INEKO
Institute for Economic and Social Reforms

Dušan Zachar (Ed.)

REFORMS IN SLOVAKIA 2004 – 2005

Evaluation of Economic and Social Measures

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HESO PROJECT
-
EVALUATION OF ECONOMIC AND SOCIAL MEASURES

January 2004 – March 2005

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Bratislava
July 2005

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

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(Register contains names of all experts who have participated in minimum one quarterly evaluation in 1/2004 – 1/2005.)

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Project Manager

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Project Coordinator and Editor of the Publication

CONTENTS

Introduction

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

With this in mind, INEKO has launched the HESO (Evaluation of Economic and Social Measures) Project, which creates a platform, where reputable economists, analysts, journalists, academics, people from business community, representatives of trade unions, employers´ associations and NGOs express their opinions on quality and importance of different proposed and passed economic and social measures of legislature, executive power as well as on decisions of public institutions in the Slovak Republic and in the European Union. Without the necessity of studying a number of details, Slovak citizens have thus an opportunity to acquire a reliable overview of what economic and social measures and reforms are being prepared and put into practise and what opinion in their respect has been adopted by renowned experts. From the beginning of the HESO Project in April 2000 to the end of 2003, many specialists expressed their views upon 381 measures on quarterly basis. In the period of 1Q 2004 – 1Q 2005, which is subject of this publication, 75 experts *(see pages 6 and 7)* evaluated 115 various economic and social measures.

From their standpoints, we can read out, which measures significantly contributed and still contribute to the social and economic development of Slovakia, and which just hindered and hinder this process. Hence, a citizen can make better decisions in a more convenient way, on which reform activities he/she wants or does not want to support. The ambition and the major objective of the HESO Project is not to provide a comprehensive and detailed monitoring of the development in individual areas of our society, nor is it the provision of starting points for the action of competent authorities, but we aim at regularly providing our citizens with an opinion of professional community on often discussed, important, innovative, or unprecedented measures of economic or social character affecting the quality of their lives. And thus we create better preconditions for political acceptance of structural measures - reforms - bringing forth systemic changes in the Slovak economy and society.

The publication you are holding in your hands maps the results of the HESO Project during the period of January 2004 to March 2005. It follows three previous HESO publications, which covered results from the beginning of the project in April 2000. In the "REFORMS IN SLOVAKIA 2004 – 2005" publication you can find description and evaluation of selected important and/or interesting economic and social measures/reforms of the monitored period of time. Due to the Slovakia´s accession to the European Union on May 1, 2004, a separate chapter has been included, where most important measures of EU bodies are evaluated *(see pages 109-120)*.

HESO publications, quarterly results and additional information about the HESO Project may be found at:
www.ineko.sk/projekt_heso.htm *(in Slovak)* or at
www.ineko.sk/english/project_heso.htm *(in English)*.

Methodology

Selecting Measures to Evaluate

Four times a year a list of 20-30 measures, which took place during last three months, is prepared. Everyone can suggest through our web page *(www.ineko.sk/projekt_heso.htm)*, which measure he/she wishes to be evaluated. INEKO makes final selection. Emphasis is laid on measures widely discussed in the public as well as on measures, which are, according to INEKO, rare, innovative and/or important for the economic and social development of the country. Evaluated measures include, among others: acts proposed or passed by the Slovak Parliament, measures adopted by the Slovak Government (acts, regulations, privatisation decisions, strategy documents, policies etc.), decisions of public institutions (e.g. of the National Bank of Slovakia, Antimonopoly Office, Telecommunications Office, Financial Market Authority or other market regulators) and directives, regulations and decisions of EU bodies. Characteristics (description) of the selected 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 Experts´ Committee consists of about 40-50 members for one quarter. The experts come from reputable economic newspapers, banks, consulting companies, business community as well as from academic institutions, trade unions, employers´ associations and think tanks *(see the list of all members of the Experts´ Committee on pages 6 and 7)*. 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.

Evaluation Criteria

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

Quality [-3; +3]
Experts evaluate the effect of a selected measure and give it a grade *(see the range below)*. Often, there is a crucial difference between the real effects of a measure and the effects proclaimed by its author or administrator. Therefore, no matter what the measure presents to solve or improve, experts evaluate the impact and the effects they think the measure will bring to life.

Range:

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

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

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

Ratings

Rating of the Measure
To get the rating of the measure, the average quality grade of the measure is multiplied by a coefficient expressing the average value of the measure importance for the society and economy. Thus, the rating values of the evaluated measures come in range [-300; +300]. According to

these rating values all measures are ranked in a chart. Rating of the measure indicates the contribution of the evaluated measure to the economic and social development of the country.

Rating of the Quarter [-300; +300]

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

Summary

In recent years, Slovakia gained the hallmark of a reform country. A great number of distinguished international institutions and foreign media have pronounced Slovakia an "economic tiger" (The New York Times), "investors' paradise" (Forbes magazine), "a model for change" (The Wall Street Journal), "one of the most attractive business climates in the region" (Fitch Ratings), "Europe's fastest reformer" (Newsweek), "the most reform-minded country in the world" (World Bank), from a country that lagged behind in reforms. In most cases, experts commend Slovakia for its tax reform, pension reform, labour market reform and public finance management reform. It is obviously too early to evaluate the complex impact of economic reforms on the quality of life of people in Slovakia, however, it is unquestionable that, over the preceding years, significant changes to the way the economy functions were made. Notwithstanding the outcomes of the assessment of reform effects, it is essential for the society to discuss what facilitated the changes – which most substantial factors allowed the reform of the economy, which is deemed to be praiseworthy by international institutions, in terms of its scope and depth.

Therefore, in November 2004, we conducted a survey, within the HESO Project (Evaluation of Economic and Social Measures), in which we asked the expert public who or what had acted most in favour of adoption of extensive reforms in Slovakia over the preceding years. Participants had a choice of 3 predefined options. **Over 62 per cent** of them expressed the opinion that **results of the 2002 Parliamentary Elections** and **a pro-reform orientation of the small but influential group of people** were the most substantial factors for performance of reform measures. The following were the other ones:

26%-29%	Bad starting point (breeding ground for reforms), Low level of democracy in Slovakia (has allowed reforms´ implementation even without wide public support), Weak political and expert opposition against reforms
14%-18%	Results of the 1998 Parliamentary Elections, Slovakia is a small country (in which reforms´ implementation is relatively easy), Adoption of the clear governmental programme immediately after the 2002 elections, Other *(specified by respondents)*
4%-9%	Pro-reform orientation of the majority of the Slovak society, Good technical preparation of reforms, Media
0%-3%	Foreign investors acting in Slovakia, Domestic business associations, Short history of the country, Quality reform know-how from abroad, Good communication/advocacy of reforms, The coincidence of circumstances, International organisations, Non-profit organisations.

In May 2005 the HESO-Project experts also evaluated following reforms of the current Slovak Government:

Reforms Ranked by RATING Values *(i.e. Contribution to the Economic and Social Development)*	**RATING** *[-300; 300]*	**Quality** *[-3 ; 3]*	**Importance** *%*
Public Finance Stabilisation	**171.5**	2.28	75.1
Tax Reform	**160.4**	2.09	76.9
Labour Market Reform	**122.4**	1.77	69.1
Pension Reform	**120.7**	1.55	77.9
Public Finance Management Reform	**114.4**	1.78	64.2
Social Benefits Reform	**80.9**	1.33	60.7
Public Administration Reform (incl. Fiscal Decentralisation)	**76.2**	1.16	65.7
Health Care Reform	**73.2**	0.99	74.0
Judiciary Reform	**62.7**	0.94	66.5
Changes in Police Force	**40.4**	0.81	49.6
Changes in the Slovak Television (STV)	**26.6**	0.74	36.0
Education Reform	**-6.2**	-0.09	71.4

Note: Rating = Quality x Importance x 100

Source: INEKO

In 2004, the government coalition reached the half-way point of its tenure. Negative consequences of the so-called political cycle, which have been further accentuated by repeated shuffles of deputies from one political party to another and the loss of majority of the government coalition in the Parliament, have taken their toll on the rate of adoption of reform measures too. Despite overall successful enforcement of tax reform, pension reform, labour market reform and public finance consolidation, enforcement of university system reform was not enacted, which inter alia assumed introduction of tuition fees in the year 2004.

Numerous amendments, which have emasculated the original conceptions of health care system reform, were accepted by authors of reform acts related to the health care system as well. A decision on introduction of direct payments for treatment (diagnosis) was left for the next Government. According to a great number of respondents of the HESO Project, this fact is one of the biggest drawbacks of the reform, which has slowed down the entry of new players to the health care market. Unfortunately, the potential to enforce and implement this change as well has not been employed, since in the case of an alternative constellation of the government coalition after the elections in 2006, there is a risk that the health care system reform will take another course. Furthermore, there has been an absence of an alternative conception of direction of the health care system in Slovakia of a comparable complexity and quality in the past, and such conception is not even offered at the present time.

The adoption of concessions in judicial system reform and Act on conflict of interests may be deemed as further examples of forfeit for the loss of the government majority in the Slovak Parliament.

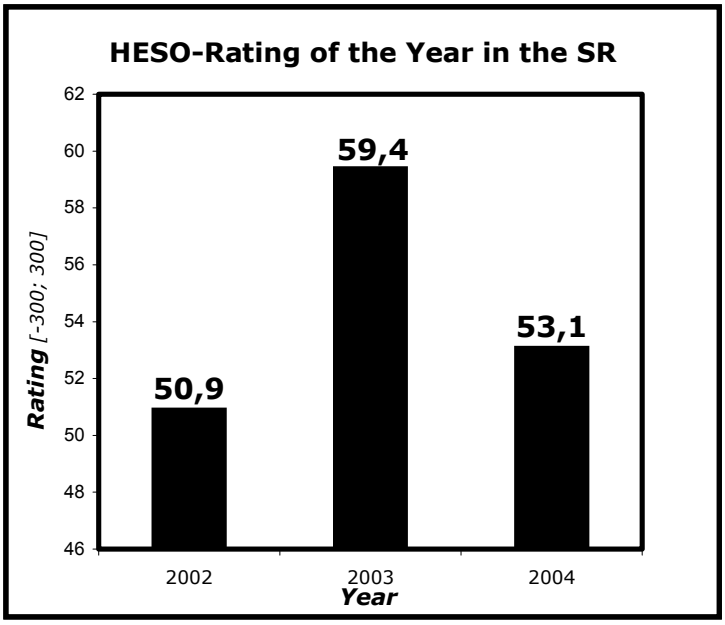
In spite of difficult political conditions with respect to adoption of reform measures, the adoption of acts regulating fiscal decentralisation has been achieved, whereby public administration reform and its decentralisation have been completed. Pension reform has been completed by adoption of the reform of the supplementary voluntary pension saving scheme (3rd pillar). Privatisation of the majority stake (66 per cent of shares) of Slovenské elektrárne (Slovak Electricity Company) to the Italian company Enel has been approved. Improvement of budgetary rules of public administration and bringing public finances in order has been further proceeded with. Over the years, the rating of the approved state budgets within the HESO Project has improved too:

State Budget	**RATING** *[-300; 300]*
2001	**-21.9**
2002	**20.2**
2003	**73.3**
2004	**86.1**
2005	**142.7**

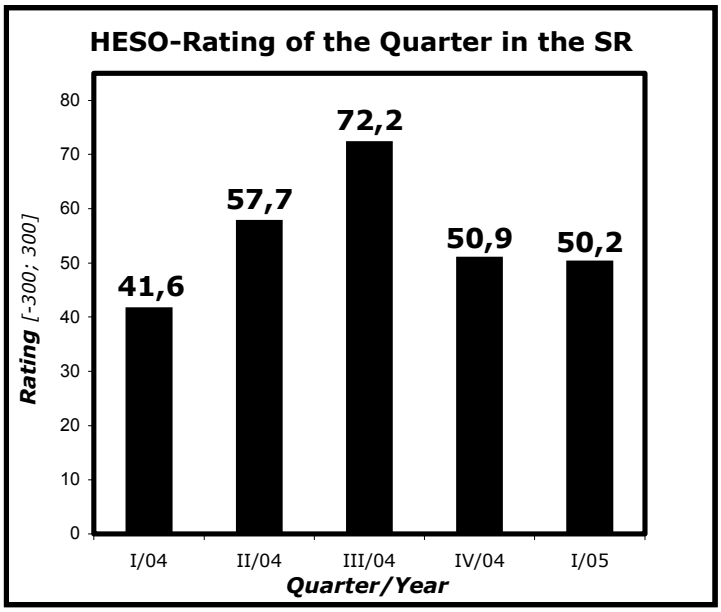
The advantage of reform measures adopted within the first half of the electoral term is that their possible imperfections, which are revealed in the course of their application in practice, may be rectified within the second half. However, on the other hand, stability and transparency of

legislation dwindles with excessively frequent and unpredictable alteration of acts, regulations and directives.

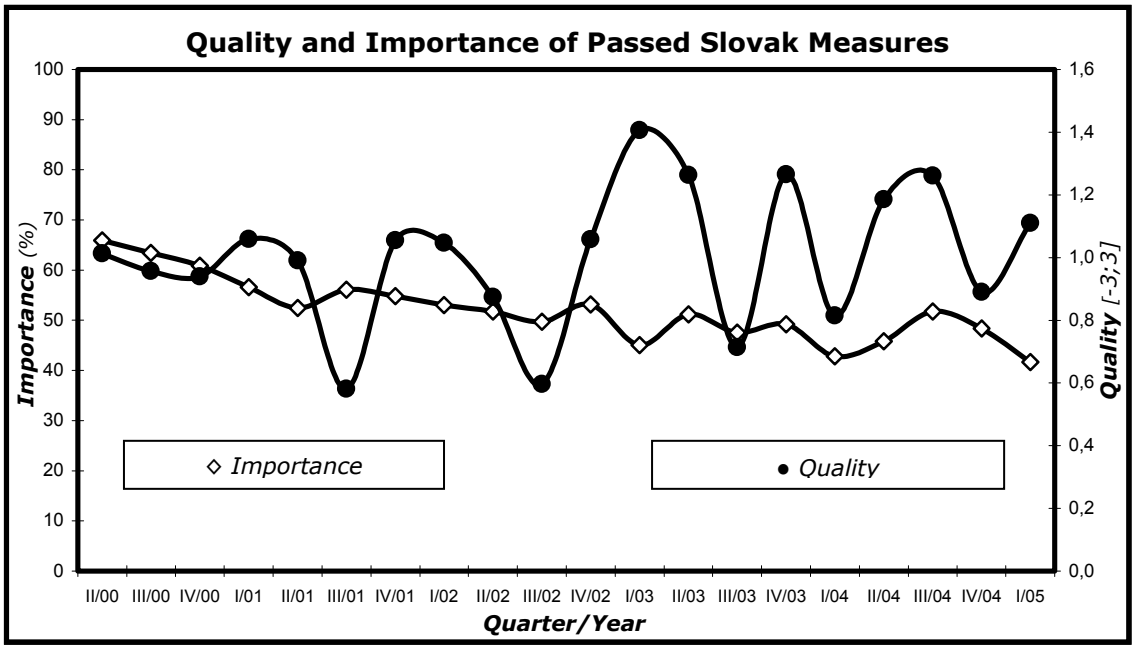
With the upcoming date of parliamentary elections (expected in autumn 2006), it will be much more difficult for ministers to enforce measures that do not yield outcomes "tomorrow" or at least on "the day after tomorrow" and which constitute complex system changes sustainably improving the life of citizens, but at the beginning probably in an unpopular manner. However, it is questionable whether they will even possess such motivation in the pre-election year.



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



In measures being adopted by the Slovak Government, Parliament and other public institutions in the Slovak Republic, a long-time trend of their rising quality (acceptance by experts) and decreasing importance may be tracked:



Note: Parliamentary Elections – September 2002

Draft directives, regulations and decisions of the EU bodies and institutions are, within the HESO Project, distinctive for a significantly lower degree of acceptance (quality) by economic experts than Slovak measures – on average they achieve 60 per cent of the acceptance rate of Slovak measures. Following the evaluation made by respondents, economic and social measures recently adopted *(since 2/2003, when EU measures started to be evaluated within the HESO Project as well)* in the Slovak Republic achieved on average a more than 2.5 times higher rating, and thus made a bigger contribution to socio-economic development of the country, including the quality of life of citizens, than EU regulations.

EVALUATION OF SELECTED MEASURES

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

Economic Policy Strategy

Convergence Programme of the Slovak Republic for the 2004-2010 Period (medium- to long-term economic policy objectives)

Cabinet members approved the Convergence Programme of the Slovak Republic for the 2004 – 2010 period on May 5, 2004. It was elaborated by the Ministry of Finance of the Slovak Republic in cooperation with respective Ministries and the National Bank of Slovakia (NBS). The intention of the Convergence Programme is to bring a distinct outlook on medium- to long-term objectives of economic policy in Slovakia and to provide a trustworthy reflection of how to advance both in real and nominal convergence in comparison to the EU, to determine the assumed time horizon for meeting the Maastricht criteria and to define public finance sustainability terms. The document comprises defined objectives of the government in the horizon up to the year 2010 and an obligation indicating the manner of their achievement.

I. Scope and objectives of economic policy

In accordance with the first point of the Convergence Programme, **achievement of a high and sustainable growth of economy** by the year 2010, and thereby a **faster improvement of living standards**, is the principal objective of economy policy of the Slovak Republic. The aim of fiscal policy is to reduce public finance deficit to 3 per cent of GDP by the year 2006, exclusive of expenditures on the introduction of the second – fully funded – pillar of the pension scheme and a long-term objective to win public finance sustainability by the year 2010. Price stability and also the accession of Slovakia to the Eurozone in the 2008-2009 period, provided that Maastricht criteria are met and maintained, are a crucial objective in the field of monetary and exchange-rate policy. In the sphere of labour market policy, reduction of the structural unemployment rate below the level of 10 per cent by the year 2010 is the objective. An intention to increase productivity inter alia by means of either an appropriate investment climate or by support of entrepreneurship was set out on the product and services market. The primary aim on financial markets is to achieve genuine competition and to create an effective regulatory framework.

II. Economic projections and assumptions

According to the authors of the Convergence Programme, statistical figures that characterise economic development show evidence of a positive tendency of the Slovak economy. The economy of Slovakia is growing at the fastest rate among the Eastern European countries, which is represented by a **GDP growth** rate of the year 2003 at the level of 4.5 per cent (in 2004 – growth at 5.5 per cent of GDP). Rapid growth primarily resulted from higher labour productivity, employment and foreign demand. As the next step, a prediction of development of external economic conditions is an integral part of the Convergence Programme. Boosting of growth, in the case of all key business partners of Slovakia, is expected, whereas an increase of imports by respective countries should consequently result thereby, thus also of exports from Slovakia. A continuity of the boom stage, with prospective growth of the Slovak economy at a rate of 4 to 5 per cent p. a. is expected in the field of real economy development (government forecast for the year 2005 – growth at 4.9 per cent of GDP, whereas GDP growth could culminate moderately above the level of 6 per cent in 2007, following the launch of production in two new automotive factories belonging to French PSA Peugeot and South Korean KIA Motors, according to the Ministry of Finance of the Slovak Republic). It is assumed that the combination of foreign and domestic demand should be the main source of growth in the 2004-2007 period. Within this period, a positive development tendency on the labour market is also expected.

Real GDP Growth ***(change to previous year in %)***

1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005**	*2006**	*2007**	*2008**	*2009**	*2010**
4.2	1.5	2.0	3.8	4.6	4.5	5.5	4.9	5.3	6.1	5.2	5.0	5.0

** Ministry of Finance Forecast*

Source: Statistical Office of the SR, Ministry of Finance of the SR

According to Eurostat data, in 2004, the GDP of Slovakia per inhabitant reached the level of 52 per cent of the EU average, in purchasing power parity:

Country	GDP Index* *(EU25=100)*	Country	GDP Index* *(EU25=100)*
Luxembourg	223	Slovenia	78
Íreland	139	Portugal	73
Denmark	122	Malta	72
Austria	122	Czech Republic	72
Netherlands	120	Hungary	61
Great Britain	119	**Slovakia**	**52**
Belgium	119	Estonia	50
Sweden	116	Lithuania	48
Finland	115	Poland	47
France	111	Latvia	43
Germany	109	Croatia	46
Eurozone countries	*107*	Romania	32
Italy	105	Bulgaria	30
EU25	*100*	Turkey	29
Spain	98	Norway	153
Greece	82	Switzerland	130
Cyprus	82	Iceland	116

** 2004 GDP per capita adjusted for purchasing power parity compared to the EU25 average*
(EU25 member states, EU candidate states, EFTA-member states)

Source: Eurostat

In accordance with the forecast of the National Bank of Slovakia and the Ministry of Finance of the Slovak Republic a gradual reduction of the interannual total **inflation** rate should be realised in the monetary field. Assuming a significant reduction of the influence of administrative interventions in pricing, average inflation could, following the Convergence Programme, reach 4 per cent in 2005 (updated forecast – 3.3 per cent), 2.9 per cent in the year 2006 (2.5 per cent) and 2.5 per cent in the year 2007 (2 per cent). Price development shall be influenced by the adoption of EU Common Agricultural Policy as well. In 2004, inflation reached the rate of 7.5 per cent.

Interest rates should stay at a level close to Eurozone rates, from 5.2 per cent in 2004 up to 5.7 per cent in the year 2007.

The **trade balance** forecast for the 2004 to 2007 period was based primarily on a considerable revival of EU economies. The passive foreign trade balance should, due to an influence of increased imports and foreign investments (construction of automotive factories) in the years 2004 and 2005, increase to the level of 2.7 per cent of GDP in 2005, in comparison to 2 per cent in the year 2004 (in 2004, the passive foreign trade balance finally amounted to SKK 47bn and represented 3.5 per cent of GDP at GDP amounting to SKK 1325.5bn), but in 2006 and 2007 it should fall down to 1.1 to 0.4 per cent of GDP *(the following chart shows data updated as of November 2004)*.

Current Account of Balance of Payments and its Components
(as % of GDP)

	2003	*2004**	*2005**	*2006**	*2007**
Export	*67.2*	*68.2*	*68.4*	*73.4*	*79.5*
Import	*69.1*	*70.9*	*72.0*	*76.5*	*80.0*
Trade Balance	-2.0	-2.7	-3.5	-3.1	-0.5
Balance of Services	0.7	1.0	0.8	0.8	0.7
Income Balance	-0.4	-0.9	-1.0	-1.0	-1.0
Current Transfers	0.8	0.4	1.0	1.2	1.1
Current Account Balance	**-0.9**	**-2.2**	**-2.8**	**-2.1**	**0.3**

** Estimate and Forecast*

Source: Ministry of Finance of the SR, Updated Convergence Programme for the SR covering the period 2004-2010 (November 2004)

Even though the Ministry of Finance did not negotiate the accession of Slovakia to Exchange Rate Mechanism II at the time of adoption of the document, the Convergence Programme reckoned the date of accession of Slovakia in 2005, or 2006 with a consequential accession to the Eurozone from 2008 to 2009 (in early July 2005 the Slovak government approved a National Plan for EUR Introduction in the Slovak Republic, which counts on the accession of Slovakia to Exchange Rate

Mechanism II in the second quarter of 2006 and introduction of EUR from the beginning of the year alongside Poland; the Czech Republic and Hungary intend to switch to EUR in 2010).

Evaluation of fulfilment of Maastricht convergence criteria

Slovakia has not achieved the objective set by the first convergence criteria yet, which determines that **inflation** must not exceed the average inflation rate of the three EU countries with the lowest inflation rate by more than 1.5 percentage points. Within the context of deceleration and a consequential termination of price deregulation in the 2006-2007 period, the objective is feasible, according to the Convergence Programme. Demand-pulls are restrained, and core and net inflation head towards the level as given by the above mentioned criteria (criteria - max. 2.9 per cent in 2002, 2.7 per cent in 2003, 2.2 per cent in 2004). Average interannual inflation reached 3.3 per cent in the Slovak Republic in 2002, whereas net inflation amounted to 2.3 per cent therefrom, excluding any administrative price readjustments and price seasonality of selected foodstuffs, which is a value below the reference level at that time. Actual development of core and net inflation by the present time indicates that meeting the Maastricht criteria in the field of inflation by the year 2007 is a feasible objective.

