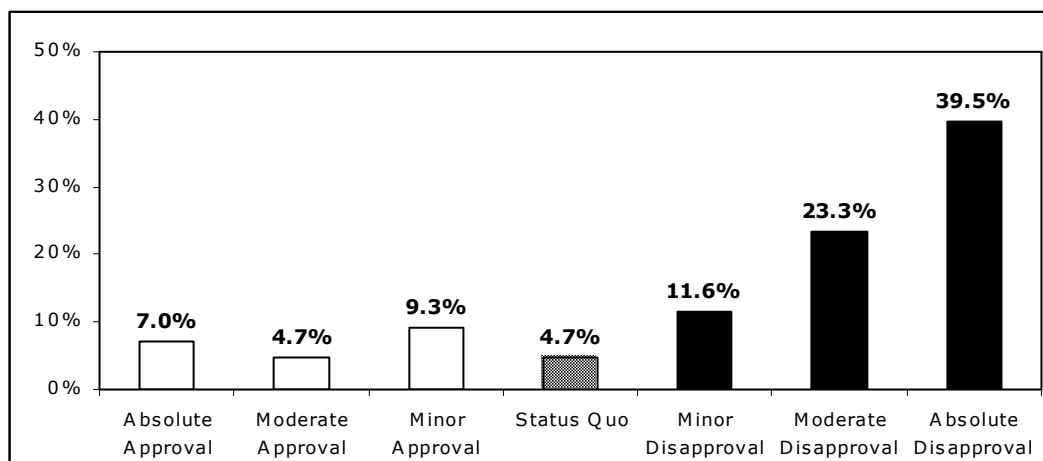
- the prices of medicines and medical devices regulated by the State will be cheaper thanks to the lower VAT – a positive impact on the population, management of health insurance companies and health care providers; a neutral impact is expected on the economy of manufacturers, pharmaceutical distributors and pharmacies
- the lowered price will finally have no influence on the extent of the end-consumption of drugs as these are the goods whose end-consumption do not directly depend on prices but rather on the real need
- the lowered tax rate for medicines will partially eliminate the regressive character of VAT on people with the lowest incomes, e.g. pensioners as most of their income goes on medicines
- health insurance companies will save money on drugs thanks to the lower VAT which they can use for paying for better treatment and lowering the patients' participation in the funding of their treatment
- the lower VAT rate on drugs and medical aids can bring hospitals annual savings of approximately SKK 600m

Opinions of Opponents:

- a useless deformation of the current simple tax system and especially of the VAT system – a decrease of the basic rate for all products would have been more suitable
- if the aim of the Government was to decrease supplementary payments for medicines and medical devices it could have redirected VAT revenues to the health care industry without changing the VAT rate (through the State's payment for state insured persons) and subsequently it could have lowered supplementary payments for medicines by their categorisation
- the lower VAT rate relates to various goods outside of health care (e.g. veterinary drugs) and it does not relate to most medical devices – the aim of decreasing the tax burden of the low-income group is not met this way (according to the calculation of the Health Policy Institute the average saving for an insured person by medicines paid from public health insurance will be SKK 3.70 a month; according to the Association of Health Insurance Companies SKK 47 – 50 a year (approx. SKK 4 a month) (by the same consumption of drugs as in 2005)

- finally the Categorisation Committee will decide on the final supplementary payment of a patient for drugs while the prices of freely-sold drugs are not regulated so it is not possible to claim that after the lowering of the VAT the payments of patients for drugs will be lower - the decrease in the VAT rate on medicines will not be fully reflected in the decrease of consumer prices
- health insurance companies (also the private ones) will gain the most from the lowered VAT on drugs as they will save approximately SKK 2-3bn a year while the State will lose approximately the same amount on tax revenues in the Budget
- The National Bank of Slovakia warned that such a revenue outage in the State Budget caused by introduction of the lowered VAT rate on medicines could endanger the fulfilment of Maastricht criteria for Euro adoption

Evaluation of the HESO Experts' Committee:



Ján Pokrivčák: "Lower taxes are better for economic development but this step has a deformation impact. This step worsened the Slovak tax system although it is not a big intervention. It is better to support poor people via the social system or to create conditions for entrepreneurs to create jobs. It is also better to support the elimination of poverty through education and financial motivation to work."

Radoslav Štefančík: "It is a violation of the simple tax system. It is really questionable to what extent the prices for medicines were really decreased. The decrease in prices for goods – medicines or other consumption goods – is always a temporary matter and it is only a question of time when the prices reach the same level as before the lowering of the VAT."

Vladimír Benč: "A definitely negative intervention into the well-set tax system. Fortunately, even worse proposals did not succeed. So far I do not see the benefit either for health care or for patients."

František Chovanec: "A selective, irrational and economically inefficient measure with zero impact on the declared target groups."

Eugen Jurzyca: "It will be interesting to monitor how much the pensioners paid / will pay especially for the same or comparable drugs in one or two years. And it will be even more interesting to compare how much money could have been assigned to one patient in a targeted way if the State would not have lost them because of the decrease in the tax."

Eduard Žitňanský: "A classical example of a social policy implemented through taxes. After a few months it is obvious that it is just another unsuccessful attempt."

Adrián Ďurček: "A wrong decision that lost its aim."

Juraj Nemeč: "I consider this measure to be a non-systemic one as it does not solve the problem of regulation in health care and its economy, it only postpones it. Two VAT rates exist in most countries but I personally do not think that it was necessary to return to this issue. Changes cost something..."

Milan Velecký: "In my opinion it would have been easier if the State had helped health insurance companies directly e.g. by increasing premium payments for economically inactive insured persons. However I recognise that there are other countries (maybe most of them) applying this model of tax bonus for health care."

Miroslav Siváček: "A non-systemic measure. The aims of this measure are not clear and therefore I am afraid that it is only a tributary relation to lobbying groups."

Jozef Orgonáš: "I will keep silent on the non-systemic aspect in this case as a horse-sense is sufficient to find it out. Where does the most of more than SKK 2.5bn go? So we helped the poor this way."

František Okruhlica: "A non-systemic step."

Richard Ďurana: "The VAT should have been decreased flatly."

Ladislav Balko: "The Government obliged itself to decrease the value added tax rate on some goods and services in the area of indirect taxes while it will extend the range of these goods and services (this extension is currently proposed for the internet and books but it will definitely go further according to the development of public finance). This measure brought a softening to the imbalance in the redistribution of resources. Already the introduction of the 19% tax caused a violation of the redistribution impact of taxes especially by indirect taxes that increased the prices for goods and services and lowered real incomes. The people dependent on the redistribution effect of taxes in the form of utilisation of public goods in the area of social and health policy, structural and regional policy suffered from this fact."