Average Rate of Inflation* *(change to previous year in %)*

	Reference Value	EST	LAT	LTU	MLT	POL	SVK	SLO	CZE	HUN	CYP
2001		5.6	2.5	1.3	2.5	5.3	**7.2**	8.6	4.5	9.1	2.0
2002		3.6	2.0	0.4	2.6	1.9	**3.5**	7.5	1.4	5.2	2.8
2003		1.4	2.9	-1.1	1.9	0.7	**8.5**	5.7	-0.1	4.7	4.0
2004	**2.2%**	3.0	6.2	1.1	2.7	3.6	**7.4**	3.6	2.6	6.8	1.9
Fulfilment of the Criterion:		*NO*	*NO*	*YES*	*NO*	*NO*	***NO***	*NO*	*NO*	*NO*	*YES*

** according to the Harmonised Consumer Price Index*

Source: Eurostat, Statistics Austria

Inflation Indicators in the SR *(annual average, in %)*	2001	2002	2003	2004
Overall Inflation Rate (CPI)	7.3	3.3	8.5	7.5
Core Inflation*	4.3	2.1	2.6	2.6
Net Inflation**	3.5	2.3	3.5	3.1

Notes: CPI – Consumer Price Index
** overall inflation adjusted for administrative measures (changes in regulated prices, indirect taxes and subsidies)*
*** core inflation adjusted for foodstuff prices changes*

Source: Statistical Office of the SR

Forecasted Average Rate of Inflation *(change to previous year in %)*

2005	2006	2007	2008	2009	2010
3.3	2.5	2.0	2.0	2.4	2.6

Source: Ministry of Finance of the SR (February 2005)

In order to fulfil the Maastricht criteria in the field of **public administration economy** it is essential to reduce the **public finance deficit** below 3 per cent of GDP, or to prove a definite tendency of decrease of the deficit under such limit. Reaching a level below 3 per cent of GDP, excluding the influence of introduction of the 2nd pillar of the pension reform, was one of the aims of the government by the year 2006 and the government intends to achieve such level, including transformation expenditures of the pension reform, by 2007.

Fiscal Deficit *(-)* **/ Surplus** *(+) (as % of GDP)*

	Reference Value	EST	LAT	LTU	MLT	POL	SVK	SLO	CZE	HUN	CYP
2001		+0.3	-2.1	-2.0	-6.4	-3.9	**-6.0**	-2.8	-5.9	-3.7	-2.3
2002		+1.4	-2.7	-1.5	-5.9	-3.6	**-5.7**	-2.4	-6.8	-8.5	-4.5
2003		+3.1	-1.5	-1.9	-10.5	-4.5	**-3.7**	-2.0	-11.7	-6.2	-6.3
2004	**-3% of GDP**	+1.8	-0.8	-2.5	-5.2	-4.8	**-3.3**	-1.9	-3.0	-4.5	-4.2
Fulfilment of the Criterion:		*YES*	*YES*	*YES*	*NO*	*NO*	***NO***	*YES*	*NO*	*NO*	*NO*

Source: European Commission, Statistics Austria

The criterion – keeping the gross public **debt** below 60 per cent of GDP – is met by Slovakia even now (in 2003 public debt amounted to 42.8 per cent of GDP and in 2004 it reached 43.7 per cent of GDP (SKK 578.1bn)) and with respect to targeted reduction of public finance deficit in the subsequent years, the fulfilment of this criterion remains practicable in the future.

Public Debt *(as % of GDP)*											
	Reference Value	***EST***	***LAT***	***LTU***	***MLT***	***POL***	***SVK***	***SLO***	***CZE***	***HUN***	***CYP***
2001		4.4	14.9	22.9	62.4	36.7	**48.7**	28.1	27.2	52.2	61.9
2002		5.3	14.1	22.4	62.7	41.2	**43.3**	29.5	30.7	55.5	65.2
2003		5.3	14.4	21.4	71.8	45.4	**42.6**	29.4	38.3	56.9	69.8
2004	***60% of GDP***	4.9	14.4	19.7	75.0	43.6	**43.6**	29.4	37.4	57.6	71.9
Fulfilment of the Criterion:		*YES*	*YES*	*YES*	*NO*	*YES*	***YES***	*YES*	*YES*	*YES*	*NO*
Source: European Commission, Statistics Austria											

Public Debt Indicators in the SR	***2003***	***2004***	***2005****	***2006****	***2007****
Net Debt** *(in SKK bn)*	330.5	396.3*	427.9	478.8	542.2
Net Debt** *(as % of GDP)*	27.6	30.0*	30.4	31.8	33.7
Gross Debt *(in SKK bn)*	511.8	578.1	622.4	681.5	732.6
Gross Debt *(as % of GDP)*	42.8	43.7	44.2	45.3	45.5

** Ministry of Finance Forecast*
*** Net debt is defined as gross debt less cash on accounts of respective public administration entities, receivables vis-à-vis the EU and receivables of the State Housing Fund - this is a conservative definition, which only considers high-grade and high-liquidity financial assets with respect to the ability of the government to pay for its obligations*

Source: Ministry of Finance of the SR, Updated Convergence Programme for the SR covering the period 2004-2010 (November 2004)

Membership in the Exchange Rate Mechanism II at least for a period of two years with fluctuation of the exchange rate within the range of +/- 15 per cent from the stipulated central parity is essential for compliance with the stability criterion of the **exchange rate** of the currency, which must not depreciate. The government material also states that the parity does not have to represent a value of an irrevocable exchange rate with fixation of SKK to EUR. It cannot be generally excluded that, after the accession to Exchange Rate Mechanism II, or Eurozone, it will be necessary to revaluate the exchange rate parity (assuming that the balanced exchange rate shall further strengthen in the catching-up process). The development of the exchange rate from the beginning of the year 2002 to the end of the year 2003 experienced the biggest appreciation against EUR by 6.62 per cent and depreciation by 3.06 per cent. In terms of a hypothetical narrow fluctuation band +/-2.25 per cent, the development of the exchange rate would be relatively steady in 2003. On the basis of the mentioned development, no remarkable drawbacks are expected in the course of fulfilment of the third nominal convergence criteria.

The fourth criteria sets forth that the level of long-term nominal **interest rates** (yield to maturity in the case of 10-year government bonds) must not exceed the average interest rate of the three EU member countries with the lowest inflation rate by more than 2 percentage points. In the case of Slovakia, yield to maturity for the year 2003 amounted on average to 5.1 per cent, whereas the reference value reached 6.1 per cent. Thus Slovakia complied with the second criterion as early as in the year 2003. In the case of this condition of real convergence, no significant change was expected and it was assumed that the Slovak Republic would be able to comply therewith in the subsequent years as well.

Average Nominal Long-term Interest Rates *(in % p.a.)*											
	Reference Value	***EST***	***LAT***	***LTU***	***MLT***	***POL***	***SVK***	***SLO***	***CZE***	***HUN***	***CYP***
2001		10.15	7.57	8.15	6.19	10.68	**8.04**	-	6.31	7.95	7.63
2002		8.42	5.41	6.06	5.82	7.36	**6.94**	-	4.88	7.09	5.70
2003		5.25	4.90	5.32	5.04	5.78	**4.99**	6.40	4.12	6.82	4.74
2004	***6.3% p.a.***	4.39	4.86	4.50	4.69	6.90	**5.03**	4.68	4.75	8.19	5.80
Fulfilment of the Criterion:		*YES*	*YES*	*YES*	*YES*	*NO*	***YES***	*YES*	*YES*	*NO*	*YES*
Source: European Commission, Statistics Austria											

III: Public finance outlook

By means of public finance consolidation in the mid-term horizon, **reduction of the public finance deficit to the level of 3 per cent of GDP** by the year 2007 should be enabled. The ongoing structural reforms shall be a substantial source of the consolidation on both the income and expenditures side. Total public finance income should, on a consolidated basis, reach an increase from 37.4 per cent of GDP (updated figure – 36.3 per cent of GDP) in 2003 to 37.6 per cent of GDP (36.9) in 2007, whereas the expenditures should, according to the estimates of the Ministry of Finance, decrease by 1.3 percentage points, thus to the level of 39.6 per cent of GDP (38.8) in 2007. The authors of the Convergence Programme have estimated the share of expenditures on GDP in 2010 at the level of 37.9 per cent. A decrease is also expected in expenditures on subsidies and transfers.

Thanks to ongoing reforms in the field of health care, social and old-age pension schemes, those should decrease by 1 percentage point by the year 2007. The **state budget deficit** should, in terms of the approved 2005 State Budget *(see page 31),* reach SKK 61.5bn. In accordance with ESA 95 methodology, the public finance deficit for the year 2005 should reach the level of 3.4 per cent of the forecasted GDP (SKK 47.9bn in nominal expression). The state budget deficit planned for the year 2006 constitutes the amount of SKK 61.5bn; in 2007 this value should drop to SKK 55.5bn.

The share of **gross public debt** (including debt of central and local governments, municipalities and social and health care insurance funds) in GDP should, according to forecasts of the Ministry of Finance from February 2005 increase to the level of 45.5 per cent by the year 2007 and net debt should increase to 33.7 per cent of GDP.

IV. Structural policy and its impact on public finance

Structural reforms should yield considerable economies in the mid- to long-term horizon.

- **Social aid and support.** Key reform measures in the field of social aid and support affect the change of the ways that aid is provided to individuals who find themselves in poverty (substantial emphasis is placed on directness and activation). The new system has been in use since the beginning of the year 2004 and it is assumed that its crucial features shall not be subject to any significant changes in the subsequent years.
- **Social insurance and old-age saving scheme.** The new Act on Social Insurance became effective as of January 1st, 2004. The intention of the new regulation of social insurance issue was enhancement of interconnection between pay-roll taxes paid to the system and benefits paid (meritorious principle). The new system includes changes of an institutional nature as well, in order to make its operation more effective and to achieve a better supervision system. Another substantial step within the pension system reform is taken by the Act on old-age pension saving schemes that was approved at the beginning of the year 2004 in parliament – an equally intense 2nd (fully-funded) pension scheme pillar was implemented in 2005 – old-age saving scheme system in private pension funds.
- **Active labour market policy.** Making the labour market more flexible and raising the motivation of citizens to find employment are the main objectives of reform measures and collaterally numerous measures adopted already *(see also page 70)*.
- **Education.** In the field of the regional school system (kindergartens, elementary and secondary schools), the problem lies in a decrease in the number of students. That has not been accompanied by school network optimisation and a pertaining cut-down of employees. The solution to the problem should comprise introduced limits calculated to one student that change the resource allocation for schools and educational facilities in a radical manner. The objective, in the field of the university education system, is to provide affordability of quality education at the level of international standards to anyone who meets the preconditions for successful study. For this purpose, coping with the financial funding of universities is ultimate, whereas introduction of multi-source funding shall be the basis thereof. University system reform should, inter alia, introduce fees for study, both full-time and external, an enhanced system of social aid for students and a system of student loans *(see page 99)*.
- **Health care system.** Harmonisation of resources and expenditures in the health care system by increasing the effectiveness of the system (on the offer side), by mobilisation of resources by means of increased participation of a patient (on the resources side) and by readjustment of expectations of the general public (on the demand side) is the aim of the reform *(see pages 74-95)*. The objective is to achieve an even balance of system resources at the level of 6.5 per cent of GDP, whereas public resources should represent 5.2 per cent of GDP. The current system of funding, with the revenues at the level of 6.1 per cent of GDP and substantially higher expenditures has brought about a debt amounting to SKK 26.6bn, which is resolvable only extra-system ad hoc transfers.

- **Other material spheres.** Changes are needed in the field of agriculture, environment and infrastructure.
- **Public finance management reform**. Not only structural reforms, but also proper management is extremely important in streamlining processes within public administration economy. In order to achieve long-term sustainable development of public finance and to meet the convergence criteria it is necessary to keep on performing public finance management reform.

V. Long-term sustainability

For the purposes of the convergence programme, long-term sustainability has been defined as maintaining public finance deficit below the limit of 3 per cent of GPD and net debt below 60 per cent of GDP prior to and after the culmination of demographic problems approximately in the year 2055. Within this section, authors provide a description of the efforts of the Slovak government to reform public finance and determine their impact on long-term sustainability.

The European Commission published opinions in relation to the convergence programmes of six new EU members, including Slovakia. The intent of Slovakia to reduce public finance deficit below 3 per cent of GDP by the year 2007 was deemed to be insufficiently ambitious, particularly within the context of high economic growth (4 to 5 per cent p.a.), which should bring about additional revenues and cut down the pressure on budgetary expenditures. European Commission representatives admitted that the upcoming pension reform obstructs the efforts towards reduction of the budgetary deficit. The evaluation report further states that the reform programme of the Slovak state bodies improves the quality of public finance both on the revenues and expenditures side. According to the report of the European Commission, Slovakia is the only V4 country not expected to cope with problems related to its ageing population in meeting of economy policy objectives. However, deceleration of reforms or, as the case may be, their complete discontinuance, could still remain potential risks.

Evaluation of the Experts' Committee:

The Convergence Programme of Slovakia for the 2004 - 2010 period was considered to be a high quality, legible, realistic and feasible document by qualified members of the public, assuming the initiated direction and economy growth dynamics shall be kept. The Document enhances the predictability of economic conditions and government measures in the field of economic policy and is a contribution to the quality of public finance. It allows one to become familiar with the opinion of the Ministry of Finance and the government on the current and future development of the Slovak economy, which is praiseworthy, since in the past the Slovak Republic had problems with quality analysis and long-term forecasts. The Convergence Programme commits to a more rigorous fiscal policy towards compliance with the Maastricht criteria, which Slovakia committed itself to within the Treaty of EU accession. The programme assumes that the Slovak Republic will gradually achieve a balanced public finance economy, which means that the foundations for sound development and high sustainable growth of the Slovak economy are being laid.

Several of the valuating individuals did not agree with the EU critique, which deemed the Convergence Programme of the Slovak Republic to be insufficiently ambitious, since high economic growth (4 to 5 per cent p. a.) should bring about additional revenues and reduce the pressure on budgetary expenditures. The experts performing the valuation drew attention to the pension reform, successful performance of which shall be substantial and financially very demanding for Slovakia, thus it shall obstruct efforts to reduce state budget deficit, which was finally admitted by representatives of the European Commission. Some experts expressed their opinion that a certain cautiousness and prudence is relevant in outlining the objectives of the programme, particularly when a period marked by introduction of reforms is concerned, with outcomes that have not been estimated exactly. According to them, fulfilment of the specified objectives would mean an undeniable contribution to the progress of the Slovak economy. One of the respondents remarked that a radical about-face is not expected in accomplishment of the objectives of the programme beneficial for Slovakia after the subsequent parliamentary elections, as a consequence of generally positive feedback on the reform line of the present cabinet; however a contrary case that may incur a slow-down of reforms and real convergence cannot be excluded.

Practical applicability and binding force of the Convergence Programme was not completely clear to several respondents, chiefly with respect to the period after the expiration of the electoral term of the current government, since its aims exceed 4-years' tenure. There was unsatisfactory risk assessment and omittance of the fact that the new government shall push forward its own, and possibly radically different policy, after the elections, although several reforms could be reversed only with extraordinary effort. Life is full of changes and it is necessary to react to each of them. Therefore, one of the respondents expected (mainly thanks to the fact that nobody plans ultimate shocks) that the document would designate areas being created and prepared for an emergency and development by the system. Some of the people would welcome particular measures that will

lead to achievement of the objectives as outlined, not only programmes, strategies, plans and reports, since there are many of them in the EU.

One of the respondents deemed reaching the aim of pushing the unemployment rate below the level of 10 per cent to be difficult. Another one noticed that internal convergence, which would eliminate huge regional differences between Western and Eastern Slovakia is of the same importance as external convergence. According to a chosen respondent, evaluation of the aims of the programme should compare to the social and economic impact on the population. Opinions that the convergence programme should stronger reflect measures in the field of so-called knowledge-economy have showed up as well.

The critics have labelled the Convergence Programme for the 2004 – 2010 period as national economy planning in a new way. According to them, it concerned a traditional essay of clerks on the topic of economic policy of the Slovak Republic that contains conventional conclusions and arguments conforming to the current political atmosphere, and which is essential for functioning of the governmental and state administration, but irrelevant for the development of the real economy. The expression "a strong commitment of the government" not only smacks of socialist planning, but is of a non-democratic nature, according to one respondent, since economic policy is set forth by political parties in accordance with the results of civil parliamentary elections.

Competitiveness Strategy for the Slovak Republic until 2010 (National Lisbon Strategy)

The competitiveness strategy for Slovakia until 2010 (the so-called Lisbon Strategy for Slovakia, or National Lisbon Strategy) was approved by cabinet members on February 16th, 2005. The document was placed on the agenda by Deputy Prime Minister and Minister of Finance of the Slovak Republic, Mr. Ivan Mikloš, with the intention of further progress in the issue of application of the objectives and strategy, as set out at the Lisbon summits by EU member states representatives in 2000. The aim of the Lisbon Strategy is to transform the EU, by 2010, into "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth". Several European economists and politicians admit today that the Lisbon Strategy has not been very successful so far and suggested its revision *(see page 114)*.

The approved document represents the economic strategy for Slovakia until 2010, which should be a base for Slovak government policy. The primary goal of the strategy is to catch up with the living standard of the most prosperous EU countries as soon as possible, which may be achieved through rapid and long-term economic growth. According to authors of the strategy, in a market economy the state can support growth by creating appropriate conditions that enhance the competitiveness of the economy. Elaboration and submission of sector action plans for development areas for the period until the end of the year 2005 and until the end of August 2006 (by the end of the electoral term of the current government), alongside specified tasks for each area, the finalisation term and responsible persons, should be an objective of selected government representatives.

The governmental document deals with two principal "pillars", on which the Competitiveness Strategy is built. In its **first pillar** it puts emphasis on the necessity of successful accomplishment and implementation of structural reforms and maintenance of the principles on which the economic policy is implemented in recent years. The first pillar – successful completion of reforms and their sustainment - constitutes foundations on which the development should be further based.

In the **macroeconomic and fiscal field**, the following principles and goals have been set out as substantial:

- development of market economics and minimisation of interventions to free market functioning, interventions only to an extent, as necessary,
- reduction of public finance deficit to the level below 1 per cent of GDP with an objective of reaching an approximately balanced budget,
- refrain from increasing the redistribution level in the economy,
- maintaining a transparent and neutral tax policy, whereas the government of the Slovak Republic shall not pursue any public objectives using tax incentives, but only by means of targeted public expenditures.

In the **social field**, the Slovak government fully subscribes to traditional European values – such as individual responsibility, equal opportunities, the role of family and community for those in need, maximisation of opportunities to assert oneself and the social responsibility to fight poverty. In accordance with those values, the primary responsibility for establishing sufficient social and economic background for oneself and one's family must be borne by each individual. The role of society is to create the prerequisites and equal opportunities to enable the individual to succeed in this effort. One of the next principles that have been set out by the government in this field is not

to discourage an individual from activity and creative endeavour by its social policy, or to create dependence on social benefits. Government policy should focus on elimination of absolute poverty and provide instruments that will make it easier for people to escape severe social difficulties. Last, but not least, one of the objectives is maintenance of a more efficient social network and a flexible labour market, which is a prerequisite for the creation of new job opportunities.

The ongoing reforms in the **health care system and pension scheme** area establish preconditions for quality health care and deserved pensions, reflecting actual activity in the course of the recipient's active life period, according to authors of the conception. In terms of the strategy in question, the new pension system shall concurrently motivate individuals to stay on the labour market for longer, which fully complies with the objectives of the Lisbon Strategy.

The second pillar emphasises priorities of **building up** the so-called **knowledge-based economy**, an economy based on knowledge, and is systematically devoted to fulfilment of the development section of the Lisbon Strategy. Long-term competitiveness of Slovakia can only be guaranteed by creating favourable conditions for the development of a knowledge economy. In other words, the economic growth must be based on the ability of people to continually absorb new knowledge, produce new know-how and use it in practice. The strategy defines **four key** areas, which constitute a compact entirety and are equally important:

- information society,
- science, research, innovations,
- business environment,
- education and employment.

1. Information society. The introduction of information technologies is one of the best means of transforming Slovakia into a dynamic, knowledge-based economy, according to the document. The authors claim that it is therefore necessary to ensure that each citizen is IT literate, has access to the Internet and is able to enjoy the benefits of the information society, within the next few years, for the purposes of a dynamic introduction of information technologies. Absence of centralised command in this area is deemed to be one of the preceding disincentives its growth. Therefore, the authors suggest strengthening its institutional capacity in this area, in the short-run by increasing the competencies of the representative of the government of the Slovak Republic for the introduction of information technologies and in the medium-run, for example, by transforming the Ministry of Transport, Post and Telecommunications, shifting emphasis to introduction of information technologies. The results will be an increase in the overall level of education, productivity and employment, improvement in the quality of services, growth of innovations and more effective use of public funds. In development of the information society, the main three priorities should comprise as follows:

- to ensure IT literacy among all social and age groups, to transform the traditional school into a modern school with regard to IT. One of the principal steps shall comprise increase of IT literacy among all teachers and among employees in public administration as well as improvement of general awareness of the benefits of an information society.
- for an effective interconnection of public administration, making the electronic services provided by private companies available, introduction of a wide range of modern and secure electronic public services. This section includes making public information systems more effective, total accessibility of public registers and databases in the Internet. Last, but not least, introduction of electronic identification cards, which are necessary for transactions within an e-government, is presented in the governmental document.
- wide accessibility of Internet is a crucial prerequisite for the creation of an information society, according to the strategy. The authors point out outcomes of studies, based on which the price of a computer and of the connection itself is the main barrier to development in this area. It is therefore essential to take appropriate measures in order to promote a more competitive environment and boost the investments in the telecommunications sector, to continue the liberalisation of the telecommunications market, promote the development of public internet connections, including making all school multimedia classrooms open to the public and last, but not least, to promote schemes based on partnership with the private sector (PPP - Public Private Partnership), aiming to provide computers with broadband internet access for the wider public.

2. Science, research and innovations. The National Lisbon Strategy claims that innovation policy must become one of the principal long-term priorities of the Slovak government. Slovakia needs a wide base of scientists able to carry out high quality scientific research at the highest international level. Consequently, it is essential that the scientists be interconnected with the business sector in order to transform the scientific knowledge into material outputs in the economy, in the form of innovations. Public support for basic science and research should be clearly distinguished from the support for applied research, development and innovations, since these are of a different economic nature. The principal objectives in this area are as follows, according to the authors of the Slovak strategy:

- Raising and supporting of highly qualified scientists by providing motivation to gifted people towards a career as a professional scientist, which should be achieved by creating an environment for quality scientific work and securing their adequate valuation. It is not institutions themselves that should be funded, but high-quality research projects chosen on a competitive basis. In order to achieve defined objectives, the interconnection between scientific research and university education should be strengthened, namely by the application of research university institutions, which should become the foundations of scientific research.
- Research of international quality, adequately interconnected with the business sector, must reflect current scientific development in the world. In addition, it will be necessary, on the basis of broad expert discussion, to choose a small number of priority areas, since Slovakia, as a small country, will not be able to perform high-quality research in all the fields. Further important steps include introduction of mechanisms of an independent quality assessment of programmes and projects and an obligation to publish the results of all publicly funded research projects.
- Effective public support of business activities focused on development and innovations should avoid market failures. Successful establishment of an innovative company carries a considerable risk and high expenditures and the private sector funds less companies than would be economically optimal. The authors of the strategy therefore suggest strengthening the motivation to increase private sector funding of research, development and innovations, mainly by introducing co-funding. Creation of a public instrument for the provision of venture capital for innovative companies in the early stages of their operation.

3. Business environment. A sound business environment, which motivates people to be entrepreneurial, is one of the key instruments of the government in providing for the long-term competitiveness of the economy. Effective competition among businesses is in general the basic motor of the economy and public institutions serve to strengthen and simplify this competition. The document states that the government shall foster reduction of tax and payroll tax burden for all enterprises. According to the document, individual support to companies by means of public expenditures will only be provided in exceptional cases. The main priorities with respect to the business environment have been set out as follows:

- high degree of law enforcement,
- public institutions as a partner and not as a burden,
- effective access to capital market for all companies,
- high-quality physical infrastructure and services in network industries.

An especially low degree of law enforcement is deemed as the key obstacle to the business sector in Slovakia. It is essential to create conditions for fast enforcement of contracts not only in the stage of the issuing of an effective judicial decision, but also in the stage of its execution and guarantee of protection of ownership rights. According to the authors, this may be achieved by taking steps leading to reduction of the capacity for corruption, improvement of management in the judiciary, improvement of conditions for out-of-court dispute resolution, and reinforcement of active creditors' rights. The whole public administration must make its operation and relationship to entrepreneurs more effective as well. The objectives in this field should be fulfilled by measures including a fully electronic exchange of information between public institutions and entrepreneurs, simplification of requirements of public institutions towards companies upon market entry and enhancement of the transparency and effectiveness of public procurement by means of a fully electronic system. The Ministry of Finance of the Slovak Republic deems creation of a functioning system of venture capital support and formation of a regional stock market (by a merger or close interconnection), as in Scandinavian countries, for example, to be priorities.

4. Education and employment. In the human relations field, public policy must create, for all citizens, opportunities to study continually and to smoothly change from one position of employment to another. The document particularly emphasises the use of education policy as a tool for fighting intergenerational reproduction of poverty, i.e. that each child must have an opportunity to obtain quality education corresponding to his/her potential. The main priorities in the area of human resources are:

- modern education policy,
- achieving a high employment rate,
- coping with an ageing population.