Jaroslav Vokoun: "Taxes need to have an idea. The idea of a simple tax system is very weak. The idea of two VAT rates is far better than the idea of a simple tax system."

21. Decision of the Slovak Government on termination of the privatisation contract with the TwoOne consortium (the Vienna-Schwechat Airport / Penta Group) and not continuing in the privatisation process of the Bratislava Airport with the second applicant in the public tender (the Abertis / J&T consortium)

Primary Source: Proposal for further proceedings in the privatisation process on the part of the state capital participation in the company Letisko M.R. Štefánika – Airport Bratislava, a.s. (BTS)

Status of the Measure in the Legislative Process: approved by the Government of the Slovak Republic on 16.08.2006; effective from: 16.8.2006

Submitter: Ministry of Transport, Post and Telecommunications of the Slovak Republic (MDPT)

Intention of the Measure: to terminate the privatisation of the Bratislava Airport

Contents of the Measure:

- the Government of the SR recommended to the President of the National Property Fund of the SR (FNM) to terminate the contract on sales of 66% shares of Bratislava Airport signed on 10.2.2006 with the company BTS Holding, a.s. (the TwoOne consortium –Vienna Airport, Penta Group, Raiffeisen Zentralbank) until 15.9.2006 in cooperation with the Minister of Transport, Post and Telecommunications because of not-approving of the joining by the Antimonopoly Office of the SR (PMÚ) and therefore not-meeting one of the suspensive conditions for validity of the privatisation contract within the period until 15.8.2006
- the Government placed a duty on the Minister of Economy to submit the proposal for cancellation of the decision on privatisation of part of the State's capital participation in the company Letisko M.R. Štefánika – Airport Bratislava, a.s. to the Government's proceedings until 30.9.2006
- the Slovak Government at the same time cancelled the task resulting from the resolution of the previous Government from February 2006 which expected that in case of not-granting the PMÚ's permission for the combining of Bratislava and Vienna airports (the winning consortium TwoOne) the Government will issue its decision on the privatisation of Bratislava airport in favour of the Abertis/J&T investor selected as the second best applicant for the next process of privatisation
- the privatisation contract with the TwoOne consortium was terminated on 20.9.2006; the 66% shares of the Bratislava Airport will stay in the property of the FNM – therefore 100% of the shares will still remain in the hands of the State

Opinions of Proponents:

- M.R. Štefánik Airport in Bratislava is a strategic company from the point of transport administration of Slovakia by air transport and therefore the permanent capital participation of the State in the extent of a minimum 51% should be preserved
- the airport in Bratislava is profitable and its annual turnover is approx. SKK 1bn, annual growth of the airport by 10-15% is expected therefore the sale in these circumstances would be unfavourable
- according to the Minister of Transport Mr Ľ. Vážny (Smer-SD) the sale of the Bratislava Airport would be the worst alternative – the State should take full-value care of the development of the airport because the State is not such a bad owner – the ambition to get the Bratislava Airport into the same successful business intention as it would have by private international

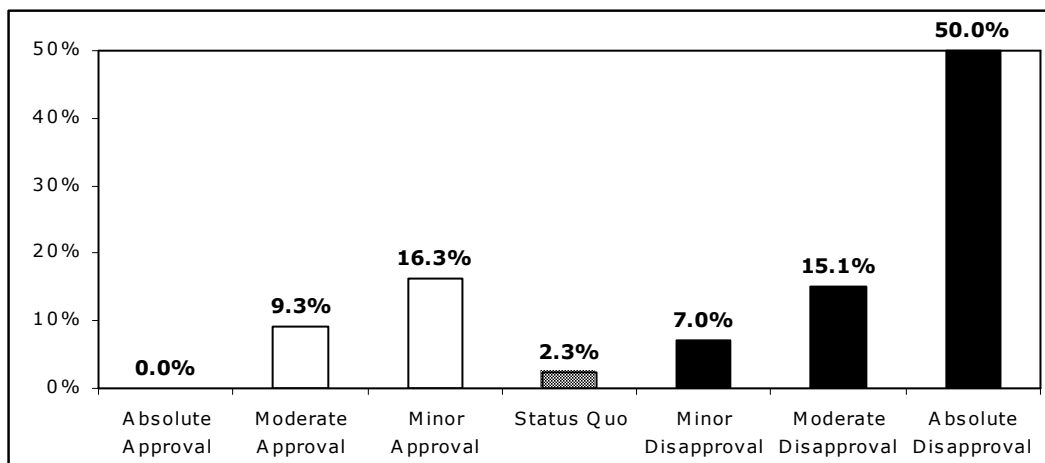
investors – the State should reinvest approx. SKK 3-4bn until 2010 into the Bratislava Airport according to estimates also with the help of loans and Eurofunds

- there is the possibility of a long-term rent of the airport
- the condition of the privatisation contract to obtain the agreement of the Antimonopoly Office of the SR on the combining of both airports until mid-August 2006 was not fulfilled therefore the Government decided to terminate the contract – a signal that Slovakia is a sovereign Republic and it reacts on the non-fulfilment of the suspensive condition necessary for the closing of the shares sale which is a similar situation as if the purchase price was not paid

Opinions of Opponents:

- if the PMÚ SR decided against the TwoOne consortium the Government should have continued in the privatisation process with the second applicant in order – the Abertis - J&T consortium as was guaranteed by the Resolution of the previous Government
- the Slovak Government prevented the fulfilment of the privatisation contract – objectors consider the termination of the contract to be invalid and they insist on the fact that the Government politically influenced the decision-making of the PMÚ SR which prolonged the procedure – it did not wait until the final decision of the second-level appellate body – the Board of the PMÚ SR - and it terminated the valid contract
- a bad signal for foreign investors thinking of coming to Slovakia
- the risk of future high costs for the State related to possible lawsuits on protection of investments (arbitration and settlement)
- Bratislava Airport will lose more than SKK 11bn by cancellation of the privatisation in the form of the financial deposit and another SKK 19bn that should have come for its modernisation – now the Government will have to find the resources but because of the lack of state resources it is possible that the development of the airport will be funded by loans so it will become insolvent
- the Government cancelled the privatisation of the airport because it wanted to control its operation, personal staffing, deliveries that will be granted there and other benefits resulting from the State's influence on the business subject

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "There are two levels of this decision. The first level is the termination of the contract with the TwoOne consortium which I assess positively. But I assess not-continuing in privatisation with the second applicant in order from the tender highly negatively. The impact of this decision can be already seen today. Instead of the development of the airport the clients of airline companies meet each other at Bratislava airport under the provisory tent reminiscent of airports from poor African countries."