Changes within the system of secondary and primary education will require performance of transformation of content and process of a traditional school into that of modern school, and change from memorising of information to an ability to acquire and assess information. Strengthening education in the area of foreign languages, information technology and basic business knowledge, enhancement of quality of teachers, or a gradual increase of average length of education shall be further important steps. At the university level, capacity expansion and a significant improvement in quality are deemed to be necessary. Universities should, by their activities, become one of the engines of economic growth of the region where they are located. Improvement of access to education by increasing available funds (also through financial

participation in the tuition fees), enhancement of the quality of teaching, by improving conditions for scientific growth, stimulation of differentiation of universities and their activities, support of acquisition of general skills by university graduates and support of the mobility of students and teachers. Last, but not least, creation of an accessible and market-based system of life-long education is a substantial objective.

As the authors say within the wording of the strategy, **funding** necessary for fulfilment of its objectives shall in no case threaten either the public finance stability, or convergence fiscal objectives *(see page 18)*. Reallocation of resources from areas that do not correspond to the basic philosophy and goals of the strategy to priority development areas is one of the three resources. Funding from EU structural funds and from other instruments supporting competitiveness and innovations is stated as the second source. Sufficient funding of the objectives of the strategy shall be supplied by the third, no less important, resource, namely funding from a much higher volume of private resources.

The Lisbon Strategy for Slovakia has been a subject of discussion by annotation proceedings, but also by the means of a national conference. The strategy was appreciated by several opposition deputies, who particularly agree that not a cheap, but on the contrary, a quality and educated labour force should be the future vision of Slovakia. They also agree with the need for a long-term vision of Slovakia, as well as with the necessity to adhere to agreements achieved and to ensure continuity of the strategy. The creators of the strategy consider accession of a new government to be the principal risk, understanding that the economic principles on which current reforms are based is a conflict area. Should a proposal of any current opposition party to abolish tax reform arise, such fact would have a negative impact on the economic growth influx of investment and that would diminish the funds for the support of a knowledge-based economy. Therefore, the authors point out the essentiality of political consensus and also the acceptance of the strategy by the largest possible proportion of the public.

Evaluation of the Experts' Committee:

Qualified members of the public deemed the National Lisbon Strategy as a positive document and a quality cornerstone for detailed development of economic and social policy in the mid- to long-term horizon. The measure was perceived as a necessary step for the future direction of Slovakia, as an appropriate answer to criticism that the government acts without a long-term concept and makes reforms without any vision and also as a vigorous gesture of the Slovak government, showing that the government stands behind its reforms and intends to continue with their performance. Interconnection of the document with supranational strategies and reforms under development at the EU level is assessed positively. The strategy is of higher quality in comparison to previous attempts to formulate the development vision of the Slovak economy and there is a chance that the implementation shall help Slovakia to move ahead. One of the positive attributes of the adopted strategy is the absence of any "corporative" elements, such as for example specification of particular industries that should be subject to priority support. As a new EU member country, the Slovak Republic is in its framework defined as a pro-reform country. The progress of Slovakia is in the interest of the whole Union, including original member countries, whereas many of those do not have the sufficient political courage to follow the thesis of the European Lisbon Strategy.

Even though experts have expressed a clear affirmative opinion on the adopted National Lisbon Strategy, they commented on several its imperfections. First of all, measurable successfulness criteria for individual objectives should be set out, in order not to feature processes, but outcomes, which are necessary for the society. The quantification of objectives itself could be published directly within the strategy document, not only in consequential action plans.

Some of the persons evaluating deemed identification with the approach of the master concept – EU Lisbon Strategy adopted in 2002 – to be a further problem. The Slovak strategy is more disposed to market and personal responsibility and less to state interventions in the economy than its European model; however, Slovakia identifies with it in respect to the socio-engineering approach of supporting "development" expenditures. Contradictory theses are common – on one hand not to interfere, on the other hand to support. It is a contribution that the Slovak strategy focuses on structural reforms and education system reform as well, unlike the European strategy. One can also agree with the fact that the Ministry of Finance of the Slovak Republic has not specified a scheduled term of "catching up" with the EU. On the other hand, the main objective "to ensure that Slovakia reaches the living standard of the most developed EU countries", was considered by respondents to be likely unrealistic as the EU objective to become the most competitive economy in the world by 2010. For some experts, the document seemed to be too cliché-ridden and idealistic in numerous development sections.

According to the responses of other respondents, a lack of consensus was obvious across the political spectrum, which rates the strategy as a politically influenced report that is successfully feasible only in the case of continuity of the current government composition. Outwardly, the strategy looks like a conception of a small group of authors, void of a long-term and broader

public discussion. It is essential that other political and opinion groups, as well as other departments, absorb it and that its objectives become government objectives, which could be performed, including, but not limited to, unstinting agricultural subsidies and investment incentives. It will be substantial to know to what extent the strategy is taken as binding in taking measures in other departments. Basically, its prospective contribution is significant.

The evaluating persons have drawn attention to the fact that other strategic documents, which have been approved by the government in the past (for instance the National Plan of Regional Development, or National Development Plan), or which are currently being developed (System Structure of National Economy Strategy of the Slovak Republic for the 2005 - 2013 period elaborated by the Ministry of Economy of the Slovak Republic) are in some cases inconsistent with the presented National Lisbon Strategy and are frequently subordinated exclusively to pre-election rhetoric and presentation of political entities.

Orientation of the strategy on so-called knowledge-based economy is important, according to numerous respondents. The intention to focus on development of human capital and technological process is reasonable from the economic point of view. The methods of its performance are crucial, whereas if this is not effective, economic costs will be higher than benefits.

Emphasis being put on education reform is substantial. However, the approved strategy lacks the information that would distinguish the present resolution to reform education from similar resolutions that failed to succeed within the period of the past 30 to 40 years. Therefore, it is important to come up with it as soon as possible. The critics claim that the expression "competition" is missing in the section related to education. It follows from the wording of the document that universities need more resources. However, it would be more effective if they were thrown into the deep water of a competitive environment. One of the respondents felt the expression of the real need for education in individual specialisations in the strategy was missing.

Some of the valuating experts drew attention to overexposed accentuation of the contributions of information technologies in the economy and an excessive orientation of the strategy on information society. In Slovakia, there is more of a problem of building the technical infrastructure for affordable prices (on the side of technologies) and the education system (on the side of human capital). The experts sensed the interference of Brussels in the section devoted to information society, in the strategy, whereas institutionalisation is one of the first issues dealt with. In the area of funding science, proposed funding on a competitive principle – in the form of funding quality research projects selected in a competitive environment and not in the form of funding institutions, is perceived positively. However, proposed raising of public expenditures and significant state influence in this field is the principal imperfection of the strategy, according to many experts.

Another respondent marked the absence of a broader reference of long-term sustainable development and rural development intentions and its integration to the overall development strategy of Slovakia as a flaw. Amending the document with the objective of building up an appropriate infrastructure in underdeveloped regions should be considered, as well, since it will be difficult to achieve the remaining aims of the Lisbon Strategy for Slovakia. An opinion that the strategy does not admit the idea of necessity to ensure not only economic, but also social growth and to create conditions for sustainable development through their optimisation, was expressed as well.

Critics declare that the document represents only an obligatory essay. The state should in no case strengthen the competitiveness of the economy by strategies, but by creation of favourable conditions for entrepreneurship, lifting barriers, reduction of taxes and payroll taxes, elimination of bureaucracy etc. On one hand, the Lisbon Strategy for Slovakia sets out a horizon to future, but on the other hand it confuses the vision with socialist planning. Nevertheless, the government does not show the ability to resolve some of the objectives (e.g. improvement of law enforcement) and willingness to secure the objectives by adequate financial resources (e.g. for science and research).

Public Finance

Act on Budgetary Rules for Public Administration (introduction of hard budget constraints for the whole public administration; restriction of guarantees and taking out a bank loan; programme and multi-annual budgeting; construction of the public administration budget according to the ESA 95 methodology; dissolution of certain budgetary chapters; stricter control; moderate sanctions; provisional budget to be based on the budget from the previous year, not on the budget proposed by the Government)

On September 23rd, 2004, the National Council of the Slovak Republic (=Slovak Parliament) approved the government Act on budgetary rules for public administration, which deals with the budgeting process for the whole public administration, in a complex manner, in compliance with the unique methodology applicable for the European Union. The new Act applies, in comparison to the preceding one, to all public administration entities, whereas particularities in relation to regional self-governments are regulated by a separate Act on budgetary rules for regional self-government. Effectiveness and timing of utilisation of public resources should be among the main principles.

The intention of the Act is to introduce hard budget constraints for the whole public administration. Cutting off the increase of public sector indebtedness and strengthening programme budgeting tasks and the significance of the mid-term fiscal outlook (introduction of 3-year budgeting for the whole public administration) are the key goals. The regulation adjusts construction of the budget for the whole public finance sphere as a multi-annual budget, under the methodology valid for the EU – ESA 95 (European System of Accounts). The new legal regulation defines financial discipline infringement that should apply to all public administration entities and public expenditures, in an updated way.

The Act has extended the **principle of hard budgetary constraints to apply to all public administration entities** (so far the principle has applied only for budgetary and subsidised organisations) with the aim of avoiding formation of new liabilities. The option of concluding business transactions that are not covered by the budget was tightened up and restricted (particularly at the end of the budget year) and their settlement from the next budget is expected, thus they burden the budget of the next year.

Credit acceptance and liability was **restricted** in a radical manner for the whole public administration sector, in order to avoid formation of an inappropriate public administration debt. Granting credits and loans shall be allowed exclusively to a public administration institution, which is entitled to do so, in terms of this Act, or a separate regulation.

The following are the most substantial changes, in comparison to the valid legal regulation, comprised in the new Act on budgetary rules for public administration, according to the explanatory report:

- General and comprehensive regulation of disposal of public resources, single and generally applicable definition of the public administration sector (central state administration, regional self-government, state funds, health care insurance agencies, Social Insurance Agency, public universities) within the legal system of the Slovak Republic and specification of public resources in compliance with valid international standards by the means of such definition – methodology – **ESA 95** (European System of Accounts). The European System of Accounts 1995 applies the accrual principle for transactions, unlike the methodology of the International Monetary Fund, which is based on the cash principle.
- Introduction of target-oriented budgeting (so-called **programme budgeting**) as an integral part of the budgeting process in construction realisation of the state budget.
- Introduction of **multi-annual budgeting** in the whole public administration. Budgeted revenues and expenditures of the public administration budget are budgeted for the state budget and budgets of other public administration entities for 3 budget years. The public administration budget for the next 2 years after the budget year, for which the Act on state budget is introduced, serves only for reference and is specified in the next budget year.
- **Unexpended budgeted resources** of the state budget for the respective budgetary year are available for drawing after a notice to a trustee of a chapter (until November 20th) as well as in the subsequent year, whereas they become expenditures in the year of their actual utilisation. Current transfers, granted to the end user in the last quarter, may be drawn until the end of the first quarter of the subsequent year. This authorisation results from the experience gained

so far in providing allowances and subsidies towards at the end of the year, when the entities do not manage to utilise resources by the end of the year, through no fault of their own.

- One of the aims of public finance reform is to **reduce the number of budgetary chapters** and to approximate it to other EU member countries. So far, 4 chapters have been cancelled.
- The approach to assessment of discipline infringement was changed in the Act. The **institute of financial discipline infringement** was introduced, which is defined in a wider manner than existing specification of budgetary discipline infringement. It concerns a new approach towards perception of financial discipline infringement, including sanction proceedings, with the result that it is applied equally to all public resources, which are managed by public administration entities, or which were granted to other legal or personal entities within its force. Different sanctions are imposed for respective types of infringement of financial discipline, in term of enumerative specification in the Act, according to the infringement severity. Sanction of a non-financial nature may be imposed for a less severe infringement. Financial sanctions may be alternative, according to the type of infringement in the nature of levy, penalty and fine. The Ministry of Finance of the Slovak Republic may impose a fine for a breach of obligations arising from this Act to a respective entity up to the amount of SKK 1m. The adopted **sanction system** is more moderate than it has been so far; however, it does not regulate any relief institute.
- The scope of authority in performance of financial **inspection and supervision of the state** was kept in the Act on financial control and in separate legal regulations that set out the inspection authority, as well as the authority of state supervision bodies within public administration.
- From the point of view of specification of the public administration sector, **establishment and existence of subsidised** organisations, municipalities and higher territorial units were put in compliance with ESA 95 methodology, pursuant to the 50 per cent rule – criteria for distinction of market producers from non-market producers. In terms of the new Act, only such organisations which cover less than 50 per cent of production costs with their own revenues may be subsidised organisations, which means that the **majority of the activities performed must be of a non-market** nature. If a subsidised organisation manages its resources in such a way that it does not fulfil the above-mentioned 50 per cent condition, at least in two consecutive years, the founder will be obliged to wind it up.

In the course of negotiating the Act in parliament, a deputy bill was submitted and finally approved, which changed **state management in the provisional** budget. If the parliament does not approve the Act on state budget by the end of the current budget year, the provisional budget shall follow the approved budget of the preceding year, not the proposed state budget for the next year. Such regulation was valid and applicable more than a year ago.

The intention of the government was to **reduce the risk of a proposal not covered by the budget in the government and** parliament, however the deputies rejected the proposal of the Ministry of Finance, suggesting that all the adopted Acts, which would raise public finance deficit in the respective budget year, would enter into force from the beginning of the subsequent year. The deputies did not approve a proposal that the impact of any amendatory or supplementary proposal to the Act on state budget on public administration deficit shall be quantified, in the case of such proposal being submitted.

Evaluation of the Experts' Committee:

This Act, being a standard and essential Act in developed economies, tightens inspection and initiates more transparent and effective management in public administration as a whole. It concerns implementation of modern methods of financial management into operation of public administration in the Slovak Republic. The intention itself was assessed by experts univocally in a positive way, however, its application in practice shall be the crucial aspect, not only to remain on a sheet of paper, as it has been in the past. It is also questionable whether the behaviour of entities actually changes. One of the respondents predicted that several programmes shall be formally under way for a few more years, since that period may not be left out unnaturally. According to one evaluating person, there is an absence of a stronger pressure and sanctions for the government and parliament in the Act. It was pointed out that the system does not recognise types of public organisations – e.g. universities are basically situated at the same level as state authorities.

Another respondent criticised the provision on provisional budget adopted by the deputies of the National Council of the Slovak Republic. He made an ironic remark – that the Minister of Finance could withdraw the budget for the subsequent year and, in that way, some of the resources would be saved, since the budget for the previous year would have to be followed in adopting the new Act on state budget.

2005 State Budget (state budget deficit of SKK 61.5bn, fiscal deficit - 3.4% of GDP)

On December 9th, 2005, deputies of the National Council of the Slovak Republic approved the Act on state budget for 2005. The approved budget should, according to its authors, represent the final stage of public finance consolidation and a step within budget process reform. The state budget for the year 2005 is a part of the proposed budget for public administration for the 2005-2007 period. The objective of the approved state budget is a substantial approximation of public finance to a long-term sustainable level and regulation in the public finance area. Reduction of financial burden of the next generations and adjustment of public finance with respect to the ageing population, meeting the Maastricht criteria, particularly cutting public finance deficit to 3 per cent of GDP and accession of Slovakia to the Eurozone in 2009 should constitute essential intentions.

The 2005 state budget (as well as the whole public administration budget) was constructed within the intentions of the new Act on budgetary rules for public administration *(see page 29)* and multi-annual budgeting (3-year budget - 2005-2007). Only the budget for the year 2005 is binding, state budgets for the years 2006 and 2007 have been approved as indicative. The purpose and effectiveness of budgetary resources utilisation, which shall be subject to public inspection, will become the main issue in public finance management. Not the aggregate amount of expenditures of individual regions, but predominantly the outcomes that shall be brought about by those resources, will be decisive. Programme budgeting shall be the key tool, the expenditures for the year 2004 were allocated already in 2005 in accordance therewith, and in constructing the 2005 budget, the emphasis was placed on the quality of aim definition and quantifiable outcomes.

The mid-term development scenario of macroeconomic development constituted the **scope** for the construction of the 2005 state budget. It assumed restoration of global economy growth, continuity of dynamic growth of the Slovak economy, strengthening its competitiveness and performance, keeping at public finance consolidation and gradual improvement of the situation on the labour market. Based on the pre-conditions, as given above, the Ministry of Finance estimates the following development of indicators substantial in constructing the budget:

Selected Macroeconomic Indicators	*2004**	*2004***	*2005**	*2006**	*2007**
GDP in current prices *(in SKK bn)*	1310.8	*1325.5*	**1408.0**	1515.4	1628.8
GDP Growth in constatnt prices *(in %)*	4.7	*5.5*	**4.5**	5.1	5.4
Average Annual Inflation Rate *(in %)*	7.8	*7.5*	**3.3**	2.8	2.5
Average Growth of Real Wages *(in %)*	0.7	*2.5*	**3.1**	2.9	3.0
Average Unemployment Rate according to LFS*** *(in %)*	17.2	*18.1*	**16.6**	16.2	15.8
Average Registered Unemployment Rate *(in %)*	14.6	*13.1*	**14.4**	13.7	13.0

** Estimate, Forecast*
*** 2004 Reality*
**** Labour Force Sample Survey of the Statistical Office of the SR*

Source: Ministry of Finance of the SR

Public Administration Budget for 2005-2007* *(in SKK bn)*	*2004*	*2005*	*2006*	*2007*
- Budget according to ESA 95:				
Public Administration Revenues	467.4	521.7	555.1	595.3
Public Administration Expenditures	519.4	569.6	599.1	626.2
Fiscal Deficit	-52.0 *-43.9***	-47.9	-44.0	-30.9
Fiscal Deficit *(as % of GDP)*	**4.0%** ***3.3%****	**3.4%**	**2.9%**	**1.9%**
Balance of other Public Administration Subjects	+2.4	+9.4	+12.8	+22.6
State Budget Deficit	-54.4	-57.3	-56.8	-53.5
Adjustment Factors***	24.1	4.2	4.7	2.0
- Budget according to Cash Basis:				
State Budget Deficit	**-78.5**	**-61.524**	**-61.5**	**-55.5**
State Budget Revenues	232.0	**258.556**	275.0	297.3
State Budget Expenditures	310.5	**320.079**	336.5	352.8

** Draft Budget adopted by the Slovak Government and introduced in the Slovak Parliament*
*** 2004 Reality*
**** Adjustment factors stand for difference between cash-based and accrual based (ESA 95 methodology) public finance accounting*

Unlike in the past, the Ministry of Finance qualified current rapid economic growth as balanced, based on desirable foundations and as sustainable. The most **significant attributes, which had**

a substantial influence on construction of the 2005 state budget, comprise the influence of performed structural reforms in 2003 and 2004, EU accession of Slovakia, fiscal decentralisation and pension system reform.

According to estimates of the Ministry of Finance, pension system reform could deepen the public finance deficit by 0.4 per cent of GDP in 2005, by 1 per cent of GDP in 2006 and by 1.1 per cent of GDP in 2007. Planning and maintaining the deficit exclusive of expenditures on pension system deficit shall be the objectives of fiscal policy, since it has been set out by the decision of the European Statistical Office, as well, that Slovakia will not be obliged to include the impact of this reform on posted public finance deficit, within the transition period by March 2007.

Slovakia's EU accession has already affected the 2004 state budget; however, the impact shall not appear in full expression sooner than in 2005. The funds conveyed to the EU general budget by Slovakia shall consequently return to the state budget of the Slovak Republic in the form of European funds, from which they will be directed to various areas. Compared with the past, the amount of public expenditures increased to 1 per cent of GDP in 2005, as estimated by the Ministry of Finance. Slovakia may obtain EU funds exceeding the amount it conveys to the EU budget approximately by SKK 28bn.

The 2005 state budget quantification

The deputies have definitely approved the draft Act on state budget for the year 2005, as proposed by the government, without deepening the **state budget deficit**, which remained at SKK 61.524bn. Public finance deficit, calculated in terms of ESA 95 methodology, at the level of 3.4 per cent of the estimated GDP for the year 2005 (exclusive of pension reform expenditures) has also not been altered by deputies.

Balance of Selected Revenues and Expenditures of the 2005 State Budget*

(in SKK bn)	*2004*	*2004***	*2005*	*Change (in %)*	*2006*	*2007*
Revenues	231.96	242.44	**257.23**	*10.9*	274.99	297.35
- Tax Revenues	195.24	209.50	**201.99**	*3.5*	214.65	231.20
- Personal Income Tax	18.62	25.25	2.06	*-89.0*	1.96	2.15
- Corporate Income Tax	22.00	29.65	30.07	*36.7*	32.47	36.98
- Value Added Tax	97.70	99.58	117.34	*20.1*	125.38	135.02
- Excise Taxes	40.90	43.40	45.37	*10.9*	47.15	49.04
- Non-Tax Revenues	13.01	21.11	**15.61**	*20.0*	17.48	17.74
- Revenues from Trade and Ownership of Property	0.47	1.30	1.08	*129.8*	1.13	1.17
- Administrative Charges and Payments	8.24	9.08	7.09	*-13.9*	8.73	9.02
- Interests on credits, loans & deposits	0.90	2.58	3.55	*294.4*	3.50	3.47
- Other Non-Tax Revenues	3.32	7.81	3.82	*15.1*	3.99	3.96
- Grants and Transfers	22.54	9.82	**39.62**	*75.8*	42.86	48.40
- from the EU	14.23	4.52	26.51	*86.3*	31.36	35.90
- Domestic	8.30	4.82	13.11	*57.9*	11.50	12.50
Expenditures	310.45	312.73	**318.75**	*2.7*	*336.50*	*352.80*
- Current Expenditures	264.68	263.86	**276.98**	*4.7*	291.9	306.1
- Payments to the EU Budget	9.01	8.04	13.19	*46.4*	13.51	13.93
- Capital Expenses	33.49	31.29	**41.77**	*24.7*	45.5	46.7
State Budget Deficit	78.495	70.28	**61.524**	*-21.6*	-61.5	-55.5

Notes: since 2005 amount of state budget tax revenues and expenditures is affected by fiscal decentralisation
** State budget approved by the Slovak Parliament*
*** Real performance (State Closing Account for 2004)*

State budget revenues for the year 2005 were augmented in comparison to the 2004 state budget by 10.9 per cent; the growth represents 7.35 per cent, after inclusion of inflation in real expression. From total revenues **tax revenues** comprise 78.5 percent, almost SKK 202bn, which have been subject to a nominal increase of 3.46 per cent in comparison to the year 2004. The change of the system of funding of municipalities and higher territorial units is the reason for the low increase of anticipated tax revenues in the state budget *(see pages 36-39)*. In collection of VAT and excise tax the 2005 state budget anticipates an increase of revenues.

Within the context of **non-tax revenues**, a significant increase of budgetary resources in connection with the introduction of the state treasury system and Debt and Liquidity Management Agency has been approved (by SKK 2.5bn).

The next revenue item of the state budget comprises **grants and transfers**. According to information of the Ministry of Finance, dividends should contribute to the 2005 state budget by SKK 13bn. Revenues from foreign transfers, which comprise EU budget funds, shall experience

a substantial increase – of almost 86.3 per cent in the 3 subsequent years, in comparison to the 2004 state budget.

State budget expenditures for the year 2005 amount to SKK 318.75bn. Compared with the amount of SKK 290.9bn in 2004, there was an interannual nominal increase by 9.57 per cent and 6.07 per cent real increase of expenditures under estimated inflation at the rate of 3.3 per cent. Transfers to the EU budget, as well as resources for co-financing projects, had cardinal influence on the amount of expenditures, in accordance with the substantiation of the Ministry of Finance of the Slovak Republic.

Expenditures on agriculture are one of the most negotiated issues in relation to the state budget. The expenditure section of the Chapter of the Ministry of Agriculture was influenced primarily by accession of Slovakia to the EU. Due to application of the EU Common Agricultural Policy (CAP) more funds are directed towards Agriculture, thus there is simultaneously an increasing need for domestic resources for co-financing.

Financial Resources for Agriculture *(in SKK bn)*	***2004***	***2005***	***Change (in %)***
Own resources from Budgetary Chapter of the Ministry of Agriculture of the SR	4.05	4.10	*1.2*
Resources from the EU (After-accession Funds)	9.95	11.84	*19.0*
Own Co-financing Resources (After-accession Funds)	3.88	3.69	*-4.9*
Budgetary Chapter of the Ministry of Agriculture of the SR Total	**18.58**	**19.54**	***5.2***
Resources from the EU (Pre-accession Funds)	0.38	1.54	*305.3*
Own Co-financing Resources (Pre-accession Funds)	0.23	0.31	*34.8*
Resources Total	**19.19**	**21.39**	***11.5***
Source: Draft Public Administration Budget for 2005-2007, 2005 State Budget Act			

Almost 60 per cent of the budgetary chapter is designated for the field of agriculture and the food processing industry. From a total of SKK 11.67bn, the amount reserved for direct payments (subsidies) to farmers comprises SKK 7.03bn thereof (approximately SKK 4.5bn from the EU, SKK 2.5bn from the state budget). The payments hence reach 54 per cent of the average of direct payments of the original EU-15 countries.