Richard Ďurana: "Despite the decision of the Antimonopoly Office of the SR the Government should have not stopped the privatisation of the airport, it should have continued with the second applicant in order."

Milan Velecký: "After the decision of the Antimonopoly Office of the SR the Government should have continued in privatisation of the airport and it should have led negotiations with the next interested parties."

Miroslav Siváček: "Termination of the airport's privatisation is a step backwards for the very airport, a negative signal to investors and probably also the violation of the tender's conditions. It is a composite of maliciousness ("we will make Penta angry"), state paternalism ("the State is the better owner") and not understanding market principles. We can see now how it loses its ground by determination of the airport strategy."

František Chovanec: *"The direct and indirect costs of not realisation of the started transfer to the hands of a private investor for political-ideological reasons will always have a negative impact on the quality of the business environment and this way also on the economic growth of the country."*

Eduard Žitňanský: *"Revenge and an absurd desire to manage the world."*

Adrián Ďurček: *"An unlucky political decision."*

Jozef Orgonáš: *"So we really are stars! To change the rules of the game after the finishing of the tender is a scandal and this Government belongs to a political pension just because of this decision."*

Vladimír Benč: *"A bad decision of the Government – what else can be added?"*

Juraj Nemeč: *"A subsequent step that was probably possible from the legal point of view. But to leave the airport to the State is not a good idea – investments are inevitable. The Bratislava Airport is one of the least equipped airports of the capital cities in Europe... (I have been to almost all of them)."*

Ján Pokrivčák: *"It is necessary to privatise the airport because private companies are far more efficient than State ones. The state Bratislava Airport is not able to compete with other airports in its surroundings. The state airport is also not able to invest efficiently in development. Bad aviation infrastructure slows down the economic activity of Slovakia and decreases the competitiveness of Slovak companies."*

Ladislav Balko: *"The advocates of the all-problems-solving privatisation in Slovakia in all areas forget that it's not the State is a bad owner but that there are no quality people. We can speak about the fact how many airports – also world ones- are under state ownership and they operate well, how many energy, telecommunication, and gas enterprises belong to the State. I am not solving the question where to find such people. The State should not give up its reach on business in key areas. Not only because of money and economic reasons but also because of other reasons. The other thing is how it approaches its ownership. The political impact should be weakened and the professional one should prevail."*

22. Prolonging of the deadline for finishing of the transformation of state medical facilities and introduction of protection for state, regional, municipal and transformed non-profit medical facilities against executions until the end of 2007 (Amendment to the Act on Health Care Providers)

Primary Source: Amendment No.527/2006 Coll. to the Act No. 578/2004 Coll. on Health Care Providers, Health Care Professionals, Professional Organisations in Health Care

Status of the Measure in the Legislative Process: approved on 06.09.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 1.10.2006; the Constitutional Court of the SR ceased the efficiency of the provision related to protection against executions on 6.12.2006

Submitter: Member of Parliament – Mr Miroslav Chovanec (Smer-SD)

Intention of the Measure: to allow the finishing of the transformation of state medical facilities falling behind because of premature parliamentary elections and at the same to create a time window so that it was possible to proceed in the area of the transformation of state medical facilities according to the Programme Declaration of the new Government; to protect individual insolvent facilities by limitation of executions and in this way preserve the availability of health care for citizens

Contents of the Measure:

- postponing the deadline for the transformation of state medical facilities to joint-stock companies or non-profit organisations by 1 year – until 31.12.2007
- to exclude health care facilities founded by the State or self-governments as well as transformed non-profit organisations from executions from 1.10.2006 to 31.12.2007 (with effect from the beginning of 2006 no facilities should have been protected against executions)
- the debt of the State and non-profit medical facilities at the end of 2006 – SKK 6.7bn (increase by SKK 2.3bn)

Opinions of Proponents:

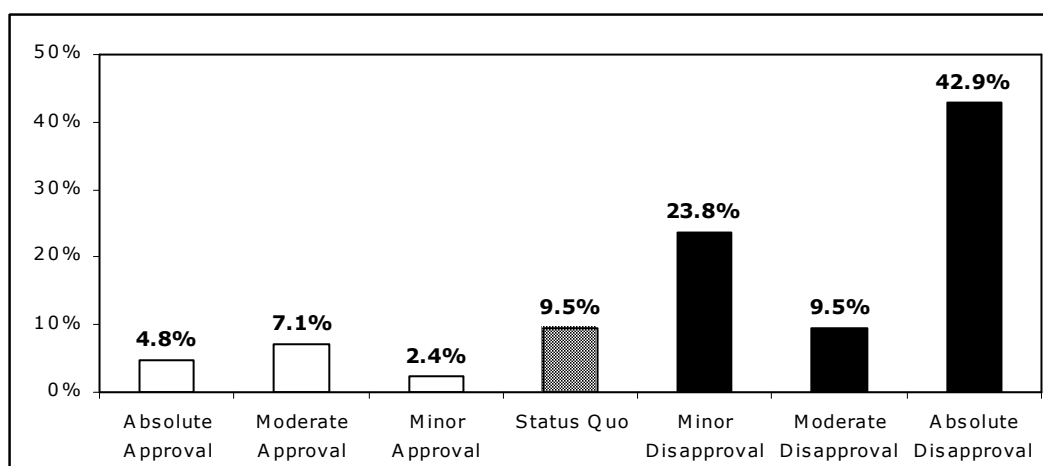
- postponing of the medical facilities transformation will create a space enabling proceeding in the transformation process according to the programme of the new Government – a shift from the creation of joint-stock companies oriented at profit generation, retaining a strong state influence in big hospitals

- a longer time for sanitation of hospitals and optimisation of the health care facilities network
- to help hospitals to better manage their resources in order to help them to settle their debts later when they have money for it
- to retain the availability of health care for citizens as it will not be necessary to cancel the semi-budgetary organisations of the State
- executions could have a negative impact on the economy of hospitals and cause problems also to patients if the involved hospitals were not able to procure medicaments, medical aids and services, or they would have to be closed

Opinions of Opponents:

- slowing down the transformation process of state hospitals to more efficient joint-stock companies and the subsequent possibility to totally turn away from the transformation
- introduction of inequality into business in the health care sector – private health care facilities do not have legal protection against executions – anti-constitutional
- the Amendment violates the principle of equality, is discriminating and retroactive and it violates the right for the same legal protection of property, the right for the same access to judicial protection and it is also out of accord with the principle of legal security
- re-implementation of soft budget constraints supports the growth of debts in state medical facilities
- support of inefficient hospitals – executions endangered hospitals that still did not get their economy under control and they report losses from normal operation
- executions would not have been en masse – the interest of suppliers is not to liquidate the hospitals but to trade with them – solving the debt of hospitals can be managed individually with creditors, e.g. in the form of payment calendars
- executions were allowed in the past and they had no negative impact on patients

Evaluation of the HESO Experts' Committee:



Radoslav Procházka: "The measure implements the unequal level of the property right protection dependent on the legal form of the owner out of accord with the Constitution."