Direct Payments to Farmers *(in SKK bn)*	***2004***	***2005***
from EU Resources	3.4 (25%)	4.49 (30%)
from the Slovak State Budget	3.72 (27.5%)	2.53 (24%)
Expenditures for Direct Payments	**7.12**	**7.03**
as % of EU15 Average	52.5%	54%
Source: Draft Public Administration Budget for 2005-2007		

The Ministry of Finance was not satisfied with the allocated amount of compensation of direct payments to farmers. The initial proposal of the cornerstone of the state budget accounted for funding the payments to farmers up to the level of 42.6 per cent of the EU average. Some of the observers from the qualified public deemed the level of payments below the EU average to be positive, but they concurrently criticised the fact that it is higher than the minimum, thus 30 per cent. On the other hand, some of the voices supported higher payments and they demanded payments at the level of 60 per cent of the EU average.

Public debt of the Slovak Republic should reach SKK 632.67bn, ergo 44.9 per cent of GDP, in accordance with the public administration budget for the year 2005. In the course of the budgeted period from 2005 to 2007, its amount should stabilise at the level of 45 per cent of the anticipated GDP in 2007.

Evaluation of the Experts' Committee:

The Act on state budget for the year 2005 achieved the best rating among all the remaining measures of the 4th quarter of 2004, evaluated within the HESO project, being assessed by experts. Almost all the members of the experts' committee expressed their affirmative opinion on the Act. Preparation and adoption of the state budget is one of the crucial steps for economic and political stability of the country. Cutting down the state budget deficit from SKK 78.5bn in 2004 to SKK 61.5bn in 2005 and leading public finance back to the line of balanced state management met with positive responses of members of the qualified public.

Budgetary measures indicated a serious intention of the government to consolidate the budget and to head towards adoption of the Euro within the stipulated time frame. According to one of the experts, persuasion of the need to strive for a balanced budget is drawing to a close worldwide. Advocates of indebtedness of the next generations and delegation of the current problems to them almost remained "underground". Protagonists of sound balanced budgets shall be principally pursued in this century.

From the point of view of two alternative objectives which must be resolved by the government – reduction of budget deficit and funding development (concealed debt) in areas subjected to a recovery process, such as education and health care, the 2005 budget would be deemed as balanced by the majority of experts, "reasonably adjusted" and based on real assumptions. The fact that the Act on the 2005 state budget was adopted without any delays or obstructions should give evidence in favour of this statement. As one of the evaluating persons noticed, it will be very interesting to observe whether the government succeeds in maintaining state management within appropriate boundaries, without succumbing to the political cycle. The obligation to pay the liabilities vis-à-vis the Czechoslovak commercial bank (ČSOB) in 2005 should make it even more difficult. The fact that unlike in the Czech Republic, the Slovak government managed to construct such a budget, leading to Maastricht convergence criteria in the field of public finance deficit is also appreciated.

Several experts agreed that despite a budget of higher quality than in preceding years, political courage for a faster and more secure reduction of the deficit was insufficient, in order to meet the Maastricht criteria by the year 2007, for which the public administration budget was adjusted for the 2005-2007 period. The fact that Slovakia does not sufficiently employ its present high potential to reduce state budget expenditures in the period of favourable growth was commented on critically. The experts declared the need for a more effective utilisation of state resources, which should be indicated particularly in problematic areas, such as public tenders, or the considerably overpriced highway programme. According to the statement of one of the experts of the evaluation committee, public resources should be allocated for specific objectives that are approved by society; they should not be directed across-the-board to entities. We should allow the resources to be utilised on activities that may be performed by various entities depending upon their successfulness in transparent tenders. The budgetary process follows this direction; however, it should be faster.

The opinions of experts on individual areas of budgetary expenses differ moderately. According to one opinion, the approved budget could create development incentives, particularly thanks to an increase of some expenditure (transport). On the other hand, there was a viewpoint that the expenditure part of the budget includes a univocally high share of subsidies for the private sector at the expense of funding the key areas of the public sector. Particularly this concerns insufficient effectiveness of the utilised resources for the construction of a highway network and significantly opposite standpoints of experts were at this time directed against high expenditures on ineffective agriculture. The last sector mentioned features a traditionally negative issue. The present state, when the responsible agricultural department performs no radical activities in favour of a faster change of the all-European agricultural policy towards free competition was criticised. Thereby, a need for further resources from public funds (if the requirement is not cut down) for the support of agriculture arises.

Some of the experts appreciated the increase of expenditures on education and health care, even though none of the areas is at the desirable level. Funding of those areas is performed in the spirit of "making the best of what you've got". However, critically tuned standpoints pointed out the fact that the increase of expenditures, as in regional education, represented only topping-up of the increase of prices for inputs. Long-term insufficient funding of education is significantly indicated primarily in a drop of its quality. In the budgetary chapter of health care, higher state payments for economically inactive persons were perceived positively. First of all, the reform Acts increase the effectiveness of public health care, however the sector has been and still is insufficiently funded by public resources, which is manifested in comparison to other countries, not only Central European. It is also essential to account for the fact that Slovak health care's need for resources shall increase also owing to repayments of debts, the ageing population, progress in medicine, new serious diseases (AIDS, SARS), similarly to the present situation in other developed countries. Whereas the increase of resources is currently performed by augmentation of expenditures, the assurance system should be separated from the state budget in future, according to some of the experts.

Positive feedback in relation to relatively high redemption of the state debt principal and strengthening the financial discipline within the context of programme budgeting was also expressed in evaluating the state budget. On the other hand, there have been certain reservations against relatively high expenditures on debt servicing and a sceptical view towards effective utilisation of the State Treasury System. Experts regard the following areas to be problematic: the scheduled drawing upon EU structural funds, construction of highways in difficult terrain with high expenditures and the method of resource allocation in the field of housing policy and the amount set aside for individual objectives – support of building saving or assistance in the construction of lodgings. The establishment of the Environmental Fund and National Road Authority was labelled as a step backwards within the process of making the public finance management more transparent by one expert. Another one saw some troubles in launching fiscal decentralisation, which was prepared hectically, in his opinion, and self-governments were not adequately prepared for it.

Reservations of some experts related to, apart from the above mentioned issues, the relatively high increase of expenditures on force departments. According to one of the opposite standpoints, a good budget may not spend, in a civilised country, the minimum of resources on culture and education, while the expenditures on defence grow larger, although a war conflict is highly improbable in Slovakia and membership in the North Atlantic Treaty Organisation is voluntary.

According to a suggestion made, the Slovak state budget deficit should include generous EU transfers, thus from more affluent EU countries, e.g. from taxpayers from the Netherlands, Germany, or Sweden, since these resources are in most cases directed to essential projects (such as highways, sewage water treatment plants etc.), which would not be built up otherwise in Slovakia using its own resources, whereas it would concurrently afford an opportunity for tax cutting in the Slovak Republic.

Fiscal Decentralisation

Act on Budgetary Determination of Income Tax Revenues for Local and Regional Self-Government (municipalities - 70.3%, higher territorial units - 23.5%; criteria for reallocation of tax revenue to be set by the Government; at least SKK 33.4bn for the year 2005 stipulated by the law)

On September 23rd, 2004, the National Council of the Slovak Republic approved the government Act on budgetary determination of income tax revenues for local and regional self-government, which represents one of the Acts enabling the initiation of so-called fiscal decentralisation. Apart from this Act and government regulation on distribution of income tax revenues to regional self-government, the Act on budgetary rules for regional self-government and the Act on local taxes and local charges for municipal waste and small construction waste, belong to the measures of fiscal decentralisation. *(see page 38)*.

In accordance with the government's keynote declaration, the Ministry of Finance of the Slovak Republic elaborated a new system of funding municipalities and higher territorial units, based on the principle of strengthening tax revenues of municipalities and specification of revenues of higher territorial units. Fiscal decentralisation is a follow-up to the performed transfer of authorisations from state administration bodies to regional self-government, pursuant to the Act on the transfer of selected spheres of authority from state administration bodies on municipalities and higher territorial units. In terms of this Act, authorisations would gradually be transferred to self-government as of January 1st, 2002, until January 1st, 2004, when the first stage of decentralisation of the public administration was completed. The government of the Slovak Republic approved and launched decentralisation of public administration in 2000. Several Acts were adopted, which initiated the decentralisation process and regional self-government – higher territorial unit bodies were created. After the decentralisation of the majority of the authorities, which had to be passed over to regional self-government from state administration, within public administration reform, local state administration was reorganised (district authorities were dissolved, slimmed down local authorities and their detached offices were established) and a network of specialised bodies of local state administration was created.

Fiscal decentralisation is based on the principle that municipalities and self-governing regions do not receive subsidies from the state budget for the performance of so-called original authorities (pre-school and school facilities, social facilities, selected hospitals, municipal waste, attestation of documents, land planning, local police or collection of local taxes and charges), but those are funded from tax revenues, thus from income tax and local taxes *(see page 38)*. Thus, the present state was changed when allotment taxes were specified for the consecutive year in the Act on state budget each year, defining absolute value of the share from total revenue (natural person income tax), or by specification of the share on total amount of respective tax collected (legal entity income tax, road tax). The Act determined natural person income tax as allotment tax, since a dynamic increase of revenues from this tax is expected in subsequent years, as well as in the mid-term horizon, which is favourable from the point of view of raising the amount of resources for regional self-government. The Ministry of Finance also suggested natural person income tax, because of its being relatively steadily collected compared to other taxes throughout the calendar year, which is of high priority, from the point of view of construction of a financial plan and ensuring smooth formation of self-government resources. Fiscal decentralisation concerns funding self-government authorities of municipalities and higher territorial units, as such are defined in compliance with the legal regulation applicable. Authorisations performed by self-government in the mode of transferred execution of state administration are further ahead funded by state budget subsidies through the respective budgetary chapter.

Pursuant to the approved Act, 70.3 per cent of tax revenues from natural person income tax shall be routed to budgets of cities and municipalities in the year 2005, higher territorial units will get 23.5 percent and the remaining 6 per cent shall be kept by the state as a provision for guarantee for funding of selected authorities under objective influence not being dependent on operation of self-government. The distributed tax revenue is the actual revenue of self-government. The decision on disposal of the resources acquired from the allotment tax revenue shall be fully under the authorisation of a municipality or a higher territorial unit.

However, after having launched the change of funding regional self-government since 2005, fiscal decentralisation shall evince differently, from the point of view of budgeting in individual cities and municipalities, with respect to alteration of criteria of allocation of the collected funds from income tax *(see below)*. Some of the self-governments shall improve their position; on the other hand, some of them shall get worse, which was not perceived in a positive way by their representatives.

The Ministry of Finance argued against unsatisfied representatives of cities and municipalities, stating that the Act on local taxes granted full liberty for self-governments in determining tax rate (former local charges), which may be seized by municipalities to balance their budgets.

Tax revenue is reallocated and remitted to municipalities and higher territorial units by the tax authority, following the criteria, as set out by the government regulation as of December 2nd, 2004. Mr. Ivan Mikloš, Minister of Finance, assured that if a steady model of funds reallocation is found, it shall be incorporated in a legal provision, which shall substitute the government regulation.

Tax revenue from natural person income tax (70.3 per cent) shall be reallocated among **municipalities** in terms of the government regulation, based on several criteria:

- 23 per cent according to population of a municipality, 44 per cent thereof shall be recalculated by the altitude index of the municipality,
- 40 per cent according to the number of elementary art school and school facility students, recalculated by the art school index, or the school facility index (index of kindergartens with a small number of children is advantaged),
- 5 per cent according to population that has reached the age of 62 years,
- 32 per cent according to population with permanent address within its territory, recalculated by index in dependence on classification of municipality to size category.

Tax revenue from natural person income tax (23.5 per cent) shall be reallocated to **higher territorial units** as follows:

- 15 per cent according to population of a higher territorial unit with permanent address within its territory,
- 15 per cent according to the population of a higher territorial unit between the ages of 15 – 18 years,
- 32 per cent according to population of a higher territorial unit that reached the age of 62 years,
- 9 per cent according to inverted density of population of a higher territorial unit,
- 20 per cent according to road length of second and third class being possessed by a higher territorial unit,
- 9 per cent according to total area of a higher territorial unit.

Each higher territorial unit knows its indexes for the subsequent years, which shall be further multiplied by the share in tax revenue.

The new system of funding should, according to its submitter, strengthen independence and responsibility of self-governments in taking decisions on public resources utilisation for the provision of welfare services. The new model of funding should also contribute to stabilisation of regional self-government revenues for a longer period, to stabilisation of planning and budgeting, whereas the share of municipalities in national tax revenues was set arbitrarily every year until now – by the Act on state budget for the respective year.

Evaluation of the Experts' Committee:

Fiscal decentralisation shall fully enable regional self-government to perform tasks resulting from increasing authorities, which were transferred to regional self-government within public administration reform and space for a flexible response on the need has been created for cities, municipalities and regions. It shall concurrently afford an opportunity to create a certain "competitive" environment for municipalities for influx and stimulation of investments and business activities in general, as well as preconditions for improvement of the quality of life of citizens. The experts appreciated that some of the resources remain in the place where they originated. Self-governments are able to solve numerous issues better and more effectively than central administration bodies. However, proper monitoring of impacts of decentralisation and performance of adjustments shall be required. Certain temporary provisions could be accepted, according to some respondents, with respect to initiation of the reform and sorting out problematic steps and procedures.

Many respondents were afraid that despite long-expected and immensely necessary fiscal decentralisation, there is a significant risk of arbitrariness in taking decisions and finally a risk of less effective public resource management, at the present state of the development of Slovak society and quality of self-government, at least in the initial period. In Slovakia, the culture of advancing interests and initiatives by citizens at the lowest self-government level has not been wide-spread so far – democratic pressure on self-government bodies in the form of withdrawals, new elections, local referendums etc. The Ministry of Finance has strived to compensate for this partially by hard budgetary constraints, which is correct. Within the context of strengthening the influence of regional self-governments' influence in society, a respondent believes that a situation may arise where a strong interest group established on self-government base will be against the advanced reduction of taxes, particularly direct taxes – those being decentralised.

An opinion that smaller and economically less developed municipalities shall have lower revenues after launching fiscal decentralisation, which may threaten their development, was expressed. However, this negative issue may be eliminated by creating tools for rural development (not only in a declarative manner, as it is at present, but also by taking practical and financially supported measures for the start of economic activities). One of the respondents criticised biased quantification of the reallocation rate and stated that no system of financial compensation at a standard level has been defined. Several experts did not appreciate the fact that the criteria for reallocation of collected tax revenue is set forth by a government regulation. According to critics, the reallocation should be stipulated by an Act, since a higher predictability and stability of decisions would be achieved in that manner.

Act on Local Taxes and Municipal Charges for Municipal Waste and Minor Construction Waste (facultative local taxes; discretionary assessment of rates by municipalities and higher territorial units; compulsory municipal charge for municipal waste and minor construction waste)

On September 23rd, 2004 the National Council of the Slovak Republic approved the Government Act on local taxes and municipal charges for municipal waste and minor construction waste. The new legal norm integrated three legal regulations and all local taxes into one Act, which was aimed towards more transparent and simplified legislation, including tax administration.

The Act has enacted local taxes that may be imposed by municipalities and higher territorial units. It concerns facultative taxes, which have in most cases been collected by municipalities in the past, as local charges. A municipality, which conducts administration of those taxes, may determine, at its own discretion, how to impose them in its territory. Strengthening of influence of local taxes was expected, even from the point of view of their revenues. Apart from the funds being available to self-governments, a substantial part of the increased tax revenues is directed to respective budgets of municipalities and higher territorial units, in terms of the new Act on budgetary determination of income tax revenues for regional self-government. *(see page 36)*.

A municipality may impose these **local taxes**:
- real estate tax (of lands, buildings, flats),
- charges for a dog,
- tax on public area employment,
- accommodation tax,
- tax on vending machines,
- tax on non-win gambling machines,
- tax on entry and parking of a motor vehicle within the historical area of a city,
- tax on nuclear facilities.

Vehicle tax became one of the local taxes that may be imposed by a **higher territorial unit**. It results from basic principles of valid road tax up to the present time. A facultative taxi is concerned, which may be imposed and adjusted in respect to its rate, by a higher territorial unit by means of a general statutory regulation for its area. Motor and towed vehicles that have a license number and are used for entrepreneurship are subject to this tax. Tax administration in relation to motor vehicles is further performed by the tax authority, whereas the revenue from this tax shall be the revenue of the higher territorial unit that imposes such tax. That is the difference in comparison to other local taxes, in the case of which the tax administration body is concurrently the recipient (municipality) of the tax revenue.

The Act enacts an obligatory local charge as well. The **obligatory local charge for municipal waste and minor construction waste,** imposed by a municipality, was taken over from the Act on local charges.

Tax rates of individual local taxes were approved **without any minimum, or maximum limit** (limits mentioned in the Act are basically only of a commendatory nature; individual tax bases are binding within the act only) as municipalities and higher territorial units decide at their own discretion within a general statutory regulation of a specific tax rate valid within their area. According to the submitters, a space for raising and stabilisation of own financial resources essential for the provision of tasks performed by self-government bodies is created thereby. Critics point out missing limits, restricting the prospective will of representative bodies of cities, municipalities and self-governing regions towards tax escalation. They are afraid that self-governments will proceed in raising local taxes in order to compensate an eventual budgetary impact of the Act on budgetary determination of income tax revenues, since the total tax burden of the population and business sphere would increase thereby. Practically, a number of cities and municipalities raised their tax rates in 2005, in some cases even several fold (in municipalities and cities a decrease of rates occurred only occasionally and only in the case of some taxes). As

a response to local tax escalation, several business associations brought up the issue of determining an upper limit of those taxes again. However, the Ministry of Finance is not willing to change "tax competition" among municipalities.

Powers with respect to an option of tax exemption, or tax allowances related to local taxes, have been set out for municipalities and higher territorial units by the Act. Any self-government may proceed at its own discretion in this case as well (by an approval of a general statutory regulation), since there is no enumerative definition of conditions of allowances or tax exemption within the Act.

Performance of the intentions of submitters in the field of raising tax revenues from **real estate tax** anticipated a change to taxation on a value principle, as it is applied in other countries. However, the current state in real estate records and absence of legal and technical prerequisites of assessing the value of all real estate property in the Slovak Republic territory do not facilitate, according to the explanatory report, adoption of a radical change. Therefore a gradual, stage transition to the new taxation system should be made.

Within the context of the Act on local taxes, the submitters anticipated influence on the state budget in the nature of an increase of state expenditures, due to taxation of real estate property in possession of the state and higher territorial units (the whole tax revenue shall be directed to budgets of cities and municipalities). With respect to municipalities, an increase of yearly revenues from local taxes may be anticipated by SKK 1.1bn, in comparison to present revenues from real estate tax and local taxes. According to the Ministry of Finance, revenues of high territorial units should increase as well, since the whole revenue from vehicle tax shall be directed to their budgets. If higher territorial units impose this tax and keep the tax rates at the level of the present road tax, they may expect yearly revenues approximately amounting to SKK 2.5bn.

The Ministry of Finance did not anticipate, in its explanatory report, a substantial escalation of tax burdening of citizens, in comparison to the previous burdening by local taxes and charges, which depends to a great extent upon the self-government tax policy. Total tax burden should not rise, apart from other reasons, because of a repeal of real estate tax on transfer and transition as of January 1st, 2005.

Evaluation of the Experts' Committee:

Fiscal decentralisation enabled regional self-government to perform its powers, and space for a flexible response to the needs of cities, municipalities and regions has been created by local taxes. Fiscal decentralisation should motivate municipalities to create a sound business environment, a certain "competitive" environment for the influx and stimulation of investments and business activities in general, as well as increase the attractiveness of a municipality for life and living.

In the case of decentralisation, an increased risk is related to a lower rate of public inspection, therefore an effective regulation of processes which would prospectively allow or support corruption will be necessary. In order to avoid arbitrary acting of representative bodies and mayors, it will be essential to define restrictive measures and to create communication tools for the public, at the level of cities and municipalities, since there are numerous imperfections in this area and many municipalities do not facilitate any communication with its citizens. Local and regional politicians will have to compete for local electors, who will have to watch that self-government politicians do not misuse their powers. More accurate rules should be set out as well, to avoid customisation of local taxes for particular persons and companies, possibly for a bribe. For the purposes of predictability and stability of decisions in the business sector it would be helpful to set a longer validity of rates of local taxes, not to afford an opportunity to change those each year.

According to some entrepreneurs, the Act on local taxes is inconsistent both with the keynote declaration of the government of the Slovak Republic and tax reform concept, since a reassessment of the rates, or reduction of direct taxes and repeal of the majority of local charges were notified in those documents. Whereas there are no explicit upper limits for rates of most taxes stated in the Act on local taxes, a possibility for arbitrary raising of them, and thus opening space for corruption in tampering with local self-governments. The above given fact could mean a substantial escalation of the tax burden of the business sphere. On the other hand, some of the respondents were of the conviction that no significant escalation of taxes or instability will occur.

Measures of the National Bank of Slovakia

Interest Rates of the National Bank of Slovakia *(in % p.a.)*			
	Overnight		***2-Week REPO Tender Limit Rate***
Valid since:	***Refinancing Rate***	***Sterilisation Rate***	***Basic Interest Rate ****
Jan 1, 1993	-	-	- 9.50*
Dec 20, 1993	-	-	- 12.00*
Mar 17, 1995	-	-	- 11.00*
Oct 6, 1995	-	-	- 9.75*
Jan 13, 1996	-	-	- 8.80*
Feb 1, 2000	12.00	8.00	- 8.80*
Mar 27, 2000	10.50	7.50	- 8.80*
May 29, 2000	10.00	7.00	8.50 8.80*
Aug 31, 2000	9.50	6.50	8.25 8.80*
Dec 27, 2000	9.25	6.25	8.00 8.80*
Mar 26, 2001	9.00	6.00	7.75 8.80*
Jan 1, 2002**	9.00	6.00	7.75
Apr 27, 2002	9.50	6.50	8.25
Oct 30, 2002	9.50	6.50	8.00
Nov 18, 2002	8.00	5.00	6.50
Sep 26, 2003***	7.75	4.75	6.25
Dec 22, 2003	7.50	4.50	6.00
Mar 29, 2004	**7.00**	**4.00**	**5.50**
Apr 29, 2004	**6.50**	**3.50**	**5.00**
Jul 1, 2004	**6.00**	**3.00**	**4.50**
Nov 29, 2004	**5.50**	**2.50**	**4.00**
Mar 1, 2005	**4.00**	**2.00**	**3.00**

** until December 31, 2002 - Discount Rate*
*** since January 1, 2002 – the Discount Rate Level is identical with the 2-week REPO Tender Limit Rate Level*
**** since January 1, 2003 - setting the Basic Interest Rate which is identical with the 2-week REPO Tender Limit Rate*

Source: National Bank of Slovakia

Measures of the National Bank of Slovakia against Excessive Appreciation of the Slovak Koruna Exchange Rate (basic interest rate decrease by 1 percentage point; direct interventions on currency market; rejecting the option to deposit the excess liquidity of commercial banks)

In the 1st quarter, the National Bank of Slovakia (NBS) aimed for its measures to act against an excessive appreciation of the SKK exchange rate, which did not correspond to the development of economic fundaments, according to representatives of the National Bank of Slovakia. The following

instruments were used by the National Bank of Slovakia during the 1st quarter against appreciating SKK:

- reduction of key interest rates,
- direct interventions on the currency market,
- rejection of option to deposit the excess liquidity of commercial banks within a regular 2-week REPO tender,
- verbal intervention of NBS representatives.

The Bank Board of the National Bank of Slovakia considered the currency market situation to be unsatisfactory, since continuance of dynamic unbalanced SKK appreciation from the begging of 2005 could jeopardise meeting the inflation objective in the mid-term horizon. Acceptance of continuance of such development could, according to the National Bank of Slovakia, be evidenced in a significant aberrance of the present exchange rate from a balanced course in the consecutive period, which could be a risk in terms of redressing the balance in future by SKK appreciation, with undesirable impacts on price development and economic stability. Therefore, the National Bank of Slovakia was ready to utilise monetary instruments operatively, in order to reverse such an undesirable development in the exchange rate area.

The Bank Board of the National Bank of Slovakia adopted the decision on **reduction of key interest rates** on February 28th, 2005 at its session, effective as of March 1st as follows:

- the overnight sterilisation rate was reduced by 0.5 percentage point to 2 per cent,
- the overnight refinancing rate fell down by 1.5 percentage point to 4 per cent,
- the 2-week REPO tender limit rate dropped down by 1 percentage point to 3 per cent and
- the basic interest rate went down as well by 1 percentage point to 3 per cent.

In the year 2004, the adjustment of NBS interest rates was carried out four times, each time by 0.5 percentage point.

The comment of the Bank Board of the National Bank of Slovakia stated that the development of indices in December of real economy further corresponds to anticipated growth tendencies of domestic demand. The development of external balance showed the tendency of deepening of cumulative passive trade balance lasting several months with an expected impact on negative increment of net export on the created GDP in 2004. Development of consumer prices in January was favourable, in comparison to NBS expectations. In interannual comparison, the interest rate decreased significantly, due to influence of a lower degree of administrative price readjustment. Updated short-run forecasts of the National Bank of Slovakia pointed out the fact that dynamics of consumer prices growth should be slower in comparison to January. In adopting decisions on interest rates, the National Bank of Slovakia took the current development on the currency market into consideration as well. An influence of various factors influencing dynamic appreciation of the SKK/EUR exchange rate was also persisting in February. The nominal appreciation rate, as the tendency towards a continuing appreciation was not consistent, according to the National Bank of Slovakia, with a balanced development of SKK exchange rate and excessive appreciation of SKK, could, according to its statement, incur an excessive and unreasonable reduction of inflation, which would be achieved at the expense of economic growth. According to the National Bank of Slovakia, information on macroeconomic development did not constitute an appropriate incentive for a dynamic appreciation of the exchange rate, therefore it was obvious that the influence of short-run venture capital was concerned, motivated by expectations from further appreciation of the SKK/EUR exchange rate, as well as by a still relatively high positive interest differential.

Interest rates as set by the National Bank of Slovakia towards the end of February were higher than those of the European Central Bank by only one percentage point. Reduction of key interest rates was expected by the market, since banks provided loans to each other for a considerably lower interest rate than that being announced by the National Bank of Slovakia still several weeks prior to the reduction. Thus economists perceived the reduction of official rates only as an adjustment to the reality on the market. Therefore, the SKK was traded relatively peacefully on the day of reduction of key interest rates and even appreciated moderately after a lower rate was announced.

Some economists expressed an opinion that deposits with light interest yields and cheap loans may lead to a situation where consumption increases to such a degree within a country that traders will be obliged to raise prices and so inflation might get out of control.

The other central banks in the Central European region approached reduction of interest rates as well. In the Czech Republic, the Czech National Bank adjusted its interest rates at the end of March 2005, when it took a decision to reduce the 2-week REPO rate by 0.25 percentage point to the level of 2 per cent, to adjust the discount rate to 1 percent and to change the time loan rate to 3 per cent. The reduction of interest rates was carried out in January last time, likewise by 25 basis points. In Poland, the basic reference rate reached 6 per cent. Hungary had the highest basic interest rate in Europe at the level of 7.75 per cent. The National Bank of Hungary reduced its basic interest rate as of March 31st, 2005 by 0.5 percentage point.

Direct interventions on currency markets were performed in the 1st quarter of 2005 from the beginning of January. The Central Bank conducted direct interventions at the beginning of the year repetitively against appreciation of the SKK by purchase of currency funds on the free market. In the course of this period, not only the frequency of direct interventions, but also their amount increased. In January and February, it purchased EUR 2.18bn in total, via direct currency interventions and deals, whereas right through the year 2004, it conducted interventions amounting to EUR 1.6bn.

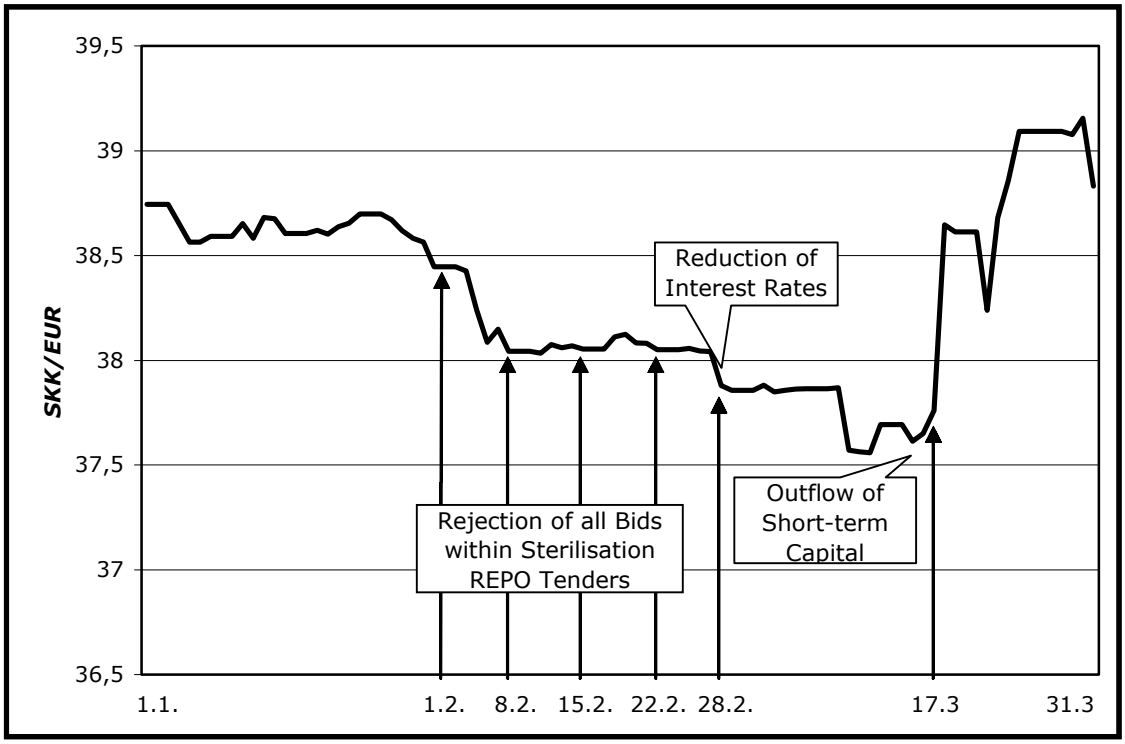
Some analysts expressed doubts related to sustainability of intervention policy, since at such a rate the amount of interventions could exceed 30 per cent of GDP. A loss incurred to the Central Bank, which could, on the other hand, mean profit for venture capital. The National Bank of Slovakia faced criticism for its massive purchase of EUR, which raised the amount of long speculative positions in SKK, and thus it exposed the domestic currency to higher volatility.

The Bank Board of the National Bank of Slovakia adopted a decision during its sessions on February 1st, 8th, 15th and 22nd, 2005 on **rejecting all bids in** the regular 2-week **REPO tender**. Thus the Central Bank attempted to slow down the SKK exchange rate appreciation in a new manner throughout February, by placing pressure on interest rates on the inter-bank market. The National Bank of Slovakia rejected the option to deposit unused capital of commercial banks in the projected REPO tender. REPO tender affords opportunities to deposit temporarily unused capital on NBS accounts for the agreed year every two weeks. Surplus capital incurred a fall of interest rates on the inter-bank market and paralysed dealing among banks immediately after that. Market overflow aimed to force down interest rates, applied in case the banks provide loans to each other. Lower rates imply lower attractiveness of SKK, and by that means its price expressed in the SKK/EUR exchange rate should be pushed down. The central bank attempted to act against an excessive appreciation of the SKK exchange rate four times throughout February.

The press release of the Bank Board of the National Bank of Slovakia stated that persisting dissatisfaction of the National Bank of Slovakia with the development of the SKK exchange rate was the reason for this decision, since particularly short-term capital connected with the expectations of further appreciation of the SKK exchange rate participated in its appreciation. A substantial portion of short-term capital is executed specially in sterilisation REPO tenders of the Central Bank by monetary transactions. Analysts claim that the market overflow was not a standard and long-term sustainable situation. The exchange rate reacted only moderately or not at all to this type of measure and commenced to appreciate a certain time after that.

The SKK exchange rate appreciated in January 2005, despite effects of central bank instruments. The New Year started at the rate 38.745 SKK/EUR. The National Bank of Slovakia utilised predominantly the direct intervention instrument in January, by means of which it partially managed to keep the limit of 38.50 SKK/EUR throughout the month. Towards the end of the month, SKK broke a record limit and continued its appreciation in the consecutive month as well. In February, the National Bank of Slovakia utilised the majority of its instruments against excessive SKK appreciation. At the beginning of February, the National Bank of Slovakia rejected four times consecutively the option to deposit surplus capital from commercial banks within regular sterilisation REPO tenders and acted against an excessive appreciation of the SKK exchange rate by means of repetitive interventions. By the end of the month, the National Bank of Slovakia reduced key interest rates by 1 percentage point. In spite of those measures, the SKK exchange rate persistently attacked record rates in February and towards the end of the month, the SKK exchange rate reached the limit of 3.88 SKK/EUR. A tendency of gradual appreciation continued until the middle of March (37.558 SKK/EUR), until an efflux of venture capital from Central Europe pulled down the SKK exchange rate (38.646 SKK/EUR). Apprehensions from political instability in Poland were the immediate cause of the outflow of short-term capital ("hot-money"). Thus the SKK exchange rate depreciated (max. 39.155 SKK/EUR) and reached the level of 38.832 SKK/EUR in late March, whereby the SKK basically returned to its positions of a quarter ago. The National Bank of Slovakia considered the unexpected efflux of capital as an affirmation of its cautions on excessive SKK appreciation.

1Q 2005 Development of the Slovak Koruna/Euro Exchange Rate



Note: NBS direct interventions on currency market: January - EUR 290m, February - EUR 1890m

Source: National Bank of Slovakia and Slovenská sporiteľňa

Economists agreed on the issue that entries of the National Bank of Slovakia on the currency market and sale of SKK for EUR were of the highest efficiency on depreciation of the SKK exchange rate (direct interventions) among the mentioned monetary instruments. However, they explicitly stated that those had only a short-term impact on the SKK exchange rate. Development of basic macroeconomic indices alongside the ongoing influx of foreign investments and improving rating of the country namely brought about positive expectations of the market, regardless of potential interventions of the National Bank of Slovakia that had a negative impact on the SKK exchange rate only on a short-term basis. The International Monetary Fund advised the National Bank of Slovakia to focus rather on inflation objectives, not on protection of a certain currency exchange rate.

The strong SKK exchange rate is convenient for citizens travelling abroad, importers and for the population in general, since their savings in SKK shall be exchanged to EUR using a more favourable exchange rate. Appreciation of the SKK is inconvenient for exporters and entrepreneurs in the area of domestic tourist traffic.

Evaluation of the Experts' Committee:

Measures of the National Bank of Slovakia against excessive SKK exchange rate appreciation faced significant criticism of analysts. They expressed their apprehension that the inflation objective did not play an appropriate role in decisions of the National Bank of Slovakia. The Central Bank has to supervise price stability, which is more substantial than a certain currency exchange rate for an economy. Despite the fact that proper adjustment of the exchange rate is important for entities operating in an economy, making the exchange rate the principal and more or less the only point of monetary policy of the National Bank of Slovakia did not seem to be the most appropriate move at all, according to critics. The official monetary policy of the National Bank of Slovakia aims to maintain price stability on one hand, but on the other hand the action of the bank demonstrated that primarily attenuation of the appreciation of the SKK exchange rate was its objective.

According to a few people, the National Bank of Slovakia did not have any reasonable vision of the position where the equilibrium point should be located, thus the interventions were unsubstantiated, hardly understandable, and they turned out not to be efficient enough and no speculative attack came up. The Central Bank did not manage to persuade that the SKK exchange rate appreciation would correspond to economic fundaments and jeopardise the foreign trade of Slovakia. Release of the monetary policy by reduction of interest rates in the stage of high growth would, on the contrary, manifest in an excessive growth of credit and overheating of the economy and so in reinforcement of inflation tendencies, which could be much more dangerous than

a strong SKK exchange rate for citizens. Leaving the influence of the market mechanism to act on pricing would be the most adequate response, especially when the National Bank of Slovakia did not have control of the SKK exchange rate. A little more humility in relation to market indications could have saved a part of direct, as well as indirect expenditures spent on exchange rate rectification. Measures of the National Bank of Slovakia against excessive SKK exchange rate appreciation had a remarkably lower effect than respective expenditures, according to a considerable part of the qualified public.

The battle against SKK appreciation was pointless, according to a lot of evaluating persons, since an appreciating exchange rate was a consequence of a natural, faster convergence of the Slovak economy in comparison to foreign economies. The Slovak Republic is undergoing strong restructuring, particularly in recent years, also thanks to entry of new foreign investors, who create new production export-oriented capacities. Whereas the Slovak Republic has suffered from chronic foreign trade deficit, it may get into a situation of low deficits, or a balanced trade balance (the National Bank of Slovakia even expected a surplus) and so SKK appreciation shall reflect such situation. Several experts were convinced that Slovakia may afford a stronger currency; furthermore it will not even avoid it in future.

Direct interventions to such an unusual extent raised the vulnerability of the currency, which was affirmed, since the regional shock (*note: outflow of "hot-money" from Central Europe)* induced huge volatility on the side of the SKK, higher than in the neighbouring Czech Republic, or Hungary. According to critical voices, the National Bank of Slovakia thinks excessively on a short-term basis in such cases. Continuation of intervention activity would not be sustainable in such volume. The National Bank of Slovakia should assess each of its decisions from the point of view of compatibility with a mid-term objective.

Overcrowding the market with liquidity may, on one hand, have a short-run effect on the exchange rate, however the price, in terms of the paralysed money market and capital market, would be too high, according to the opinions of experts. Uncommon rejection of the option to deposit surplus liquidity made the pricing on the money market disorganised and it would be unsustainable after a certain time.

According to several evaluating experts, reduction of key interest rates by 100 basis points inadequately increased the probability of the economy overheating alongside potential demand-pull inflation within the period crucial for meeting of the Maastricht criteria. The SKK exchange rate will have to be steady, immediately prior to accession to the Euro zone (ERM II - Exchange Rate Mechanism). In the event that Slovakia enters this "protective" period with unnaturally undervalued SKK, it will not be possible to achieve that. Depreciation of the SKK, as a consequence of measures of the National Bank of Slovakia, namely means an increase of inflation, which should be limited within the "protective period" as well. Therefore, exchange rate appreciation should not be obstructed. NBS policy should lead towards criticism of the rules of the European Central Bank, which admits revaluation of central parity of currency, provided that such currency has been in the Exchange rate mechanism II for at least two years, however they do not admit its devaluation. Interests of candidates for membership in the Euro zone are thereby injured. A reasonable and responsible policy should not be to adopt them passively, but to negotiate actively and to propose an alteration of the rules. Besides that, steps of the National Bank of Slovakia against a strong SKK exchange rate limited space for price convergence of the Slovak Republic with the remaining EU countries, whereby purchasing power of the Slovak population was restricted.

One of the respondents perceived the measures of the National Bank of Slovakia against SKK exchange rate appreciation partially as a barrier, and eventually a slow down of further restructuring of the production and export sector in Slovakia, which would otherwise have had to face its higher prices of production with extensive innovations. According to the opinion of another expert, apprehensions concerning the strength of the exchange rate came only from the National Bank of Slovakia and one lobby association of employers, whereas domestic analysts, the International Monetary Fund, the EU, as well as the European Central Bank had a different attitude towards the issue.

The measures of the National Bank of Slovakia had their proponents among the evaluating experts as well. They appreciated the constant monetary policy of the National Bank of Slovakia in the long-run, as well as the professional approach of the responsible members of the Bank Board. The utilisation of a wide range of instruments by the National Bank of Slovakia gained a positive rating. The proponents pointed out at the fact that NBS activity did not play into the hands of commercial banks, since they were forced to act in a different manner to how they had been acting previously and therefore vast criticism was perceived from their side. According to them, reduction of key interest rates had a positive impact on availability of credits for business entities and households, since they become cheaper, which fosters the development of the domestic production sector and demand. A weak SKK exchange rate is an advantage to Slovak exporters.

In the recent past, respondents criticised inconsistency between the declarations of NBS representatives several times, and inconsistency of the government towards the development of the exchange rate and consequential actual steps of the National Bank of Slovakia. According to them, the communication of the National Bank of Slovakia was not adequate, which reduced its trustworthiness.

Privatisation

Concept for Further Steps in Privatisation and Final Privatisation of Strategic Enterprises and Other State-owned Companies (final privatisation of 51% of shares in 3 electricity distribution companies, Slovak Airlines and 2 airports; privatisation of 51% of shares in heating companies, 66% of shares in Slovenské Elektrárne (Slovak Electricity Company), privatisation of newly-established Railway Company Cargo (carrying goods); state-owned shares in other companies will not be privatised in the meantime)

On September 14th, 2004 the government of the Slovak Republic approved the concept for further steps in privatisation and final privatisation of strategic enterprises and other entities. The proposal, which originated from the Ministry of Economy of the Slovak Republic stems from the keynote declaration of the government of the Slovak Republic, where an objective to complete the privatisation process under conditions favourable for the state, respecting transparency, adhering to economy competition principles and advancing state interests in the companies with a state share that have already been privatised.

In power engineering, the main emphasis was placed on specification of final privatisation of three electricity distribution companies. The intentions of final privatisation of natural energetic monopolies are linked to the changes in the power engineering field in EU countries. The deregulation process and liberalisation change the monopoly structure in favour of creating a competitive environment; therefore, substantial changes related to transformation, restructuring and continuation of privatisation of ultimate branches.

The first stage of **privatisation of three electricity distribution companies** was approved by the government in 2002. **Západoslovenská energetika**, a.s. Bratislava (a power distribution company) has been privatised by direct sale of 49 per cent of the shares to a German company E.ON Energie. An equal parcel of **Stredoslovenská energetika**, a.s. Žilina (a power distribution company) was directed to the French company EDF and 49 per cent of the shares of **Východoslovenská energetika**, a.s. Košice (a power distribution company) to the German company RWE.

The Ministry of Economy proposed to act in the sale of each distribution company individually and in stages, with the aim of achieving the highest possible price. Conditions for existing investors should be taken into consideration. With respect to the significance and complexity of the power engineering issue, a suggestion to provide for privatisation counsellors for the process of final privatisation was made. In the case of Západoslovenská energetika, a specific sequence of final privatisation of 51 per cent of the shares was delivered to the National Council of the Slovak Republic, so that 41 per cent of the parcel would be sold to the present owner – E.ON Energie by the end of 2004 (however, this was not performed; the final privatisation process was delayed) and 10 per cent would be sold on the Slovak capital market by the end of 2005 (however, E.ON indicated its interest in that parcel of shares as well). It depends on a legal analysis of the privatisation counsellor of the profitability of various methods of final sale of the remaining parcel of shares and on an assessment of the Ministry of Economy as to whether it will proceed under this concept. If 41 per cent of the shares of ZSE were sold to the E.ON company (in the words of the Minister of Economy, Mr. Pavol Rusko, from last year, it could assure yield amounting to SKK 14.5bn), the said German investor will have a 81 per cent share in ZSE (E.ON namely sold 9 per cent of the shares of ZSE to the European Bank for Reconstruction and Development in November 2003). The Minister of Economy would like to consequently use the investment contract concluded with the ZSE company as a specimen in negotiations with prospective investors of VSE and SSE companies. At the present time, privatisation counsellors are being selected for these two companies.

A group of six **heating companies** has not been included among natural monopolies, in terms of the Act on conditions of transfer of state property to third persons. The Ministry of Economy deems sale of 51 per cent of shares to a strategic investor, whereas 51 per cent of shares shall be transferred to cities where the respective company is situated, to be the optimal manner of privatisation of those companies, under the adopted concept.

The intention and sequence of privatisation of the **Slovenské elektrárne** (SE), a.s. (Slovak Electricity company), the structure of which consisted of 100 per cent interest of the National Property Fund of the Slovak Republic, was specified on the basis of separate documents. Early in October 2004, the government namely approved the sale of a 66 per cent share of the Slovenské elektrárne to the Italian energetic company Enel *(see page 48)*. Formal privatisation proceedings

of the Slovenské elektrárne were concluded on February 17th 2005 upon signing transaction documents, based on which the Italian investor acquired 66 per cent of shares of the Slovenské elektrárne for EUR 840m (SKK 33.6bn).

In the case of the **Slovak Electricity Transmission System Company** (SEPS), a.s., of which a 100 per cent parcel of shares is owned by the National Property Fund of the Slovak Republic, the Ministry of Economy, authorised to exercise shareholder's rights, did not recommend its privatisation. With respect to the significance and nature of the company, the Ministry of Economy suggested keeping the interest in the hands of the state, whose interests are represented by Slovak Electricity Transmission System Company.

The previous privatisation in the gas and oil industry related to a 49 per cent share of interest of the National Property Fund of the Slovak Republic in the **Slovenský plynárenský priemysel**, š.p. (SPP) (Slovak Gas Industry) and **Transpetrol**, a.s. in 2001. A share of the first above-mentioned companies has been purchased by a syndicate of the Ruhrgas and Gas de France companies *(note: according to issued news, Russian Gazprom will not utilise their option on purchase of 16.33 per cent of shares of SPP in the end)*, a Russian company Yukos gained the interest in Transpetrol. The Ministry of Economy did not propose privatisation of the remaining 51 per cent of shares. It declared favourable outcomes of both companies to be the reason for that.

The Ministry of Transport, Post and Telecommunications of the Slovak Republic reckoned on final privatisation of the whole state stake of 89.49 per cent of shares in **Slovak Airlines**, a.s. in the near future. The method of direct sale to a predetermined candidate has been proposed. However, the Austrian company Austrian Airlines, which capitalised its emergency loan granted to Slovak Airlines, got hold of a 62% share in SA by increasing the basic capital. **Two airport joint-stock companies** are other companies falling within cognizance of the department of transport. At the present time, the department of transport has submitted a concept of privatisation of M.R.Štefánik Airport – Airport Bratislava, a.s. and Letisko Košice Airport, a.s., for annotation proceedings, in terms of which the department proposed to sell at least 66 per cent of shares to a strategic investor. In accordance with the recommendation of a privatisation counsellor, 34 per cent of the shares should be kept in the possession of the state in this stage. (The government decided that both the city of Bratislava and the Bratislava self-governing region shall each get 10 per cent of shares of the Airport in Bratislava and the Ministry of Transport, Post and Telecommunication shall keep 14 per cent). An international selection procedure for investors was scheduled to be announced in July 2005 by the Ministry of Transport, Post and Telecommunication and the final privatisation decision shall be published in December 2005.

The Ministry of Transport, Post and Telecommunication made great progress in the transformation process of the **Railway Company**, a.s. the said company ceased to exist as of January 1st, 2005 and two succession companies were incorporated concurrently – **Railway Company Slovakia**, a.s., with the subject of its activities consisting of passenger transport, and **Railway Company Cargo Slovakia**, a.s., which provides railway cargo transport. The said transformation was the first stage of a consequential privatisation of Railway Company Cargo Slovakia. The privatisation of the whole interest of the state in Railway Company Cargo Slovakia, i.e. 100 per cent of shares, should be performed by direct sale to a strategic investor that wins in the international selection procedure. Late May 2005, the government of the Slovak Republic launched the international public tender for the sale of Railway Company Cargo Slovakia, by means of the press. Candidates should submit their preliminary offers to the privatisation counsellor by the end of July 2005, when preferred investors should already be selected. Final offers should be submitted in October 2005, whereas the contract with the acquirer should be signed by the end of the year. The Minister of Transport, Mr. Pavol Prokopovič anticipates revenue from this privatisation amounting to SKK 15 to 20bn. In the case of **Railways of the Slovak Republic**, (owner of the track infrastructure), transformation of the regional railways was considered, according to the submitted concept for further steps of privatisation and final privatisation, however without any change of the proprietary relationship.

As stated within the concept, the Ministry does not reckon on privatisation of 34 per cent of shares (the other 15 per cent is in the possession of the National Property Fund of the Slovak Republic) in **Slovak Telecom**, a.s. in the forthcoming period. It is predominantly related to a good development within the company and in the words of the Minister of Economy, Mr. Pavol Rusko, due to a less than optimal situation on foreign markets, the price would not have to be profitable for the state. The Minister expected an increase of internal value of the company, with respect to investment intentions of Deutsche Telecom, the owner of 51 per cent of shares of Slovak Telecom. **Slovak Post**, a state-owned company, was transformed into a joint-stock company with a 100 per cent state interest, pursuant to the Act on transformation of Slovak Post. The government should further decide whether the company will be privatised alongside dealing with post market liberalisation. However, liberalisation within this electoral term is not anticipated.

Evaluation of the Experts' Committee:

The experts' committee agreed in the majority with privatisation, and with final privatisation of the remaining state interests in various companies. The role of the state should not lie in entrepreneurship. The state is usually a worse manager than private entities. Concurrently, it is essential to increase competition by creating preconditions for the entry of new players to the market in all sectors. It has been proved that Europe heads towards liberalisation and in most cases it is approved. The executing process of individual privatisation projects itself shall be very important, which may be evaluated as successful if the government avoids previous mistakes in selection of privatisation counsellors and strategic investors.