Eduard Žitňanský: "An inappropriate protection of a group of subjects that violates the environment and creates conditions for a moral hazard in health care."

Juraj Nemeč: "I definitely disagree, hospitals and other medical facilities are enterprises in my opinion, the health care specifics have to be solved somewhere else but not by setting soft barriers which only opened the issue of indebtedness again."

Richard Ďurana: "Protection against executions is not a systemic solution for the indebtedness of hospitals."

Milan Velecký: "I disagree with the accepted measure although I recognise that it was a certain solution in the given situation. The wave of executions increased the indebtedness of health care facilities and it would have made the whole system of public health insurance more expensive. This is only postponing the problem's resolution."

Miroslav Siváček: "Prolonging the deadline alone does not have to be a bad decision. But in terms of the current health policy it can mean total cancellation of bankruptcies because where there is no market the bankruptcies lose their basic justification – to clean the market."

Jozef Orgonáš: "Non-systemic. It is not possible to bring socialistic attributes into business activity. It will ruin this activity."

Ladislav Balko: "The measure should help to prevent rash and quick transformations like "wild privatisation". We have already survived enough "shock" treatments in various areas in Slovakia."

We should proceed in a more responsible and deliberate way in the area of health care. For example Bratislava is an example of the irresponsible speed in health care transformation where the renewed treatment facilities existing for decades with their basements laid during the first Czechoslovak Republic (hospitals at Zochova Street, orthopaedic clinics at Hlboká St., maternity hospital at Šulekova St., etc.) and even those not-liquidated during socialism were liquidated quickly and doubtfully. Optimisation of the medical facilities network is a different thing. But the question follows: Is it possible for most of the village and old population to travel to a health care facility tens of kilometres with their low incomes if they do not have cars, buses usually travel only during working hours and during Saturdays, Sundays and nights almost nothing. So the wider complex of issues should be solved besides optimisation of the facilities network."

Jaroslav Vokoun: *"The activity of the Penta company and Co. The previous Government had a long time to solve the health care issues. The result is evident. We will not lose money if somebody shows us how to do it better."*

23. Allowing the Government to withdraw the Chairman of the Health Care Surveillance Authority for any reason (Amendment to the Act on Health Insurance Companies and Supervision of Health Care)

Primary Source: Amendment No. 12/2007 Coll. to the Act No. 581/2004 Coll. on Health Insurance Companies and Supervision of Health Care

Status of the Measure in the Legislative Process: approved on 12.12.2006 by the National Council of the Slovak Republic in the 3rd reading; effective from: 15.1.2007

Submitter: Members of Parliament – Mr Jozef Valocký and Mr Ján Zvonár (both Smer-SD)

Intention of the Measure: to allow the Slovak Government to withdraw the Chairman of the Health Care Surveillance Authority (ÚDZS) also because of other reasons than stated explicitly in the Act

Contents of the Measure:

- to allow the Government of the Slovak Republic to withdraw the Chairman of the Health Care Surveillance Authority because of any reason on the basis of the proposal of the Minister of Health – so far this was only possible because of the exactly stated reasons (conviction of a premeditated criminal act, deprivation or restriction of legal capacity, conflict of interests) when the Government had to withdraw the Chairman of the ÚDZS
- 9 days after the efficiency of the Amendment the Chairman of the ÚDZS Mr Ján Gajdoš was withdrawn by the Government and Mr Richard Demovič (a member of the Smer-SD political party) was appointed to his position; he had previously worked as a Director of the Division of Surveillance over the Health Care Purchase at the ÚDZS

Opinions of Proponents:

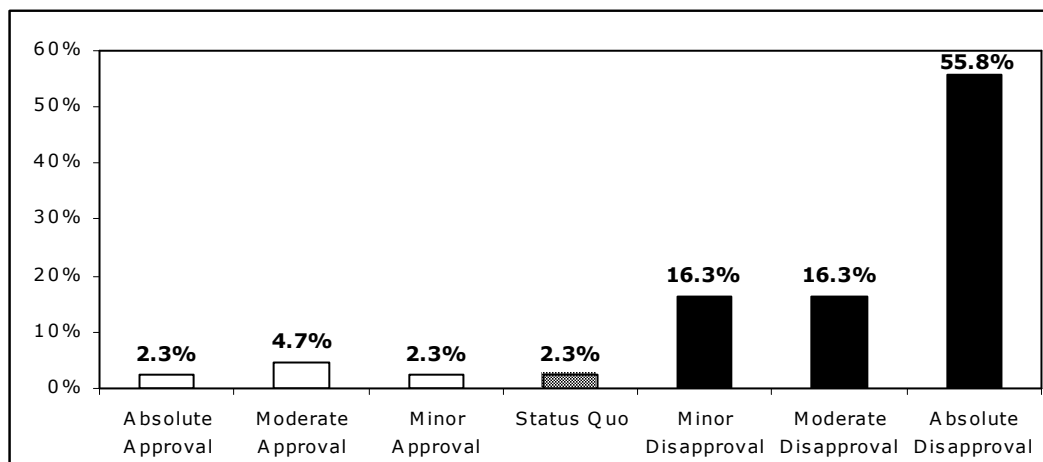
- several reasons can appear in real life that can not be expected in advance and therefore the ability to withdraw the Chairman of the ÚDZS also because of other reasons than exactly defined in the Act is positive
- the Government should have the possibility to decide on the withdrawal of the Chairman of the Authority – the responsibility of the Government for the health condition of the population, for the health policy, for the activities and economy of the ÚDZS, etc.
- a more flexible approach to the changing of management employees after the change of the government garniture as the management should be identified with the programme of a new Government

Opinions of Opponents:

- a purposeful, purely politically motivated measure - a tool for political and power control over the Authority – exchange of the inconvenient Chairman nominated by the former Government for a nominee with the right political affiliation (Smer-SD)
- the loss of independence and therefore functionality of the ÚDZS – the only independent control and regulation office in health care so far which means a disadvantage for patients as well as for health care employees
- a weak position of the Chairman of the ÚDZS after the Amendment – he/she can be withdrawn by the Government at anytime without the need to fulfil some of the reasons stated in the Act – therefore the new Chairman will have to be more careful (uncritical) in his statements against state medical facilities and health insurance companies
- the Authority can be politically abused against inconvenient health care providers – removal of licences
- beginning of the end of the Authority – it de facto becomes a detached office of the Ministry of Health of the SR

- a possible retroactivity of the Amendment and its anti-constitutional character - J. Gajdoš was withdrawn on the basis of rules that were changed during his functional period

Evaluation of the HESO Experts' Committee:



Radoslav Štefančík: "It is a tragedy if the Government violates the independence of such an institution as the Health Care Surveillance Authority (ÚDZS). The former Chairman led the Authority well and there was no reason to withdraw him. I assess negatively the fact that the Government changes the legislation with the aim to increase its political influence on offices that should be independent of the Government."