One of the respondents would redefine what the so-called strategic companies are and he would divide them into a group that shall be not privatised by the state because of clearly defined reasons and another group of those that will be privatised partially. The state should keep an equal share in each of the companies within the second group, which should be an objective (block parcel). There is no sense in defining companies that will be sold completely by the state as strategic companies. Several experts presented their opinion that the Slovenský plynárenský priemysel (Slovak Gas Industry), Transpetrol (after the resolution of the Yukos issue), Slovak Telecom, Railway Company Slovakia, Railways of the Slovak Republic and Slovak Post should be sold in final privatisation or in privatisation as well. One of the respondents agreed with privatisation of all the remaining state-owned property, with the exception of the electricity distribution network and railway infrastructure. Another one pointed out problems in privatisation of railway companies in Europe and so he does not have blind faith in the case of Slovakia. Heating companies should be completely privatised, according to another respondent and the influence of an independent regulating authority should be increased, and he claims that part of the property should not be transferred to self-government. An opinion that there is nothing to privatise in the case of Slovak Airlines was also presented (the issue of financial assistance from Austrian Airlines (AUA) and its consequential capitalisation) and a belief that it shall have no impact on privatisation of airports was also expressed. *(Note: AUA is one of the entities interested in the airport in Bratislava).*

There was an attitude, questioning the need for privatisation of flourishing companies, against the opinion that it is necessary to privatise all the companies. With respect to privatisation, corruption and non-transparent funding of political parties were pointed out. According to this opinion, a general statement that the state is a bad manager applies in an environment where no morality or ethics are found.

Privatisation of Slovenské Elektrárne, a.s. (Slovak Electricity Company) (66% share for SKK 33.6bn (EUR 840m) to the Italian Energy Holding Company Enel)

The government of the Slovak Republic approved at its session, on October 2004, a Proposal for the selection of a preferred strategic investor for the privatisation of Slovenské elektrárne (SE), a.s. (Slovak Electricity Company). It made a decision by a resolution that the 66 per cent share parcel of the state-owned joint - stock company shall be sold to the Italian Energy Holding Company Enel.

The offer of the Enel company was recommended by the Minister of Economy, Mr. Pavol Rusko, based on the approval of the investor by the privatisation committee, advisory body of the government, which identified itself with the decision of the privatisation counsellor - PricewaterhouseCoopers. In terms of the final offer, Enel shall pay EUR 840m (SKK 33.6bn) for the 66 per cent parcel of the Electricity Company. In case of failure of negotiations with the first investor, the committee commended the Czech Power Company as an alternative investor, with an offer amounting to EUR 691m (SKK 27.5bn).

Four foreign candidates have definitely submitted their binding offers within the tender for the purchase of Slovenské elektrárne, a.s. Besides Enel, the Czech Power Company (ČEZ) and Russian InterRAO, the Austrian company Verbund presented its participation within the tender too by submitting its final offer. Only the purchase of conventional assets of the Slovak Electricity Company was in its interest, thus exclusive of the nuclear section. Verbund did not meet the required conditions, therefore the privatisation counsellor did not consider its offer further. Among the remaining candidates, the Italian Enel was assessed as being the most appropriate candidate, from both a financial and technical point of view. Apart from the highest price, it proved to have the highest rating and financial force in the nature of market capitalisation (USD 39bn, whereas USD 3.7bn in case of Czech Power Company and USD 7bn in the case of Inter RAO).

Final Rating among Bidders for Majority Stake in SE			
	Technical Criteria *(max 10 points)*	**Financial Criteria** *(max 90 points)*	**Total Points** *(max 100 points)*
Enel	7.55	86.7	**94.25**
ČEZ	7.09	72.2	**79.29**
InterRAO UES	5.45	67.8	**73.25**
Source: weekly Trend, PricewaterhouseCoopers			

The parcel being privatised consisted of Slovenské elektrárne, a.s. en bloc including conventional and nuclear assets. In the course of the privatisation process, lasting several years, the water power plant Gabčíkovo, being the subject of a dispute between Hungary and Slovakia in the International Court of Justice in The Hague, was excluded from the sale of Slovenské elektrárne. Slovenské elektrárne faced several pending issues, including high indebtedness (bank loans estimated at SKK 46bn), sunk costs (estimated at approx. SKK 80bn by Slovenské elektrárne), the nuclear power plant A-1 Jaslovské Bohunice after a breakdown and the V-1 power plant, which had to be decommissioned, in terms of commitments to the EU by the year 2008, and the 3rd and 4th block of the Mochovce power plant among others. The candidates had an opportunity to demand exclusion of A1 and V1 power plants in Jaslovské Bohunice from the property purchased.

The Italian company **Enel** demanded, in its original proposal, cancellation of unfavourable long-term contracts with the companies Steam-Gas Energy Producer Bratislava (amounting to approximately SKK 7.8bn) and Aluminium Works Slovalco, from Žiar nad Hronom (SKK 7.6bn). After an appeal of the counsellor for specification of the offers, Enel accepted unfavourable contracts, but stuck to its requirement not to take over the nuclear power plant A-1 which had had a breakdown, and V-1 in Jaslovské Bohunice, which is worn out. However, Enel presented its willingness to operate both blocks of the power plant. Decommissioning and dissolution of nuclear sources shall be settled from the State Fund for the dissolution of nuclear energetic plants, which has been formed for several years from a part of the sale prices of nuclear energy. The obligation of the investor to fund the decommissioning of the power plants shall thus be left out.

Retrieval of a strategic investor, which shall perform sanitation and restructuring of the Electricity Company, reduce inefficiency risk and eliminate the risk of political interference in economic processes, was one of the main arguments in favour of privatisation of Slovenské elektrárne. It was expected that the foreign investor would be able to solve the problem of high sunk costs in a more effective manner. The facts that the Slovak network companies will have to be included in the European network of the system of network companies and that it shall be a task of a strong foreign investor to play a key role within this process were in favour of the said statement. The investor shall also take over the liabilities resulting from high bank loans, whereby the state shall not be responsible for high guarantees and the requirements on state debt service will be decreased. All three candidates were capital-strong companies, unlike the indebted Slovenské elektrárne, and therefore new management methods, and capital contribution, as well as investment in development projects will be expected from the incoming investor.

The government has been working on the sale of Slovenské elektrárne for approximately two years – the international tender for the sale of the share of the Slovak Electricity producer was announced in August 2002. The first sale offer comprised a minority (max. 49 per cent) stake in the Slovenské elektrárne, the government offered a 66 per cent share for sale through its later decision from the beginning of the year 2004.

The formal process of privatisation of the Slovenské elektrárne was completed on February 17th, 2005 upon signing transaction documents. Immediately after signing, Slovakia received a fifth of the sale price; the amount shall be balanced after definitive take over of the Slovenské elektrárne by Enel. However, this is not expected sooner than at the close of the year 2005. Fulfilment of the so-called suspensive conditions – elaboration of an investment plan, detachment of A1 and V1 nuclear power plants in Jaslovské Bohunice, of a plant for decommissioning of nuclear energetic facilities and of separation of the Gabčíkovo hydroelectric dam as a water management system came up after signing the acquisition contract. With respect to the complexity of the transaction, Enel asked, in July 2005, for a prolongation of the term for elaboration of the investment plan by the end of August 2005.

Evaluation of the Experts' Committee:

The privatisation of the Slovenské elektrárne itself was evaluated as essential by the vast majority of the evaluating committee. Various attitudes, a remarkable part of them being negative, however related to the preparation and the progress of the whole privatisation process of the Slovenské elektrárne and to the final selection of the candidate for the purchase of a 66 per cent share of the Slovenské elektrárne. Insufficient transparency of the sale (however an opinion that privatisation of the Slovenské elektrárne was conducted transparently and in compliance with the

rules), gloomy criteria, adjustment of the conditions in the course of the tender, non-standard media announcements of the Minister of Economy, Mr. Pavol Rusko, and incomparableness of individual offers were particularly criticised. Several respondents agreed that the price criteria were excessive weight and such emphasis was not placed on other conditions, which was a likely reason for the problems at the beginning of the negotiations with the winner of the privatisation tender – Enel. Some of them preferred concurrent negotiations with several interested persons. It will be substantial to decide final terms with Enel, in order to minimise media risks. The evaluating persons believed that state representatives will utilise privatisation experience in negotiations, including negative experience from the preceding projects.

Apart from the point of view that the Slovenské elektrárne acquired a strong strategic investor, which is competitive on the European market, several of the evaluating persons pointed out that Enel, as well as other persons interested in purchasing Slovenské elektrárne were in majority possession of a government of another country, thus it was not a privatisation that was concerned at all, but a "transfer between states". According to them, this would not provide assurance of more efficient operation of the Slovenské elektrárne and it would pose certain risks. Whether being privatised by Enel, or the Czech Power Company (ČEZ), nothing would be changed regarding the fact that the Slovenské elektrárne will have to act in a strictly competitive market manner. Arguments regarding relations and neighbourhood of the networks were misleading in the words of one respondent and such argument will not stand. Other respondents did not see any reason for the sale of 66 per cent of the share of the Slovenské elektrárne in that period, moreover when the decommissioning was not resolved, eventually finishing the construction of nuclear power plants. According to them, inexpedience of that sale could be professionally proved as well.

An opinion was presented that any privatisation, even an unsuccessful one, is always better than no privatisation. Furthermore, when all state shares are owned privately, all the discussions on timing, transparency of the course and on winners of the tender will be pointless.

State Aid • Support of Investments

In 2004, companies in Slovakia received support in the form of **state aid** amounting to SKK 9.172bn (not including transport support amounting in total to SKK 13.053bn, of which railway subsidy for the settlement of the so-called services in public interest – SKK 7.606bn), which comprised SKK 1,704 (EUR 42.5) per inhabitant. For the purposes of comparison, state aid reached in the new EU-10 member countries, in the 2000-2003 period, an average amount of EUR 150 per inhabitant annually, whereas in the original EU-15 member countries that indicator amounted to EUR 94, according to European Commission data.

State Aid in the EU* *(2000-2003)*	**Share of GDP** *(in %)*
Malta	3.86
Cyprus	2.85
Czech Republic	2.80
Poland	1.29
Hungary	1.04
Slovenia	0.69
Slovakia	**0.51**
Lithuania	0.26
Latvia	0.24
Estonia	0.11
EU10	*1.42*
EU15	*0.39*

** without agriculture and transport aid*
Source: European Commission, daily SME

In 2004, tax allowances were the most common form of state aid in Slovakia, which were utilised in the largest extent by U.S. Steel Košice (almost SKK 3bn) and Volkswagen Bratislava (almost SKK 2.5bn). Almost SKK 3bn was aimed at investment incentives for PSA Peugeot Citroën in Trnava last year, in the form of regional aid. Expenditures on the support of Hyundai/KIA Motors investment in Žilina have not been included in the provided state aim in 2004 (total amount of EU-compatible state aid of this investment – almost SKK 7bn). Provision of state support is conditioned on the approval of the European Commission as of May 1st, 2004.

State Aid in the SR *(in SKK bn)*				
2000	***2001***	***2002***	***2003***	***2004***
11.1	7.1	6.1	6.9	9.2

Source: Ministry of Finance of the SR, daily SME

Following ING Bank analysis, a three times higher amount of investment per inhabitant, similarly as to Czech Republic, shall flow to Slovakia, within the 2000-2006 period, than to Hungary or Poland, whereas the Slovak Republic has an extraordinarily strong position in respect of inflow of investments to equity and "green field" investments (so-called new money).

Foreign Direct Investments in the SR				
	2002	***2003***	***2004***	***2005****
FDI contracted *(in EUR m)*	311	1,164	1,707	1,951-2,073
Number of new jobs projected	5,400	7,970	13,500	20,000

** Estimate*
Source: Slovak Investment and Trade Development Agency SARIO

Governmental Support to Hyundai/KIA Motors for the Construction of a Car Plant near the City of Žilina Amounting to SKK 8.83bn (Contract between Hyundai and the Slovak Government)

On 4 March 2004, the Government of the Slovak Republic approved the Draft Investment Contract regarding the proposed construction of a car assembly plant near Žilina between KIA Motors Corporation, the Slovak Republic and the City of Žilina as well as the Investment Contract on the proposed construction of a car spare-parts and modules manufacturing plant near Žilina between Hyundai Mobis, the Slovak Republic and the City of Žilina. Following the conclusion of the

investment contracts on 5 March 2004, in mid March the Government approved the Memorandum of Understanding between the Government and Hyundai/KIA Automotive Group, signed by the Prime Minister and the President of Hyundai KIA Automotive Group. The document expresses both parties' desires to implement and fulfil the provisions of both investment contracts.

The Investment Contracts has set legal obligations and duties, according to which both Korean companies, KIA and Mobis, will build a car manufacturing plant and a plant for spare parts for KIA. Furthermore, the Slovak Republic and the City of Žilina have undertaken to render necessary assistance and support to both companies, exert adequate effort so that all required permissions are granted, and endeavour to ensure generally favourable development of the business environment with a positive impact on the whole area of car and spare-parts manufacturing.

The new car manufacturing plant will be built approximately 10km from Žilina on the area of 166 hectares. The structures should be finished in late 2005 and in 2006. When the plant launches production, KIA is expected to directly employ 2811 people. The annual production of three different models is forecasted at 300,000 cars a year. The total investment of KIA is set at EUR 1.15bn (SKK 46.5bn). Of this amount, the car manufacturer, KIA Motors, will expend EUR 900m (instead of initially intended EUR 700m) and the supplier of spare parts, Hyundai Mobis, EUR 250m (instead of initially intended 190m). The concern plans to finance a half of the investment from its own resources, the remainder will probably be obtained from a European loan. Within the state support, KIA will not be granted any tax holidays as the support will rather be directed to the construction of the plant itself. Total public expenditures associated with this investment project will reach SKK 8.83bn. Of this amount, direct financial assistance should reach SKK 6.93bn. These funds will be used for the acquisition of freehold, procurement of fixed assets and allowance for the education of future plant employees. The proposed amount of the subsidy is consistent with the EU rules that stipulate that a state may offer an investor assistance totalling to maximum 15% of the total volume of investment (in this case SKK 6.975bn). The remaining tranche of the state support of SKK 1.9bn will be spent for the roads and infrastructure in the region.

Of the total state subsidy, SKK 2bn will be necessary as early as in 2004. After deducting tax effects, in the opinion of Ivan Mikloš, the Minister of Finance, this year it will be necessary to allocate SKK 1.5bn to 1.6bn to the project from the state budget. The Minister of Finance planned to get the money from the budgets of other ministries as the Members of Parliament, when voting on the budget, reduced the 2004 state reserve to SKK 260m. The exact state subsidy financing plan was to be approved by the Ministers in April. However, some members of the Cabinet disagreed with financing the subsidy from individual ministries' budgets, which was the most likely solution, because some anticipated projects will have to be cancelled and some ministries' budgets will be cut down. The Deputy Prime Minister of the Slovak Republic for the European Integration, Pál Csáky, expressed a contrary opinion to the cuts in the ministries' budget, particularly raising the issue that money allocated to healthcare, education and labour that had already been quite tight. The Minister of Finance acknowledged that during the year some of the funds from the ministries' budget will possibly be returned and if the state revenues show favourable development, the ministries will be allowed to expend the full funds budgeted. The Minister of Economy admitted that one of the possible solutions to financing Slovakia's obligations associated with the project would also be the increase of the fiscal deficit by 0.1% of the GDP (SKK 1.3bn).

Besides the investment incentives associated with the construction of the industrial complex, the Government has undertaken to build a motorway to Žilina. The car manufacturer's representatives were given a promise that the motorway will be completed by November 2006 (The Korean party initially requested October 2006 and the Government the end of the year). The finalisation of the 42-kilometre-long motorway section from Ladce to Žilina will, in the opinion of the Ministry of Transport, Post and Telecommunications, consume approximately SKK 22bn. There are three alternatives of financing: first, from the state budget; second, a bank loan with a state guarantee that will be taken by the construction company Doprastav; and finally, it could be financed from private funds, pursued by the Minister of Transport, Pavol Prokopovič. The most likely alternative however is a combination of all three options. The major hindrance to finishing the motorway on time is the terrain with a large number of bridges and difficult parts as well as buying freehold. According to the projects of the Slovak Road Administration, the motorway was originally planned to be put into operation no sooner than 2009 and it is presently not certain that it will be possible to meet the earlier deadline. As a part of the "indirect support" to the car manufacturer, Slovakia will also complete a railway terminal and modernise an airport in Dolný Hričov. Support was also offered by the City of Žilina, which decided, in order to respond to the needs of the car manufacturer, to build 1,000 to 2,000 flats, provide a policlinic, provide premises for training, support educational opportunities in the English language and ensure public transport.

As regards the land where the plant is to be built, it is necessary to buy 7,000 plots owned by 12,000 people, of whom all have been identified. To get the land ready for KIA Motors and Hyundai Mobis, the Ministry of Economy (MH) has established the companies Gov Invest I and Gov Invest II. Based on a Mandate, the purchase of freehold is also carried out by Žilina Invest. The freehold acquired and ready will then be purchased by the Korean company for a symbolic SKK 1.

The price per square meter, initially estimated at SKK 95, has been much criticised by freehold owners, who thought it was much too low and requested minimum SKK 350. The freehold owners have therefore decided to submit a petition claiming that the land price in Teplička nad Váhom is at least SKK 360 per square meter (an estimate of an official appraiser). The dissatisfied citizens argue that the price of the best land may even be at SKK 500 to SKK 700 per square meter. The Minister of Finance has pointed out that the more money is used for purchasing freehold, the less there will remain for other purposes (fixed assets, allowance for future employees' education, etc.). The company buying the land, finding itself in the situation where there was too much information about various prices of freehold, approached the Authorised Institute of Engineering in Žilina and asked for assistance in dealing with the situation by approaching official appraisers who will later elaborate final opinions, by informing them of the rough price span from SKK 103 to SKK 126 per square meter of freehold in the given area. The Minister of Economy, Pavol Rusko, as well as the Mayor of Žilina, Ján Slota, threatened that the land will be dispossessed should the owners do not agree with the proposed prices.

The car manufacturer in Žilina is expected to decrease the unemployment in the regions, currently reaching 27,480 people. In three years, the plant plans to directly create 2,811 jobs, while other jobs will depend on suppliers' plants and their location across Slovakia. Slovakia's rivals in this respect are Poland and the Czech Republic. The experience of Volkswagen (VW) in Bratislava shows that suppliers in the vicinity of the plant will create up to twice as many jobs than the plant itself. It is likely that along with the car manufacturer, seven to ten direct suppliers will build their plants in a park located 60 to 100 kilometres far from Žilina. The volume of this additional investment has been estimated by the SARIO agency at roughly SKK 2bn to SKK 3bn. The President of the car manufacturer said that eight other firms that will supply the car-making plant will invest about SKK 10bn (USD 300m).

Based on the experience with VW, the economists think another indirect effect associated with the car manufacturer will be the rise of wages, which are likely to achieve the average level in the region and hence to increase the inhabitants' purchasing power. On the other hand, the economists point out that one of the main reasons why the Korean car manufacturer chose Slovakia was cheap workforce. Contrary to Bratislava with a relatively high price of labour, it is, in their opinion, unrealistic to expect a similar rise in average wages in Žilina.

The Minister of Finance has also highlighted the effect of higher growth of the economy and the living standard. After the launch of the production, the country's economic growth should increase by 1% of the GDP. Economic benefits of the plant for the Slovak economy were assessed by the MH using the so-called effect number method. By 2010 the benefits will amount to SKK 9.224bn and hence the state support will be returned within four years after the commencement of the production.

Attracting another major investor in Slovakia did not receive only a warm welcome. Some experts point at high costs that will be covered from public resources. They do not regard a state support to investment as the best approach to boosting the economy. As the critics argue, savings of up to billions of Korunas, if there were no subsidies to large investors, could help decrease corporation tax rates and hence, in the future, investors would be lured by a quality business environment rather then by selective advantages. It is also necessary to take into consideration the alternative development of the regions affected, where similar investment will suppress other entrepreneurial activities. A large investment changes the economic structures of regions affected, which become cyclically dependant on a particular industry. Immediately after the approval of the arrival of a new strategic investor in Slovakia, the questions regarding stimuli to and transparency of such an investment were posed. They mainly concern the maximum limit, beyond which supporting investors is no longer worthwhile. Critics also pointed at the unwillingness to publicise agreements with investors, which they deem inappropriate as state subsidies are paid from a public pocket. The Minister of Economy said that the use of public money for the state support to this investment will be released so that it can be under public scrutiny. Business secrets however will remain protected as their publication could help competitors.

The Korean manufacturer will build its first plant in Europe in Slovakia. Its whole production will be aimed at the European market, where last year, with 150,000 cars sold, KIA's sales rose by 40%. One of the drivers to move the assembly plant to Europe was the attempt to avoid a 10% customs duty on exports to the EU. The initial impulse however was the rising sales and market share on the Continent. The company is the fastest growing brand in Europe and one of the fastest growing brands around the globe.

Initially, apart from Slovakia there were two other countries competing to attract the investor, of which, after the Czech Republic lost the game, remained only Poland and Slovakia. The decision to invest in Slovakia was taken in early March after the Korean company analysed the terms and conditions offered by each of the countries. The Prime Minister, Mikuláš Dzurinda, said that KIA's decision for Slovakia was primarily affected by the reforms in taxes, social policy, healthcare and the quality of the workforce. The car manufacturers' top representative said that the decisive

factor was the cheap and qualified workforce. Additionally, an important role in the decision-making process was also played by the fact that the Slovaks are less prone to strikes.

Rough estimates show that after both car manufacturers - PSA Peugeot Citroën in Trnava and Hyundai/KIA in Žilina - commence production, Slovakia will produce about 1.2 million passenger cars a year. In absolute figures, Slovakia will become the tenth largest producer in the world and the leading car manufacturer per capita.

Evaluation of the Experts' Committee:

The investment incentives provided by the Slovak Government were, without any doubts, one of the main reasons why Slovakia won another major foreign investment in the automotive industry. The arrival of KIA to Slovakia was regarded by the Experts' Committee to be a great success. It is good PR and an excellent signal to abroad communicating the attractiveness of the Slovak investment environment. The extensive investment will be beneficial for the whole Slovak economy and create new jobs in the region with quite a high unemployment rate. After the commencement of production, the positive effects arising from the bigger economy's output will multiply. In the opinion of one respondent, by attracting this extensive investment, the Slovak economy's position changes in that it will no longer be necessary to attract major foreign investment at any cost, as was the case of Hyundai/KIA Motors.

Several experts emphasised that the state will recover the money invested in a relatively short period of time after the plant commences production in the form of increased tax revenues, lower expenditure on the unemployed and overall development of the region. The state support was also partly defended by the fact that all Central European Countries offer similar incentives to attract foreign investors. Some experts criticised the amount of the state support that seemed exaggerated to them. They commented on this fact by saying that "we are more catholic than the Pope". As was the case of all other selective incentives, it would be appropriate to provide a better-founded reasoning and the cost/benefits analysis of means expended compared to its alternative use. The provision of the state support will, in the short term, narrow the space for decreasing taxes. One respondent however believes that the argument that the taxes could have been cut by the amount of the support, which would create space for spontaneous inflow of investment, is naïve. Arguments can also arise regarding the costs for the accelerated construction of the motorway as well as its financing.

The main problem, as critics see it, is rooted in selective support to large foreign investors, which is unsustainable in the long run. This gives rise to a negative precedent that Slovakia will support some private businesses more than the others and, furthermore, it will be paid by taxpayers. A more systemic support would be to create generally favourable conditions for investment and making business, which would improve the whole business environment, e.g., the elimination of corruption and barriers hindering business development, the decrease of taxes and other contributions, ensuring law enforceability, etc. It is always risky when a state, acting from a position of strength, gets to the forefront of entrepreneurial activities, as it deforms the market. For example, we may point at the dispossession of the freehold for the plant.

An important aspect regarding investment incentives is the transparency of the use of public finances. It is therefore necessary to publicise the whole agreement.

Some respondents think it is doubtful which resources should be used as the harvest will mostly be reaped in one region. They said that this kind of a state support should not be to the detriment of the Central and East Slovakia's regions which struggle with a high unemployment rate.

Slovak Parliament Resolution Requiring the Slovak Government to Disclose Investment Agreements with Hyundai/KIA Motors and PSA Peugeot Citroën, as well as other Investment and Privatisation Contracts since 2001 pursuant to the Act on Free Access to Information

At its session on June 29th, 2004, **Deputies of the National Council of the Slovak Republic** approved the resolution, requesting the government of the Slovak Republic to disclose contracts (containing provision of investment incentives) concluded with Hyundai/KIA Motors and PSA Peugeot Citroën. The government had to submit all agreements, including amendments that had been concluded with the said two investors to the National Council of the Slovak Republic within 10 days.

Particularly the fact that investment incentives, by means of which the state gives preferential treatment to big foreign companies, constitute state aid and are provided from public resources, thus amounts paid by tax payers, was in favour of the disclosure. Deputies who rejected the resolution corroborated their decision by the fact that there was a breach of the Commercial Code

after the disclosure. Potential breach of agreements with contracting partners and possible discouragement of other investors were further arguments against it.