Juraj Nemeč: "The establishment of an "independent authority" was a positive effect of the reform that was clearly reflected in the number of complaints and especially of legitimate complaints. The quality of provided health care services is low and this problem has to be solved. But the procedure of the Government evokes the risk that the problems will be covered again in order not to violate the "image" of the new Government. This is the Authority for citizens not for the Government."

Vladimír Benč: "The loss of independence, political influence on the Authority, and decrease in competencies – I think that this is a clear step backwards."

Miroslav Siváček: "Violation of the principle of the ÚDZS's operation. The Authority will stop being the support for citizens and it will become a tool of the State against inconvenient health care providers."

Adrián Ďurček: "Nobody should be allowed to withdraw anybody without a reason. If we would act this way towards our employees what would the coalition members of parliament and trade unions say? This is the Labour Code – what needs to be changed?"

František Okruhlica: "In reality the workplace overruled by the Ministry."

František Chovanec: "A centralistic measure out of accord with the need for depoliticising of specialised departments of public administration."

Eduard Žitňanský: "This is a form of independence a lá Smer party."

Jozef Orgonáš: "Nonsense, the Authority will be dependent."

Milan Velecký: "The position of the Chairman of the ÚDZS was staffed also by the previous Government and on the basis of political criteria (especially Mrs Novotná)."

24. Cancellation of some lump sum fees for services related to the provision of health care (cancelled SKK 20 for a visit to the outpatient department and SKK 50 per day for a stay in hospital; decreased fee for a drug prescription (from SKK 20 to SKK 5); fees for a visit to the emergency room, spas and for health transport retained)

Primary Sources: Amendments a) No. 485/2006 Coll., b) No. 539/2006 Coll. of the Resolution of the Government of the SR on the amount of payment of the insured person for services related to the provision of health care

Status of the Measure in the Legislative Process: approved on a) 04.08.2006, b) 20.09.2006 by the Government of the Slovak Republic; effective from: a) 01.09.2006, b) 01.10.2006

Submitter: Ministry of Health of the Slovak Republic (MZ SR)

Intention of the Measure: to decrease the financial burden of persons being provided with health care; to ensure that the insured persons do not pay fees for services related to the provision of ambulance health care and hospital health care; to decrease the payment for the prescription of drugs, dietetic foodstuffs and medical aids

Contents of the Measure:

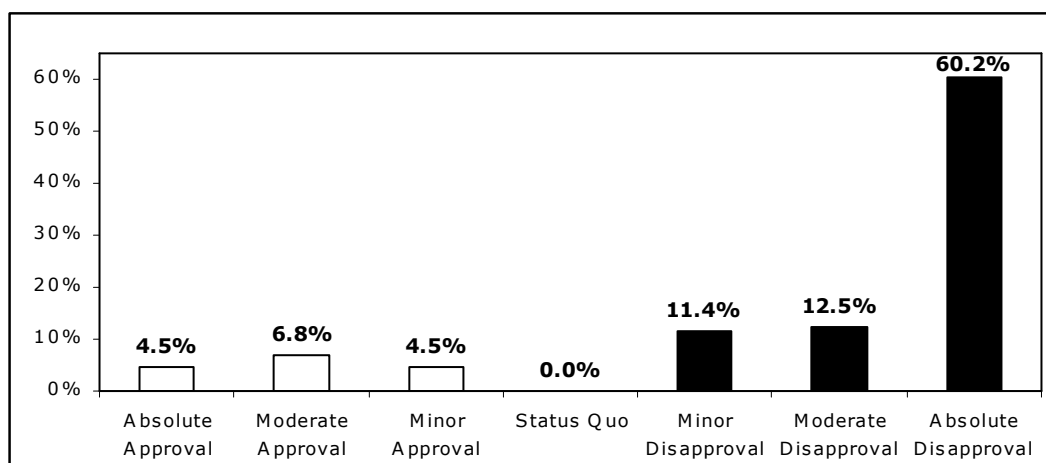
- the lump sum fees (introduced in 2003) in the amount of SKK 20 for a visit at outpatient departments and SKK 50 per day of hospitalisation in the hospital were cancelled from September 2006
- the fee for the processing of a prescription was decreased for all patients from SKK 20 to SKK 5 from October 2006
- the other fees remained the same - SKK 60 for a visit at emergency service departments, for a stay in spas indicated by the doctor (SKK 50/day for diagnoses of the A type, SKK 150/day or SKK 220/day for diagnoses of the B type) and SKK 2/km for the ambulance transportation service (except emergency service)
- the state compensation for the outage of fees for doctors (by an increase in capitation payments or monthly volumes (limits) of health care) and to hospitals by funding through health insurance companies
- approximately SKK 2.5bn a year was collected from the lump sum fees
- the estimate of the MZ SR of the impact on the public administration budget – approx. SKK 1.14bn a year (the estimate of the Health Policy Institute on how much the cancelled fees would have brought to the health care sector – more than SKK 2bn a year)

Opinions of Proponents:

- there will be a decrease in the financial burden of patients – the fees meant an abnormal financial burden especially for the long-term sick and socially weaker people
- many doctors will not lose on the cancellation of the fees as they will get more money through compensation from the health insurance companies than they would earn on SKK 20 fees from patients
- the bureaucratic burden connected to the administration of fees will be removed

Opinions of Opponents:

- the fees helped to decrease the excessive demand in the health care sector and in this way to solve the inconsistency between limited public resources for funding of health care and unlimited demand of people for health care
- cancellation of the fees strengthens the illusion of free-of-charge health care and this way it contributes to the increase in consumption and debt
- the relatively low fees had a symbolic meaning and they did not endanger the social situation of most citizens – therefore the Government should have kept them and helped the socially weakest people to cope with them; instead of this, the State compensates the outage of fees through the health insurance companies for doctors and hospitals by higher payments
- Slovakia has a very low share of private resources or patients' co-payments in the health care sector compared to developed countries while this status gets even worse by cancellation of patients' fees and State compensation of this outage for doctors
- the marginal regulation fees managed to slow down the demand – the number of visits (especially unnecessary ones) to outpatient departments and hospitals was decreased; after cancellation of the fees experience records the increased number of outpatients' visits also with slight problems as well as an increase in the volume of prescribed drugs
- some specialists lost a significant part of their incomes and they wanted to continue with the collection of the fees
- some payments were kept unchanged – non-systemic

Evaluation of the HESO Experts' Committee:

Milan Velecký: "Note: It was no cancellation but a decrease to SKK 0 (this is important from the point of rectification of this measure). A very wrong decision. There has to be a partial financial participation of a patient (co-payment) – a decrease in over-consumption and provision of health care, additional financial sources for health care facilities, patient's motivation to cooperate by treatment (to keep the treatment regime, prevention, vaccination, etc.). It was only necessary to solve the deficits of the previous model – the maximum limitation of the fee for chronically sick patients, cancellation of the fees for children, etc."

Ján Pokrivčák: "The fees helped to spend the resources in health care more efficiently. They allowed utilisation of limited resources where they were needed the most – for treatment of serious diseases. Cancellation of the fees therefore leads to higher expenses for treatment of less serious diseases and less money will go for treatment of serious diseases."

Radoslav Štefančík: "The introduction of the fees had a positive impact in the form of a decrease in total expenses of citizens for medicines. The social-democratic Government now flatly provides the benefits also for richer people by its decision."

Vladimír Benč: "I think that the fees were the step forward and now we have made a step backwards. Currently I can see neither a closer nor more distant future of Slovak health care in pink colours. And the new Government has not come up with anything positive so far."

Miroslav Siváček: "A useless political gesture that helped the health care sector to get rid of quite large resources. Additionally, payment of fees was targeted by payment as well as by utilisation of resources."

Eduard Žitňanský: "A populist step that removed revenues from the health care sector and brought nothing regarding the availability and quality of the health care."

Luboš Vagač: "A useless populist measure that evidently increased indebtedness in the sector."

Jozef Orgonáš: "A non-systemic measure, restriction of funds flowing into the health care sector which is not underfed but is simply not able to manage with the existing resources (more than SKK 100bn). Additionally the number of unnecessary visits to outpatient departments has grown."

Adrián Ďurček: "A useless intervention into well-operating and necessary financial relations fulfilling several aims."

Juraj Nemeč: "In principle a non-systemic step, the fees are implemented in each functional developed health care system and they have their immanent sense."

František Chovanec: "A non-systemic and ideologically motivated measure that eliminated the positive effect of one of a few rational measures within the health care sector since November 1989."

Richard Ďurana: "Fees should have been replaced by the introduction of payments for non-priority diagnoses."

Jaroslav Vokoun: "I think that we should point out the bigger problems in health care. This looks to me as a reflector of young during the era of socialism. We will criticise unwatered flowers, not-adjusted wall-paper and the company goes into the bankruptcy. But then we would have to speak about everything that lies beneath the surface."

Ladislav Balko: "This removed the "pseudo-market principle" in the health care sector. The arguments for introduction of fees in the effort to decrease the excessive demand in health care were illusory. As if the people visited doctors only for fun and not when they feel the health need. Let's look at the worn especially older people in the country who need medical care. It was abusive

to see a doctor after examination – allegorically said – unbending his/her hand to catch the SKK 20. Society should rather take care of the fact that the health condition of the population was at such a level that they did not have to visit the doctor because of "small things" as alleged by the advocates of cancelled fees."

25. The Programme Declaration of the Slovak Government (for the 2006 – 2010 period)

Primary Source: Programme Declaration of the Government of the Slovak Republic

Status of the Measure in the Legislative Process: approved on 31.7.2006 by the Government of the SR and on 4.8.2006 by the National Council of the SR; effective from: 4.8.2006

Submitter: Slovak Prime Minister Mr Robert Fico (Smer-SD)

Intention of the Measure: the Government is, according to the Constitution of the Slovak Republic, obliged within 30 days after its appointment to stand before the National Council of the SR, to submit its programme and to ask it for a statement on confidence; the resolution to fulfil the Government Programme was approved by all three coalition partners

Contents of the Measure:

- *the Government of the Slovak Republic resolved to fulfil e.g. the following points of its Programme:*
- to create conditions for economic growth of above 5% of GDP a year
- to fulfil the criteria for Euro adoption in 2009
- to elaborate the complex Development Strategy of the Slovak Republic for the Mid-Term and Long-Term Horizon
- to stop the privatisation of strategic enterprises and enterprises with the capital participation of the State
- to support partial indemnification of the aggrieved clients of non-banking subjects
- to introduce a lowered VAT rate for a selected range of goods and services
- to increase the taxation of natural entities with above-average incomes
- to increase the level of solidarity in the tax system especially by a gradual increase of the standard personal tax-free allowance and by eventual adjustment of the child tax bonus amount – a decrease in the tax burden for low and medium income groups
- to introduce the gift tax for third persons
- in relation to monopolies, to solve the deformation of the market or misuse of their dominant position in a systematic way with the focus on strict regulation of conditions for their operation; in case that these measures fail - a selective taxation approach to these subjects
- to ensure the equality of domestic and foreign investors by a new Act on Investment Incentives
- to support the development of industrial parks and industrial zones as a tool for regional development and a decrease in disparities among individual regions
- to support the establishment of integrated servicing business centres connecting the contact of the general and specialised public administration with entrepreneurs in one place with the stress on electronic communication
- to prepare the Strategy of Energy Safety of the SR with the outlook to 2030 ensuring the self-sufficiency of the SR by electricity production and reliable supplies of heat and other energy carriers
- to support the construction and operation of new sources for electricity production including the finishing of the 3rd and 4th blocks of the Mochovce Power Plant
- to create conditions for the construction and putting into operation of 100 kilometres of highways and high-speed roads before 2010; to speed up the finishing of the highway parts Považská Bystrica – Žilina and Svrčinovec – Poland 's border and to put into operation the whole high-speed communication Trnava - Banská Bystrica and to ensure the preparation of the part of the D1 highway up to Košice before 2010
- to introduce payments for a selected road infrastructure in the form of electronic collection of the road-toll
- to utilise financial funds and tools of the EU Common Agriculture Policy and national tools
- to increase the level of accommodation funding in the form of a mortgage bonus and to continue in support of building savings with the aim to improve access to accommodation especially for young families; to create conditions for the construction of lower rent flats – so called starting flats for young families
- to amend the Labour Code with the aim to ensure the increased protection of employees; to make the definition of dependent work more precise, to increase employees' protection against groundless firing, to eliminate cases of misuse of temporary employment, to set the maximum weekly working time including overtime