On June 23rd, 2004 the government was notified of legal analysis on disclosure of documents on the government session elaborated by the Ministry of Justice of the Slovak Republic. The report stated that the government is in breach of the Act on free access to information by non-disclosure of the documents. Reference to the presence of information classified (e.g. by an investor) as a trade secret is usually one of the common reasons for non-disclosure of the investment contracts. According to the document of the Ministry of Justice of the Slovak Republic, such mark shall not be considered as an actual trade secret.

The obligation to disclose agreements concluded by the Slovak Republic and the Hyundai/KIA Motors and PSA Peugeot Citroën companies was approved by the **government of the Slovak Republic** on June 30th, 2004. The government assigned the task to appeal to both investors in a letter to the Minister of Economy, with the aim of acquiring a response with respect to sections of the contracts which may be disclosed. Both companies in question provided their expression to the request for disclosure of the contracts, containing provision of state aid by the government of the Slovak Republic. According to the representatives of the French automotive producer PSA Peugeot Citroen, they respect the decision of the government on disclosure of the agreements, however the Memorandum of Understanding between the Company and the Slovak Republic comprise, in their words, technical specification and data which have a direct impact on the competitive advantage of the Company. The President of the South Korean Company Hyundai/KIA Motors declared upon signing the agreement that it shall be in the sole discretion of the government to decide which parts shall be disclosed and which shall not. However, the representatives of the automotive Company responded negatively to the request of the Ministry of Economy from June, since, as they stated, the contract contains "strictly confidential and commercially sensitive information". The investment agreement concluded with Hyundai/KIA Motors has finally been submitted to the National Council of the Slovak Republic.

On July 14th, 2004 the government approved the resolution on declassification of investment agreements with PSA Peugeot Citroën, KIA Motors Corporation and Hyundai Mobis pursuant to the Act on free access to information and appointed the Prime Minister to disclose in extenso two investment agreements in question, with the exception of the sections that contain trade secrets.

Finally, the Ministry of Economy of the Slovak Republic disclosed the investment agreements with the companies Hyundai/KIA Motors and PSA Peugeot Citroën on its internet site. However, this did not last for long, since the economy department removed the wording of the agreements with both the Korean and French automotive producer and it was classified again. That was decided by the government resolution as of July 21st, 2004 and radical dissent of one of the investors and maintaining the position of a trustworthy partner in the eyes of foreign investors was declared as the reason.

Alongside the resolution in question, the deputies of the National Council of the Slovak Republic approved another resolution as well, on June 29th, 2004, requesting the government to observe the Act on free access to information. Based on that resolution, the government had to disclose the documents which had been classified in terms of the Act on free access to information since the coming into force of the Act as of January 1st, 2001.

Evaluation of the Experts' Committee:

The resolution, by means of which the National Council of the Slovak Republic requested the government to disclose investment agreements with Hyundai/KIA Motors and PSA Peugeot Citroën was perceived positively by the members of the evaluating committee. However, the opinions of the experts slightly differed regarding the way of agreements disclosure.

This was a correct, but slightly delayed step of the Parliament, which could serve to strengthen its trustworthiness in the eyes of the public partially. The measure had the potential to raise the transparency in utilisation of public resources for the support of big investors. It is essential that the law (Act on free access to information) is observed in Slovakia, even in the case of significant foreign investments. The government is not a private company, although some of the cabinet members do not affirm that in the way they act. All the investment incentives are just another public expenditure, which are paid by citizens and companies from their taxes and payroll taxes. Therefore, the public is certainly entitled to know what is promised to an investor by the government – the amount of money and intangible property shall comprise the state aid to the investment – and on the other hand what is promised to the government by the investor. Usually a significant amount is concerned, whereas relevant inspection of such amounts by the parliament and government is proper in a democratic state. In the case of concluded contracts, where the state is one of the contracting parties, the most important aspect is to create pressure on effective supervision. Ex ante inspection is especially the most substantial. Classification of whole investment contracts, as well as privatisation contracts is inconsistent with the transparency of treatment with state property, and thus with resources of tax payers. Referring to proponents of

the classification of the contracts as a trade secret, eventually another provision of the Commercial Code will not stand up, according to many experts if utilisation of public resources is concerned. Several experts agree at least with disclosure of the sections of the contract, which are related to utilisation of public finance.

One of the respondents believes commercial agreements are not disclosed; the subject of disclosure should comprise only subsidies that are paid from taxes. Sections that constitute commercial or technical secrets, in terms of the Slovak legislation, should not be disclosed to the public. An adequate consensus between the trade secrets on one hand, and available information, on the other hand, should be found. Radical separation from the commercial-technical section, including requirements on state resources and the "procurer" part, fully stating total expenditures from public resources, could be one of the prospective solutions in future. (e.g. in the case of security projects).

According to minority opinion, another form of inspection of public resources utilisation should be preferred (by the parliament, Supreme Audit Office of the Slovak Republic, or similar institution), since the agreements did not comprise trade secrets. Disclosure of the agreements via Internet was marked as inappropriate, not respectable and impolite by those respondents. An opinion that disclosure of information, which could be misused in business relations, could have unforeseeable consequences for entry of prospective investors to Slovakia, arose as well. Even the media publicity itself with respect to provision of investment incentives sent negative signals for further potential investors, according to these opinions. The performance of similar big projects would be very difficult without provision of certain incentives.

One of the objectors of the measure stated that if the other party (investor) has not been familiarised with the option of disclosure of the agreements in an adequate manner, it should not be carried out. Furthermore, classification of the terms of investment agreements by the state affords opportunities to gain a competitive advantage over other countries, soliciting foreign investments, according to him. One may, however, agree with the application of the "info Act" in case of prospective agreements, also with reference to Slovakia's accession to the EU. As another respondent quoted, it may be possible that competitors of Slovakia within the contest for Hyundai/KIA investment (Czech Republic and Poland) did not succeed because they did not step out of line with respect to politeness to its citizens and dignity.

The pressure on declassification of investment and privatisation agreements was rather deemed as a political step and an attempt to "fillip the government" by some of the evaluating persons who were technically favourable towards declassification of investment and privatisation agreements. By disclosure and consequential early withdrawal of the agreements from the web site, the wishes of the parliament, as well as of investors were satisfied, however not the wishes of the broader public.

Decision to Acquire Remaining Unpurchased Land Intended for the Hyundai/KIA Car Plant Construction by Means of Expropriation Proceedings

On August 18th, 2004, the government took cognizance of an informative document on the preparation process with respect to the site for KIA Motors Corporation and Hyundai Mobis investment. Approval of a resolution, through which the government takes cognizance of the information in question and passes the preparation of all the measures necessary for the performance of expropriation proceedings for the land, for the construction of the plant, was the original intention of the submitter, the Ministry of Economy of the Slovak Republic. However the Minister of Justice, Mr. Daniel Lipšic, raised an objection and proposed only to "take cognizance of this document", since the government itself shall not expropriate and moreover, it has no powers in this field.

Plants of the South Korean automotive plant shall stretch 10 km from Žilina in the cadastral area of several municipalities. For the KIA Motors plant, the area of 166 hectares was projected and 60 hectares were planned for its supply company Hyundai Mobis. On the basis of investment agreements between the automotive producer and the government of the Slovak Republic, the city of Žilina and Ministry of Economy had to provide for the preparation of the site, by August 31st, 2004. The state-incorporated companies Govinvest I and Govinvest II were authorised to acquire property rights to the land and to conduct consequential field engineering. The land prepared had to be consequentially transferred to a South-Korean investor, in terms of the negotiated agreements.

The company Žilina Invest (project coordinator) elaborated a procedure for the expropriation of the land and arranged the elaboration of a surveyor's report for the determination of the purchase price for one square metre. One of the official surveyors was selected by the city of Žilina, the second one was chosen by landowners and the third was selected by the Ministry of Economy.

Independent official surveyors determined the expropriation price within the range from 103 SKK to 148 SKK for a square metre.

The project executor managed to acquire 55 hectares of the necessary area, immediately after the commencement of the redemption, but a group of five landowners were dissatisfied with the price level set by the official surveyor and they refused to sell it under such conditions. Alleged faultiness in elaboration of the three surveyor's reports was the main argument of dissatisfied owners.

In an effort to meet the agreed deadlines, construction works started in July 2004 with groundwork (removal of top soil) on yet un-settled land, without consent of the landowners. They corroborated their action by the statement that it was only a temporary archaeological survey, and it was not necessary to inform the landowners thereof, but only users. According to the feedback of the landowners, an intentional abuse of the property of citizens and breach of fundamental rights on its inviolability occurred thereby. In response to the action of the construction companies, the landowners made a motion to the District Prosecutor Authority in Žilina, for unauthorised admission to the land and impairment of property.

In the effort to motivate the owners and induce them to voluntary sale of their land, the Minister of Economy, Mr. Pavol Rusko, declared that those owners who sell their land shall receive the highest price of the three prices determined by official surveyors and will have an opportunity to apply for real estate tax allowance. An option for an exchange of their land for other land of equal quality in close vicinity to the original location was also offered to the owners within further negotiations.

Since the process of redemption and transfer of the land was delayed, compared with the deadline agreed within the contract (August 31st, 2004), the companies Govinvest I and II commenced with lodging motions to the Construction Authority in Žilina for expropriation of the non-purchased land in the middle of August. Calls on sale of land were delivered to the owners, which were intended as draft agreements for the purposes of expatriation concurrently. The cabinet members agreed that the situation fulfilled all legal conditions required for the commencement of the expatriation proceeding. According to the Ministers, an unpopular measure was concerned, but they marked it as the most realistic solution, by means of which the strategic investment could be saved.

Expropriation of the land in question, which the owners were not willing to sell, was enabled in terms of a provision of the Act on substantial investments, within valid legislation. Such an investment is defined as a building designated for production, being executed by a Company with its principal place of business within the Slovak Republic Territory and if:

- the minimum amount to be spent on the execution of the building is SKK 1bn,
- target production volume, or employment are substantial and
- the government decided that execution of the building is in the public interest.

A building that shall provide for the above mentioned production technically, technologically, logistically, or by the supply of parts (thus subcontractor investment), yet only the last two of the conditions have to be fulfilled (the minimum amount of investment is not no longer conditioned), has been defined as a substantial investment since April 2004.

The decision on expropriation was not a subject for the government, but for the Construction Authority. The Construction Authority in Žilina had to examine public interest in the case of each individual real estate (specific lot). According to interpretation of legal counsellors an alternative that all the land shall be expropriated was not excluded in that case.

A group of deputies, unsatisfied with the option to expropriate real estate for a foreign investment, submitted an amendment to the Building Code in August 2004, as a response to the actions of the government. The aim of the said amendment was to leave out the provision on an option to expropriate in favour of a so-called substantial investment. The proposers substantiated their step by the statement that expropriation should be used as an emergency alternative in satisfying state needs – thus for defence, or in construction of a railway track, for instance. The draft amendment met with no success at the session of the National Council of the Slovak Republic.

After first motions for expropriation of land were lodged by the Govinvest I and II companies, a few smaller owners changed their minds and started to sell their land.

Within the following proceeding in surface preparation, competent government representatives considered two additional alternatives, besides expropriation. A price increase above the level set within the surveyor's reports - to the level as requested by the landowners, who had not sold it by that time, was one of the suggestions. The Minister of Economy, Mr. Pavol Rusko, ruled out this alternative with an explanation that the volume of limited resources of total state aid for the automotive company would be reduced by purchase of the land for a price higher than stated in the surveyor’s report. An additional SKK 530m would be required for the top-up of the price to the level of SKK 350 per sq. m. Citizens who sold their land for an average purchase price at SKK 120 per sq. m. would also be entitled to a surcharge, in the words of the Minister of Economy.

Precedent menace towards the future, when misusage of road construction, or construction of industrial zones on speculation with respect to purchase price of the land, was the second argument of the Minister against the rise in price. Within considering solutions of the incurred situation, a change of the site of the whole investment was given as one of the options. However the fact that no other automotive plant may be built within 100 km of Trnava, in terms of the investment agreement with PSA Peugeot Citroen, constituted an obstacle to such option.

Hyundai/KIA representatives also expressed their standpoint to difficulties in acquiring land from private owners. In official letters addressed to the Ministry of Economy and mayor of the city of Žilina, they expressed fears about the advancement of the works and admitted that the KIA Company will have to face sanctions should the deadlines not be met. The agreement of the investor does not comprise a penalty clause; however the investor could apply valid commercial legislation.

The companies purchasing the land proceeded to offer new contracts to owners at the beginning of September 2004. The owners should have obtained the price determined by the surveyor's report in exchange for the land and, in the case of a court decision, the contract would entitle them to a surcharge in future. The successfulness of respective contracting reached 60 per cent.

An expropriation proceeding with approximately 500 landowners was officially commenced by the Construction Authority in Žilina on October 20th, 2004. However, the proceeding was complicated from the very beginning, when the attorney of the owners raised objections against prejudice of the Construction Authority. The owners, unsatisfied with a low purchase price, demanded a new surveyor's report in the meantime. They were about to lodge a motion for examination of the land decision with the Ministry of Construction and Regional Development of the Slovak Republic, as well as to bring a new legal action to the Slovak Land Fund and they have made several motions and objections against an oral hearing in the case of the expropriation. Consequently, the expropriation proceeding got stuck.

Another alternative solution was considered in autumn 2004 – to acquire land from unsatisfied owners via by an exchange of land. A group of entrepreneurs, who had an interest in investing in other land in Slovakia, wanted to purchase the land intended for Hyundai/KIA investment for the price requested by landowners, at the rate of SKK 350 per sq. m. Consequently, the Slovak Land Fund intended to offer an exchange of that land for other land, from its own portfolio, within the location where the entrepreneurs wanted to operate. However, such procedure was deemed to be insufficiently transparent, particularly due to the involvement of "unknown entrepreneurs". That was one of the reasons why the Ministry of Agriculture of the Slovak Republic suggested a solution which did not take the entrepreneurs into account in April 2005. According to the document submitted to a cabinet session, the state had to purchase the land near Žilina via the Slovak Land Fund. Later on, the state had to lease the land and sell it to the Gov Invest I and Gov Invest II companies. The proposal of the Ministry of Agriculture was approved at the cabinet meeting on April 20th, 2005 and an upper limit at SKK 350 per sq. m. was set as the purchase price (as requested by unsatisfied land owners). The original conviction on expropriation of the land was abandoned due to shortage of time.

In consequence, the Slovak Land Fund started with the purchase of the land and in accordance with the information as of June 26th, 2005, it delivered 209 sales contracts in total to owners of non-purchased land or to respective representatives, based on a government resolution on purchase of the remaining land. From that amount, 178 contracts were signed by the owners. Even despite the dissent of coalition parties and owners of non-purchased land, the owners who had already sold the land for a substantially lower price, oscillating at the level of SKK 140 per sq. m. were unsatisfied in this case. They claimed payment of the difference approximately at the rate of SKK 210 per sq. m. from the government; otherwise they threatened not to be willing to sell their land, which will be necessary for the construction of infrastructure within the plant site.

The completion of the Hyundai/KIA plant was scheduled for late September 2005, the plant should remain in a pilot run from May 2006 to December 2006.

Evaluation of the Experts' Committee:

The decision of the state administration bodies on acquisition of non-purchased land for the Hyundai/KIA automotive company by means of expropriation proceedings was a controversial solution of a complicated situation. On one hand, there was general interest in the big investment in the Northern Slovakia region; on the other hand, protection of private property was concerned.

According to critics of the selected process, expropriation institute should, if ever, be used exceptionally only in emergency cases, and not as an instrument of intimidation and demonstration of state power. Any big investment of a private company should not corroborate expropriation of private property. In their words, an unprecedented interference in individual property rights, which should constitute fundamental pillars of democratic society based on a market economy, was concerned. Curbing freedom to be in possession of property and the right to its inviolability would mean a dangerous return to the past, when so-called state interest came

first. Argumentation of the Ministry of Economy substantiating the necessity of expropriation did not stand, from an economic point of view, according to critics. The declared so-called public interest in favour of a private company has no leg to stand on in terms of economic theory. Actually it was not thus a public interest, but an interest of a company and specific politicians in attracting foreign investors, notwithstanding the fact that tax payers pay for that. The politicians' tapping the cornerstone on the land of other people seemed grotesque, not to mention the fact that the groundwork (removal of top soil) and construction work started on disputed land, which the owners were not willing to sell. In purchasing the land, another market economy principle was not adhered to – market mechanism. The price given in a surveyor's report may not be deemed as market price, if not accepted by one of the contracting parties (the owners in this case). Therefore the price, which would be the result of a consensus of both parties, should be subject to negotiations.

Several evaluating persons marked the situation of purchasing the land for Hyundai/KIA investment as a stalemate (according to them, the landowners misused the situation for an excessive rise of the requested price for their land), and therefore saw expropriation as the only way out, which was partially incurred owing to extemporaneousness of the investment by both the Ministry of Economy and the government. The proceeding of state and self-governing bodies was desperate, questionable and often probably illicit, or evasive of the law. Such an approach should not become a precedent. It will be important that only undisputed land is offered to investors by the government in future. Should expropriation proceedings be initiated in the future, notice should be given well in advance and the owners should know, from the beginning, that they shall be expropriated, if they do not sell the land.

The respondents in favour of the measure expressed their opinion that projects substantial for the whole society bring about many positive sides for the social and economic development of a country, and there is no doubt that this is the case with the Korean investment; they should enjoy the priority over personal interests of a small group of individuals, and that is a common case across the world. Practical consequences of the decision on expropriation of the land would surpass damage incurred by interference in property rights, according to proponents. There was an attitude that undue media publicity of the whole land purchase process brought about problems in preparation of the land for Hyundai/KIA investment and in consequential implementation of the whole investment project.

According to information as of May 2005, the Slovak Investment and Trade Development Agency SARIO has concluded contracts with seven supply companies of the Hyundai/KIA automotive company. The companies envisage investments amounting to approximately SKK 6.3bn in total, and they would like to employ about 2850 people.

Business and Investment Environment

New Act on Bankruptcy and Restructuring, Act on Bankruptcy Trustees (specifying partial terms for individual operations within bankruptcy proceedings; strengthening the position of creditors; setting up the role of trustees; random selection of trustees)

Deputies of the National Council of the Slovak Republic approved, on December 9th, 2004 the government bill of the Act on bankruptcy and restructuring and government bill of the Act on bankruptcy trustees. Imperfections of the present regulation, with respect to a possibility to evade bankruptcy proceedings, or to delay its announcement, were the reason for adoption of the new Act. On average, bankruptcy proceedings lasts from 5 to 7 years in Slovakia and average recovery is at the rate of 3 to 5 per cent.

The Act defined insolvency as a state when a debtor is not able to discharge more than one liability, 30 days overdue. Prolongation shall be defined as a state when a debtor has more than one creditor and the value of his/her liabilities exceeds the value of the property he/she is in possession of.

The Act assumes precedence of **restructuring** over bankruptcy proceedings, if there is a presumption of maintaining the operation of a Company and a presumption that a higher yield for the satisfaction of creditors shall be achieved, than by declaration of insolvency.

Both debtor and creditor have a right to lodge a motion for **bankruptcy proceedings**. A debtor is obliged to lodge a motion for declaration of insolvency within 30 days from the date when he became aware of a bankruptcy. In order to avoid misusage of lodging motions for declaration of insolvency from the side of the creditor, responsibility of the creditor for the accuracy of application for a receivable has been increased. Should a receivable prove to be unsubstantiated, the court may request such creditor to pay a penalty for the account of bankruptcy assets.

The new legislation reckons on **partial terms for individual operations within bankruptcy proceedings**, however no time deadline for its definitive termination was specified (up to the present 18-month term for termination of bankruptcy proceedings, but the said term was far from being respected). The Court shall get 15 days from the date of lodging the motion for bankruptcy proceedings to judge formal prerequisites and decide on commencement of bankruptcy proceedings. A debtor will have an opportunity to express his standpoint and to question the motion of the creditor and to prove its own solvency within 10 days. After the delivery of the opinion of the creditor, the court will have 5 days to make a decision. The term for registration of receivables by creditors was also shortened from 60 to 30 days.

A debtor is obliged to restrain its own operation only on common legal operations, after the commencement of bankruptcy proceedings. The right for disposal of property of the bankrupt is assigned to a bankruptcy trustee in the full extent, which is one of the impacts of the declaration of insolvency. The said influence is typical for bankruptcy proceedings, on the contrary to restructuring, when a bankrupt entity is still entitled to disposal of its property, but under court supervision. After the declaration of insolvency, the bankrupt may suspend labour relations with any employee due to so-called organisation reasons. Within 40 days from the declaration of insolvency, a bankruptcy trustee convenes a meeting of creditors, who shall elect a **creditors' committee** from among them. The creditors' committee primarily conducts supervision of the activity of the bankruptcy trustee and cooperates with him in the issue of the purchase of the bankrupt's property. The bankruptcy trustee is obliged to submit a written report on its activity to Creditors' committee each 30 days.

The state, as well as state budgetary organisations, state funds, the National Bank of Slovakia and natural persons and legal entities, whose liabilities are guaranteed by the state, have been excluded from the force of the Act.

The Act on bankruptcy trustees regulated the position of bankruptcy trustees, their rights and obligations, further education, as well as supervision of their activity. Since July 2005, Slovak bankruptcy trustees will be registered by the Ministry of Justice of the Slovak Republic, which shall also disclose their register on an internet site and will conduct supervision of them. The Act introduced **random selection of bankruptcy trustees in individual bankruptcy** proceedings. Should a trustee commit an intentional crime, or a crime with respect to entrepreneurship, the Ministry of Justice may suspend his activity until a final judgement has been made.

According to proposers of the Acts, the new legal regulation should bring about reduction of the term of bankruptcy proceedings. That should enable creditors to claim legitimate receivables in a faster and more effective manner.

Evaluation of the Experts' Committee:

The professional public gladly accepted the adoption the new Act on bankruptcy proceedings, as high quality, which was undoubtedly needed. By specifying partial terms for individual operations, the term of bankruptcy proceedings should be cut down and law enforcement, being one of the problematic areas in Slovakia, should improve in general. Procedures of the participants of the proceedings were regulated in such a precise manner, i.e. became more predictable; the receivable authentication system is more sophisticated.

One of the evaluating persons deemed the fact that no maximum term for termination of the whole bankruptcy proceeding was defined as an imperfection of the new legal regulation, another expert criticised "removal" of a part of the trustees from the market. On the other hand, another one acknowledged adoption of a separate Act on trustees with thanks, which restricted the preconditions for applicants, as well as for further operations of trustees.

Scepticism over the statement that the Act shall bring about significant changes and shall assist the Ministry of Justice in fighting against "bankruptcy gangs" was expressed as well. According to this opinion, this has been done too late, since the market is already divided and a few key bankruptcy trustees can manage to handle it, also through their subagents. Bankruptcy trustees themselves became a profitable business, also thanks to the legislation, which is of no significant assistance to the economy. Trustees are remunerated excessively; many of them came into property valued at hundreds of millions by means of legal fees for encashment, but also by corruption on the side of persons interested in the property realised, and the trustees themselves took possession of property through various companies, which was subject to realisation executed by trustees independently. Group interests, as well as individual interests arise. Courts and judges fell down and betrayed their profession, according to this opinion.

One of the respondents remarked, with regrets, that quite a good Act on bankruptcy proceedings and restructuring can not be applied in its whole extent to the transformed health insurance companies – joint stock companies – since the Act on health care system reform made them become State Treasury System clients, and thus extra protection against bankruptcy was provided to them.

Competition Policy

Imposing SKK 1.353bn Penalty on the Slovnaft (oil) Company Due to Inclusion of Unjustified Costs and Undue Profit into Fuel Prices and Due to False Information Provided, on the basis of Price Inspection of the Ministry of Finance of the SR; Returning Unjustly Gained Amount of Money to the State Budget)

On November 5th, 2004, the Inspection Section of the Ministry of Finance of the Slovak Republic commenced the inspection of the pricing policy of the Slovnaft, a.s. company. An audit of individual expenditure items and their economic justifiability within the 2002 to 2003 period verified adequacy or excessiveness of profit for the period of the first nine months of the year 2004.

According to ascertainment of the inspection, the Slovnaft company did not observe applicable legislation in 2002 and 2003; **so-called economically unjustified costs** were figured in prices of its products and the company did not adhere to principles of objective regulation concurrently. In its dominant position on the relevant market, Slovnaft was selling fuels for these **prices, achieving so-called undue profit** for nine months of the year 2004, which was the next ascertainment of the inspection group. Within the said period, the refinery reached domestic profit amounting to SKK 1.921bn, which represented a 16.16 per cent ratio to costs. However, it achieved domestic profit amounting to SKK 842m, a ratio to costs at the level of 7 per cent, for the same period of the year 2003. According to the Minister of Finance, Mr. Ivan Mikloš, the Slovnaft company violated the Act on prices due to false information provided to price authorities, apart from the given ascertainment. Therefore, a **SKK 1.353bn penalty was imposed on the refinery** on December 14th, 2005 by the inspection section of the Ministry of Finance of the Slovak Republic, for breach of financial discipline within the 2002 to 2004 period:

2002	SKK 252.1m	Inclusion of unjustified costs into prices
2003	SKK 275.9m	Inclusion of unjustified costs into prices
2004	SKK 823.9m	Inclusion of undue profit into prices
	SKK 1m	Providing false information
Total:	**SKK 1.353 bn**	

Source: daily SME

Apart from the imposed penalty, refunding of the amount that represents the enrichment of the company within the 2002 to 2004 period, according to the outcomes of the inspection, should be requested from the refinery, after the decision comes into force.