- to renew the institute of the agreement on work activities and to increase the annual extent of activities performed on the basis of the work performance agreement
- to strengthen the position of trade unions within the employees participation mechanism in the enterprise and in the tripartite social dialogue
- to increase the minimum wage gradually
- to ensure the income for pensioners at least at the level of the subsistence minimum
- to provide pensioners with the Christmas contribution dependent on the amount of pensions and possibilities of the State Budget
- to ensure a more solidary pension system and financial stability of the pay-as-you-go pension scheme but not by prolonging retirement age
- to preserve the retirement pension insurance as a part of the pension scheme based on the capitalisation principle and desert principle and to implement the element of voluntariness into the II. (fully funded) pillar
- to consider the payment of social contributions from dividends and profit shares
- to introduce an extra payment to the child birth allowance (for the birth of the first child) and to ensure the interim valorisation of the child birth allowance and the allowance for parents who have 3 or more children born at the same time; gradual increase in parental allowance
- to cancel some fees in health care in 2006 (lump sum payments of SKK 20 or SKK 50 for services related to the provision of health care) and to ensure compensation for health care providers
- to enforce the renewal of regionalisation by paediatrics, general practitioners, gynaecologists and dentists while preserving the free choice of a health care provider for citizens
- to cancel the current form of the annual settlement of health insurance premium payments
- to restructure the medical facilities network with the focus on the transfer of activities into the ambulance sphere
- to restore a public service character of the General Health Insurance Company and Common Health Insurance Company
- to enforce such a legal environment where all health insurance companies will be equal regardless of their legal form; to accept all ownership forms of the health care facilities
- to support the creation of conditions for transparent competition of the health care providers
- to enforce the fact that the amount of costs dedicated for the operation of health insurance companies will be restricted by law in 2007 to the level of a maximum 4% of the collection of compulsory health insurance premiums
- to support multi-source funding of the health care sector
- to consider the possibility of tax-preferred payments for voluntary health insurance
- to increase resources for health care in 2007 in the form of increased payments for so-called state insured persons from 4% to 5% of the average salary
- to implement multi-source funding in the school system with the aim of the gradual achievement of the level of 5% of GDP
- to increase the average salary in the education system gradually to the level of the average salary in the national economy
- to prepare the content reform of the elementary and secondary systems of education
- not to introduce tuition fees for regular university students
- to gradually achieve the level of funding for science and technology of 0.8% of GDP
- to implement a decrease in court charges where it will be efficient
- to reevaluate the reform of the organisational structure of courts including the validity of cancellation of some district courts
- to increase the number of judges for the necessary period in order to improve law enforcement and fluency of judicial proceedings
- to realise a detailed analysis of activities and to evaluate the activities of special legal tools (note: e.g. "the Agent Provocateur") and institutions (note: e.g. the Special Court) in the fight against the most serious economic criminality and corruption especially from the point of financial and material costs, work load, efficiency and justness
- to withdraw the Slovak army from Iraq
- to guarantee the internet access of citizens to all information originated in the public administration and accessible to the public on the basis of the law
- to rationalise public administration expenses and to monitor their efficient allocation
- not to increase the number of state administration bodies

Opinions of Proponents:

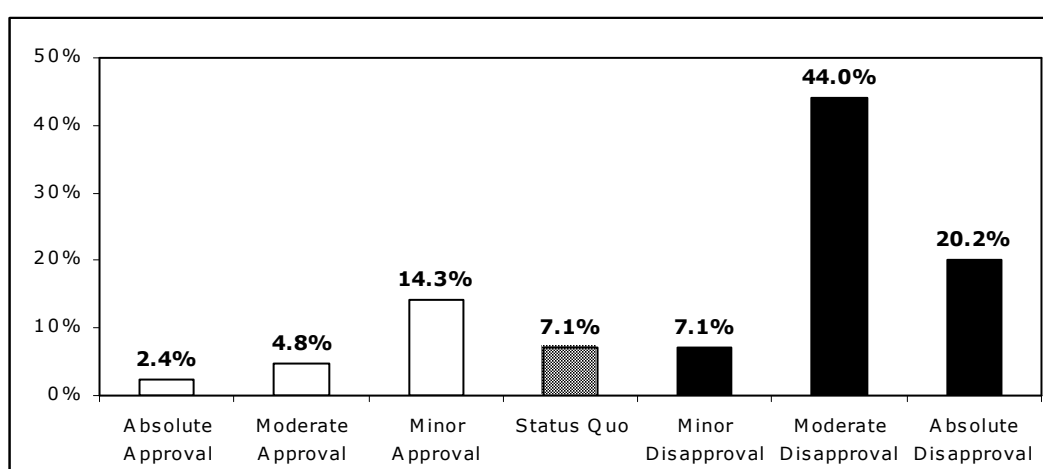
- the focus is laid on the social aspect of the Government Programme and higher level of solidarity in favour of people with lower incomes
- the Programme Declaration of the Government strives for continuity with the previous Government where it is rational and it does not significantly change either the reforms or the direction of the State while it tries to accentuate especially the social focus of the economic policy

- the Government declared in the Programme Declaration that it will meet the criteria for Euro adoption within the planned deadline (on 1.1.2009) which is very important and it can guarantee that the Government will behave responsibly towards its finance

Opinions of Opponents:

- a general, anti-reform, not feasible and in reality false social Programme Declaration
- many systematic changes were outlined but not specified in detail
- the scepticism of this government garniture towards market mechanism and human freedom was visible within the Programme Declaration
- strengthening of the social function of the State and increased level of State's intervention into the economy and society will be reflected in the increase of overall inefficiency
- the internal inconsistency regarding the fact that on the one side the Government Programme endorses responsible budgetary policy but on the other it contains many provisions increasing public expenses
- 5 Members of Parliament from the government coalition parties were not presented at the voting on the Programme Declaration, i.e. on expressing their confidence in the Government; Mr Vladimír Mečiar, the Chairman of the governing ĽS-HZDS party, belonged to this group that can signalise the instability of the Government in the future

Evaluation of the HESO Experts' Committee:



Anonymous comment*: "The Programme Declaration of the Government signalises the return to a corporatist model of the economic policy when the economic policy in reality follows the interests of various groups representing partial interests under the umbrella of social solidarity and "politics in favour of people". The document also does not take into consideration modern trends in the creation of public policy; any original idea resulting from modern knowledge of social sciences is missing. The policy in the sense given in the Programme Declaration may create an impression of higher solidarity but the chance of a real shift is questionable. In any case this shift would be probably accompanied by excessive unfavourable impacts on the efficiency of economic operations."

Eugen Jurzyca: "The Programme Declaration contains good obligations of the Government but also many that prove its lack of knowledge on reality (effort to increase the number of judges while our country has one of the highest number of judges per 1000 inhabitants according to the World Bank), on overestimation of its own capacities (the obligation to make all information arising in the public administration accessible to citizens), on reserves in modern economic thinking (to ensure the self-sufficiency of Slovakia by electricity production), as well as the idea about ideological fundamentalism (to elaborate a complex Development Strategy of Slovakia for the Mid and Long-Term Horizons)."

Vladimír Benč: "Unfortunately there are more negatives than positives in the Programme Declaration. I assess the obligation to introduce the Euro in 2009 and some measures related to the labour market as well as not increasing the number of state administration bodies to be positive. I also agree with the reform of the school system and increase in the support for science and research but I am curious how the Government will do this and if it really starts to do something in these areas. I consider the effort to change the tax system, pension system, to strengthen the position of trade unions and also many proposed changes in the Labour Code to be the biggest negatives. I consider the proposals for measures in health care as well as many other

*The respondent did not want to be named.

intentions such as to indemnify the aggrieved clients of non-banking subjects or the change in the direction of foreign policy to be non-systemic and harmful."

Luboš Vagač: "I will just select some concrete points because of that I assess the Programme Declaration to be more negative:

- Amendment to the Labour Code with the aim to increase the protection of an employee but in the proposed form it leads to lower willingness to employ and to a higher unemployment rate (confirmed by specialised studies of the OECD and European Commission).
- To increase the taxation of persons with a higher income – unfair solidarity because people with higher incomes already spend more money as their higher income is taxed at the same rate.
- Proposed "anti-market" changes in the pension system and health care sector.
- Deformation of the regulatory policy in the area of energy industry."

Radoslav Štefančík: "It is difficult to assess the Programme Declaration of the Slovak Government after one year as the Government declared its willingness to change the executing status in some cases but finally it did not find sufficient courage or it did not realise some points (e.g. change of the pension system). But it is not possible to strongly criticise it for that as the Programme Declaration is for 4 years not for just 1 year. In some cases there were just cosmetic changes (e.g. the tax policy). But in general I assess the Programme Declaration as socially focused aiming to decrease citizens' motivation to solve their everyday problems and to increase their dependency on the State. I assess negatively the fact that the Government declared its preparedness to save on the things where other democratic societies do not look at the financing. It is e.g. the intention of the Government to reevaluate the existence of the Special Court because of financial reasons."

Ján Pokrivčák: "The Programme Declaration of the Government is about redistribution from the economic point of view and not on the growth in the economy's productivity. Implementation of the Programme Declaration of the Government decreases the economic growth of Slovakia by some percent. Economic growth and not redistribution helps poor people all around the world. The social policy can be realised better by investments into education, infrastructure, enhancing of the conditions for doing business and employment, support for an inflow of foreign direct investments and eventual improvement of the operation of the legal system."

Miroslav Siváček: "The biggest positive of the Programme Declaration is the fact that it is not as bad as it looked and Mr Fico betrayed its own pre-election rhetoric. The Programme Declaration is an inconsistent, uncoordinated cluster of information and it is not clear where it is aiming. But unfortunately, the development of the market, freedom of an individual, support for business, increase in law enforcement, introduction of market principles into the health care, education and social sectors will not happen."

František Chovanec: "A generally formulated document without any mid-term vision that should be incorporated in each programme declaration of each government. Widely drafted formulations of individual intentions look like providing the political space for avoiding conflict situations during the government period in advance. But I definitely can not disagree with the label that it is the Programme Declaration of the "socially oriented Government"."

Jozef Orgonáš: "Vague, neutrally formulated so that it was possible to avoid or at least partially not-fulfil."

Adrián Ďurček: "Few concrete, clear and measurable aims."

Eduard Žitňanský: "Little of concept, many nice and non-sense poses."

František Okruhlica: "I identify myself with the arguments of opponents that the continuity of the reform is being violated."

Juraj Nemeč: "The Programme Declaration is one thing, reality is another. Development has already shown this. There are both positive and disputable moments and their evaluation is a matter of opinion."

Richard Ďurana: "I consider the concrete realised steps of the Government to be more important than the very declarations."

Ladislav Balko: "It has come after a hard 16 years of searching the face of Slovakia especially in the economic area when only a narrow group of the Slovak population benefited from processes called reforms. The majority of people became the hostages and objects of various trial measures of naive or too strong-minded experimenters (the paralysis of the Slovak economy at first as a result of the "free and liberty-thinking "Havel" quasi human reorientation of the Slovak economy from prosperous manufacturing to controversial rambling, then the experiment of wild privatisation focused on the creation of the Slovak capital-generating layer through the theft of the values created for decades, then the racing and thoughtless scramble for investments also at the expense of inappropriate incentives etc.) and most of the population started the journey of apathy and submission to destiny, to people currently in the Government. People started to be exposed to existence problems and resignation under the umbrella of the idea "do anything you want with us". It is only a political-economic-sociological regularity that people were fascinated by the idea of

managing public issues in a more social way. The Programme of the Government has become such a "manifest". Despite the critics of the inconsistency of social resolutions with pro-growth needs and requirements of the ambitions to enter the Eurozone, the fulfilment of the accepted intentions is real. Slovak opponents in fear of long-term loss of their power ambitions forget to notice that the Programme Declaration is based on the fact that the Government will closely coordinate its policies in the area of economy, finance, tax budget, subsidies, prices, investments support and in other economic areas as well as the structure and volume of public revenues and expenditures with the monetary policy of the independent National Bank of Slovakia with the aim of Euro adoption on January 1st, 2009. By questioning the fulfilment of the government intentions there are less arguments related to the intention to rationalise the expenditures in the public administration and to monitor their efficient allocation by consistent implementation of the multi-annual programme budgeting connected to more efficient and better utilisation of the EU funds; strict following of the rules by utilisation of public resources and their consistent control and evaluation of efficiency of their utilisation where the Government has already made real measures (decrease of number of employees in public administration, cancellation of state Regional Offices,...). The Programme Declaration only reflects a natural development of Slovak society and people want to try also another treatment compared to the hard right-wing and liberal reformism. And this regularity cannot avoid Slovakia."

Jaroslav Vokoun: *"The previous Government turned the steering wheel to the right, now everything is turned to the left. The positives prevail in the Government Programme and if they will be realised they will move Slovak society forward. And they have the same right to make mistakes as the previous Government."*

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