Consequently (in January 2005), the Ministry of Finance announced another price audit, this time as of October 1st, 2004, since it suspected that Slovnaft was continuing to misuse its dominant position on the market, which has been corroborated by an argument given by the Minister of Finance, Mr. Ivan Mikloš, that in the course of raising the prices in Slovakia, Slovnaft was reducing prices in the Czech Republic. Should the second inspection confirm that the refinery has further misused its dominant position on the market, the department of finance intends to regulate the prices itself by setting the maximum price.

The Slovnaft company proclaimed that it shall defend itself against these sanctions, by means of all legal instruments, including those at the EU level, to avoid a similar trend in future and to vindicate its good results and reputation. Slovnaft employed a legal remedy against the decision of the Ministry of Finance and submitted an application for remonstrance. A further decision in the matter of the penalty imposed on Slovnaft was thus referred to the second-level, in which the Minister of Finance was to make a decision *(further development - see below)*.

Evaluation of the Experts' Committee:

Imposition of a penalty on the Slovnaft company for the inclusion of unjustified costs and undue profit to fuel prices, as ascertained by a price audit of the Ministry of Finance of the Slovak Republic, was perceived in different ways by the professional public, despite a positive overall valuation.

According to some of the experts of the evaluating committee, the action of the Slovnaft company deserved attention by right, as the rate of its refinery, or wholesale margin, showed evidence that its dominant position on the market was misused, which was confirmed by the statement of the Antimonopoly Office of the Slovak Republic. The fact that it is the task of the state to set the competition rules (and those of monopoly enterprising) in a market economy, to monitor and enforce observance of them and punish infringement was in favour of the imposition of a penalty,

as well, according to them. The rules have been defined in the Act on prices and, if someone violates them, he must be punished, even if other entities with a dominant position on the market are concerned. Profits and high prices in the telecommunication sector could serve as an example thereof.

Experts of the evaluating committee deemed it essential to create appropriate rules for market operation, to correct and improve the competitive environment. At least an effort to find an effective method of regulating activities of the existing monopolies would be appreciated.

A complicated issue was concerned, where proving the excessiveness of the profit of the company, which utilised an approach other than that of the Ministry of Finance and determination of the relevant market, to which misusage of the dominant position applied, played an important role. According to critics, it was questionable whether the Slovnaft company violated an Act, and if it were possible to penalise it legally, and lastly, whether the method selected by the Ministry of Finance is acceptable. The question of whether the refinery would ever pay the penalty, and if it were not brought over to fuel prices, arises as well. The ability of the Ministry of Finance to defend its decision in a potential legal dispute, which could follow, is also an important aspect. One of the experts stated, in this context, that the method of quantification of the alleged undue profit used by the inspection of the Ministry of Finance, was non-professional and unqualified and just played into the hands of the company should a legal dispute arise. According to another expert, the society should regulate business entities only in cases when long-term monopoly or a strong dominant company is concerned, whereas the Ministry of Finance did not prove this was the case. In a few isolated cases, steps taken by the Ministry were labelled as populist, or as "chasing after political points". Last, but not least, initiation of a discussion on pricing policy of the Slovnaft company was a positive side.

One of the dissenting standpoints marked the step made by the Ministry of Finance in question as a non-system measure. Some problems of the whole dispute should have been resolved within the privatisation agreement of the Slovnaft company. The state bears a share in the behaviour of the refinery thanks to its taxation policy as well. From the sale price of fuel, only SKK 13 remains to the producer, thus the Slovnaft company, and taxes constitute more than 60 per cent thereof.

On May 19th, 2005, the Minister of Finance of the Slovak Republic, Mr. Ivan Mikloš, as the second-level body revoked the preceding decision, by which a penalty was imposed on Slovnaft and the whole agenda was referred back to the first-level body for hearing and amendment (inspection section of the Ministry of Finance). The effort to minimise risk of failure in case Slovnaft refers the case to court, or to European institutions, was the principal reason for returning the decision on imposition of a penalty. The Minister accepted four out of numerous objections of the Slovnaft company given in the remonstrance.

The first-level body upheld the justifiability of the penalty imposed at the beginning of July. However, the body accepted some of the objections of the Slovnaft company and cut down the penalty in question by SKK 11.4m to SKK 1.341bn. Despite that, the Slovnaft Company appealed against this decision, within the period stipulated by law, thus the Minister of Finance shall definitely decide within 30 days, as the second-level body, on the penalty. If the minister upholds it, Slovnaft will have the only opportunity to interpose recourse to the court, with the aim of examining the legitimacy of the decision.

A significant change, in comparison to the state in early 2005 occurred by the amendment to the Act on prices, which granted powers to judge and decide on undue prices of dominant entities on the market to the Antimonopoly Office of the Slovak Republic, by alteration of the Act on economic competition, effective from March 1st, 2005. The Antimonopoly Office shall be entitled to penalise business entities also for enforcement of undue prices, by a penalty of up to 10 per cent of annual turnover.

Decisions of the Slovak Telecommunications Office on Determination of the Slovak Telecom as a Company with Significant Market Power in Wholesale Markets (obligation to fulfil the network interconnection request; obligation to rent its local loops ("last mile") to other operators; obligation to release reference offers)

On February 24th and March 3rd, 2005, the Telecommunications Office of the SR issued decisions determining Slovak Telecom as a company with significant market power in wholesale markets – termination of phone calls in fixed networks and arrangement of calling within a fixed network. Thus Slovak Telecom has, according to the Telecommunications Office, such position on said markets that it is not exposed to effective competition and its economic influence affords opportunities to act independently of competitors and users. On March 8th, 2005, the Telecommunications Office made a decision, marking Slovak Telecom as a Company with

significant market power in wholesale markets of released access to the subscriber's line – release of the so-called last mile (Local Loop Unbundling (LLU)).

The new decision on determining Slovak Telecom as a Company with significant market power in individual wholesale markets was called for by the new Act on electronic communication. An analysis of the relevant market preceded those decisions. The entities in question and at the end also the European Commission expressed their standpoint to the outcomes of the analysis. The Office commenced, on the basis of the results of the analysis and expression of the European Commission, administrative proceedings against Slovak Telecom and consequently issued its decision. Obligations, aiming to foster effective competition and development of the internal market, i.e. to improve conditions for the provision of data services and public telephone communication services on those markets, were laid on Slovak Telecom.

Slovak Telecom interposed recourse to the Telecommunications Office – remonstrance against all three decisions. Thus decisions of the Telecommunications Office were not immediately effective and Slovak Telecom did not have to fulfil the obligations laid down by the Office. Slovak Telecom representatives stated that not determination of Slovak Telecom as a company with significant market power, but vagueness of respective decisions, breach of procedural-legal provisions and other failures constituted the reason for interposing the remonstrance against the decisions issued by the Telecommunications Office.

Within 30 days, the Telecommunications Office expressed its standpoint to the recourse and referred it to the Chairperson of the Telecommunications Office (second-level body). The chairperson had to cope with the expressions given by Slovak Telecom representatives within the remonstrance, and with statements presented in the course of the proceeding, which means that he had to substantiate controversial provisions, prior to issuing the final decision. On June 14th, 2005, the Telecommunications Office Chairman upheld the first-level decisions, whereas those decisions were altered, solely in order to ensure peace for all market participants. Decisions of the Telecommunications Office Chairman are definitive and a legal action may be filed only to the Supreme Court of the Slovak Republic. In the middle of June, Slovak Telecom representatives did not comment as to whether they had decided on such action or not. In terms of the decisions of the Telecommunications Office Chairman, Slovak Telecom is obliged, within 60 days from the day when the said decisions became effective, to issue and submit a reference offer of the released access to the subscriber's line for publication, stating technical and price conditions of the lease of its local loops to prospective interested persons (lease of the so-called last mile).

Evaluation of the Experts' Committee:

The decision of the Telecommunications Office on determination of Slovak Telecom as a Company with significant market power in wholesale markets was gladly accepted by the professional public, within the HESO project. It is essential to appreciate each step leading to enhancement of liberalisation of services in the almost monopolistic Slovak telecommunications market. If such a measure had been adopted as early as two years ago, it would have been perceived with even higher interest. Slovak Telecom namely exploited its dominant position in the telecommunication services market, as a substantial supplier, in the long-term.

The decisions of the Telecommunications Office in question that laid down the obligation to satisfy the network interconnection request, obligation to rent its local loops (the so-called last mile) to other operators, or the obligation to publish reference offers, should be a contribution and should establish a competitive environment to the wholesale market of fixed networks telephony and to the wholesale market of the released access to the subscriber's line (local loops) as well. A significant cut-down of the costs on approaching clients, a faster development of broadband data services and Internet access and its simplification (an agreement with one's own service provider shall be sufficient; a contract with Slovak Telecom will not be necessary as it has been up until now), as well as elimination of misusage of its dominant position, is expected from the measures. Said measures comply with the EU network industries policy.

In order to open up the telecommunication market, it would be appropriate to stiffen up the decisions of the Telecommunications Office in question and to leave no space for obstructions for Slovak Telecom. Decisions represent a stimulation of the competitive environment, which has been proved particularly in the USA. More competitors in the market are one of the driving forces of the competition; however in the present system some elements restrict competitiveness and prevent competitors from entry to the market, despite adoption of the Telecommunications Office decisions.

One of the respondents expressed a positive opinion to the adopted measures; on the other hand, he was afraid of the new operators offering favourable prices for customers, whereas later after acquisition of customers they will start to do what they want with their customers. Therefore it is essential that the Telecommunications Office manages inspection activities in relation to entities operating in the telecommunications market. Some of the evaluating persons deem the Telecommunications Office as a weak link in the chain, especially due to its capacities and powers,

being still at the bottom, which is proved by frequent changes of the decisions of the Telecommunications Office, as well as persistent delay of the execution of decisions and numerous obstructions from the side of Slovak Telecom.

On May 25th, 2005 the Antimonopoly Office of the Slovak Republic issued a first-level decision on misusage of the dominant position of Slovak Telecom by not providing access to local loops and laid down the obligation to remedy permanent injury within 60 days from the day when the decision comes into force (the decision of the Antimonopoly Office did not come into force, since Slovak Telecom interposed an appeal; the jury of appeals of the Office should hold its next session in August). The Antimonopoly Office of the Slovak Republic concurrently imposed a penalty on Slovak Telecom at a historically high amount of SKK 885m.

Social Policy

Social Security

Liberating Investment Rules of Pension Fund Management Companies within Fully-funded Pension Scheme (lowering obligatory limit for investment on domestic capital market from 50% to 30%, lowering minimum obligatory rate of return of pension funds, Amendment to the Act on Old-Age Pension Savings)

On June 30th, 2004, deputies of the National Council of the Slovak Republic amended the Act on old-age pension saving. The alterations were made particularly with respect to investment conditions of pension fund management companies, which administer funds of citizens within fully-funded pension schemes. The slashed provision, establishing the obligation to invest a minimum of 50 per cent of the amount of property value of pension funds on the domestic capital market, was altered. The National Council approved a parliamentary amendment, elaborated by the Ministry of Labour, Social Affairs and Family of the Slovak Republic, to cut down said limit to 30 per cent. The original provision on the 50 per cent limit was enforced by the Minister of Economy, Mr. Pavol Rusko, stating the need to boost the half-dead Slovak capital market as the reason for it.

A substantial part of the professional public perceived constraints on investment activity of pension fund management companies as a support of inefficient domestic investments, since the Slovak companies would issue securities unnaturally. According to experts, the Slovak capital market size is too small to handle such a big influx of investment, not to mention the insufficiently developed market itself. Apart from that, pension fund management companies would have to surrender a part of profitable investment opportunities abroad. Lower flexibility of pension fund investment would result in lower revenues, and thus lower pensions. Not even the European Commission agreed to constraints on pension fund investment, which deemed it as a discriminatory measure violating one of the EU fundamental freedoms – free capital mobility.

The deputies also amended the provisions of the Act, which regulate the minimum rate of return of investment of individual pension funds. The approved liberalisation of the rules, since they reduced minimum rate of return, which are to be guaranteed by pension fund management companies, inter alia. After expiration of 24 months (alteration from 18 months) from the day, when the respective pension fund management company starts to create the balanced fund, the average rate of return shall not be lower than 70 per cent (alteration from 80 per cent) of the average rate of return of market competitors in the case of a balanced pension fund, and the rate of return will have to be higher than 50 per cent in the case of a growth pension fund (alteration from 70 per cent) of the average rate of return of the competitive funds of similar type on the market. In the case of a conservative pension fund, the 90 per cent limit was maintained. Should the specified limits not be met, the pension fund management company will have to transfer assets, from its own assets, in such a value in order to meet the required percentage of average rate of return of market competitors. Said limits will not have to be observed by pension fund management companies, if the difference between average rate of return of the pension fund and average rate of return of market competition does not exceed 1 percentage point in the case of a conservative pension fund, 3 percentage points in the case of a balanced pension fund (alteration from 2 percentage points) and in the case of a growth pension fund the difference should not be higher than 5 percentage points (alteration from 3 percentage points). The average rate of return of a pension fund and its competitors shall be calculated for the preceding 24 months (alteration from 12 months).

The amendment regulated entry of unemployed persons and students into a fully funded pension scheme of pension security. In terms of the original Act, said persons would have to enter into pension saving concurrently as labour force with the period from January 2005 until June 2006. According to the approved amendment, they will have an opportunity to enter pension saving even after June 2006, namely within 30 days of commencement of the employment relationship.

Evaluation of the Experts' Committee:

Liberating investment rules of pension fund management companies within fully-funded pension schemes was evaluated by professionals as a step in the right direction that was expected. Pension fund management companies now have wider opportunities and will be able to invest in a more flexible manner and achieve higher valuation of administered resources within their funds, which shall be reflected in higher pensions of prospective old-age pensioners.

Measures of cutting down the obligatory limit for investment on the domestic capital market were essential, also due to a low development status of the Slovak capital market and actual absence of several segments of the capital market in Slovakia (with the exception of the government bonds market). The previous high limit at 50 per cent was inconsistent with capabilities of the Slovak capital market. It was perceived as populist, almost leading to liquidation and technically unrealistic, which could not have been thought of seriously. Even without pension fund management companies, a big number of investors operated within the Slovak market and there have been only a few investment opportunities. It was not realistic to expect that the companies would start to issue securities, which would be available for purchase by pension funds, on a large scale. "After all, why should Slovak companies issue securities on the domestic market?" experts asked. Credible companies may offer their shares on the liquid foreign market as well.

The currently insufficiently developed capital market in the Slovak Republic would not manage to guarantee ample adequate opportunities for investment in the case of a 50 per cent limit, which would be a disadvantage for citizens, since they would have to be satisfied with lower pensions. The majority of evaluating persons deemed 30 per cent investment constraint on the domestic market as pointless protectionism, being unreasonable in the present open economy environment, becoming inconsistent with the free capital mobility principle within the EU, after Slovakia's accession to the EU and later on to the Euro zone. Management companies will probably be obliged to violate the rule to invest the administered funds in the most efficient manner in case of the reduced 30 per cent limit as well. Any investment control on the domestic market is disserviceable. Investments should be placed so as to ensure the highest profitability. Artificial measures will not help the Slovak capital market in the long-run.

One of the respondents pointed out, within the context of sustainability of a 30 per cent limit of investment on the domestic market, with dependence on the volume of government bonds issued in the subsequent years and on the possibility that the government may borrow resources abroad too often. On the other hand, some of the evaluating persons deemed it necessary to maintain a certain obligatory minimum limit of investment on the domestic market, since there would be a possible risk that all domestic savings would be invested abroad, which would, inter alia, avoid support of the investment environment in the Slovak Republic.

Experts gladly accepted a reduction of the obligatory limits of the rate of return of pension funds, since the risk of necessity to invest resources into hazardous or otherwise unsteady transactions would increase, which would consequentially result in a higher risk of loss of resources both of pension fund management companies and citizens. Each constraint, and also specification of the obligatory minimum rate of return, narrows the space in capital investment and thus reduces profits of pension fund management companies, ergo prospective old-age pensions.

Criticism with respect to the obligation to enter a fully-funded pension scheme for certain age groups of the population (graduates entering the labour market for the first time) was expressed by some of the evaluating persons. They questioned why the state may bind a citizen to deposit his/her own funds to a specific location, why a citizen has a statutory obligation, thus is forced to foster the private sector – companies, stock markets etc. One of the respondents cited pension reform as a certain form of state dictatorship, which is inconsistent with fundamental rights of the citizen. The state should not force anyone to enter a fully-funded pension scheme. Those who wish to save for an old-age pension may do so by private assurance.

Certain critics were directed towards amending Acts which have not come into force yet. Stability of legal regulations is namely very important, and this should especially hold for the sensitive pension reform. Avoiding frequent alteration of respective regulations, after initiation of saving within a fully-funded pension scheme shall however be more substantial.

Reform of the 3rd Pillar of Pension Scheme - Act on Supplementary Pension Savings (Supplementary Pension Insurance Companies transformed into standard asset management joint-stock companies; Company's property separated from citizens' deposits; supervision of the Financial Market Authority), Amendment to the Income Tax Act (extending tax allowances to other savings, insurance and capital products of the financial market; decreasing the ceiling amount, which is deductible from the tax base, to SKK 12,000 yearly)

The Amendment to the Act on supplementary pension savings was approved by the deputies of the National Council of the Slovak Republic on October 26th, 2004. The intention of the new regulation was to supersede existing valid legislative regulation of the supplementary pension

savings and transform the supplementary pension assurance system into a supplementary pension savings system. One of the aims was to remedy imperfections of the existing system, to improve its transparency and to transform supplementary pension insurance companies into standard asset management joint-stock companies.

In terms of the new Act, existing supplementary pension insurance companies shall be transformed into supplementary pension fund management companies. Any supplementary pension insurance company, whose transformation project is not approved by the meeting of founders shall be liquidated not later than on December 31st, 2005. Not only employees and entrepreneurs but also every natural person who has reached the age of 18 years may participate in supplementary pension savings. The employee-employer principle remains valid in the regulation of the new Act, besides an opportunity for individual entry to the supplementary pension saving system. Unlike the preceding version of the 3rd pillar reform, the current regulation does not repeal the employee-employer principle of the supplementary pension insurance and determines that an employer may contribute an amount to its employees on their accounts in a supplementary pension fund management company to an extent, as agreed, for instance by means of a collective labour agreement. Concurrently, motivation for such contributions was maintained, in the nature of tax allowances.

The new legislative regulation **restricted conditions for payment of pensions from the third pillar**. The minimum age for the payment of supplementary pension was raised from 50 to 55 years and the minimum period of the supplementary pension savings was prolonged from 5 to 10 years. The effort of this measure was to support the long-term character of supplementary pension savings. At the same time, tax allowances were reduced for employees and self-employed persons.

In the provision of supplementary old-age pension, two forms of its payment have been introduced, namely **supplementary life annuity** and **supplementary temporary pension.** Supplementary life annuity and retirement pension are paid by life insurance companies. Should a saver apply for a life annuity, the respective supplementary pension fund management company shall carry forward the balance of his personal account to a life insurance company. Supplementary pension fund management companies provide supplementary temporary old-age pension, supplementary temporary retirement pension, simple compensation and retirement benefit.

Supplementary temporary retirement pension may be gained by clients who work in the 3rd and 4th risk category. **Retirement benefit** is paid at the minimum amount of 80 per cent of the amount saved (including returns) to a person who did not meet the terms for the payment of supplementary pension (e.g. if the saving period was shorter than 10 months). A client may gain **simple compensation** at the amount of 25 per cent of the personal account balance, if he applies for supplementary temporary old-age pension. Should a client become wholly disabled after signing the contract, he/she may apply for a simple payment of 100 per cent of the personal account. The new Act **strengthened the inheritance principle**. After the death of a client of a supplementary pension fund management company, heirs shall get 100 per cent of the balance of the respective personal account, thus the whole account balance, including contributions of the employer and investment returns. Within the system valid by the end of 2004, only a portion of the account balance saved by the client himself was subject to inheritance. Apart from the obligatory benefits, a supplementary pension fund management company may provide voluntary benefits of probate and disability insurance, based on a contract with a life insurance company.

Based on the Act in question, existing **supplementary pension insurance companies shall transform into supplementary pension fund management companies,** which may perform supplementary pension saving only under authorisation granted by the Financial Market Authority. Lack of supervision of supplementary pension insurance companies was a frequent objection of critics. The administrators of supplementary pension insurance companies did not object to gradual transformation, since they got an opportunity to get a supplementary pension fund management company under direct control. The existing nature of supplementary pension savings up to now did not provide direct ownership. The Ministry of Labour, Social Affairs and Family of the Slovak Republic expected entry of new companies on the market, with over 600 thousand clients in 2004, from the transformation of supplementary pension insurance companies into supplementary pension fund management companies. A minimum limit of 100 thousand prospective clients for a new commencing company was a substantial barrier, restricting entry of new players onto the market. Business in supplementary pension savings is regulated by similar, slightly less stiff conditions than in the second (fully-funded) pension scheme of pension security. An applicant must put down base capital amounting to SKK 50m at least, for a licence to be granted by the Financial Market Authority, compared with SKK 300m required for pension fund management companies in the second pillar of the pension security. Like the compulsory pensions saving scheme, strict requirements are put on members of the Board of Directors and Supervisory Board, from the point of view of integrity and trustworthiness. Transformation of supplementary pension insurance companies into fund management companies also implies that the company's

property shall be clearly separated from the fund's property with citizen's deposits, as only a joint-stock company with principal place of business in the Slovak Republic territory may become a supplementary pension fund management company.

Supplementary pension fund management companies establish and administer pension funds, like the compulsory fully-funded pillar, for the purposes of supplementary savings, which is considered a specialty. Each supplementary pension fund management company has to open and administer at least one contributory fund and not more than one pay fund. In terms of the Act, only such supplementary pension funds may be established for which an authorisation is granted from the Financial Market Authority. Performance of supervision was transferred to the Financial Market Authority, which thus supervises all pension funds from the Ministry of Finance and the Ministry of Labour, Social Affairs and Family.

By means of the reform of the 3rd pillar of the pension security, **other forms of saving** have acquired **tax advantages**. Within the amendment to the Act on income tax, approved by the deputies on the same day, tax advantages were extended to **life insurance, long-term special-purpose saving in a bank, or an insurance company and saving by different forms of collective investment** (unit trusts or securities) provided in the Slovak Republic. The clients should conclude contracts with a minimum term of 10 years and disbursement would be performed no sooner than at the age of 55, which are the conditions of the tax advantage. Should a prospective pensioner fail to comply with these rules, he/she will be obliged to pay the tax retroactively, from the paid contributions exempt from tax, within 3 years. (This condition is also applicable to saving in supplementary pension fund management companies.)

Evaluation of the Experts' Committee:

Pension system reform is one of the most important reforms to which the Slovak government is committed. The change of the third (voluntary) pension security pillar, in nature of the Act on supplementary pension saving, was the logical culmination of this reform. The approval of the measure met with positive feedback from the professional public. The transformation of the former supplementary pension insurance companies into standard asset management joint-stock companies, as well as the extension of tax allowance to additional insurance and saving products of the financial market was deemed as a positive note, broadening the possibilities of supplementary pension saving. Supplementary compulsory pension saving was put on an equal position with further forms of long-term investment. The regulation of the voluntary pension scheme pillar in question was, according to one evaluating person, the best solution of all. Imperfections of the operation of similar systems abroad are known, such as high marketing expenditures, or low profitability in fund assessing, however those may be eliminated by supervision and sanctions. Supervision of economy of the transformed joint-stock companies and the creation of adequate protective mechanisms shall play a significant role in the operation of the system. High emphasis should be put on the transparency of the operations of supplementary pension fund management companies.

Despite the support and positive feedback garnered by the reform, the experts of the evaluating committee had several objections to its provisions. Regulation of the handling of saved resources and the impossibility to withdraw the whole amount saved in a pension fund management company, but only 25 or 50 per cent of the balance of the pension account, were primarily considered as inappropriate. It should be a decision of each pensioner how to handle the amount. The Ministry of Labour, Social Affairs and Family should not interfere in this issue, even for any declared reasons of national economy. The savers may thus become the "hostages" of insurance companies selling life insurance products, since they will have no choice, but on the contrary, they will have to arrange life insurance with an insurance company. From this point of view, it was rather a step backward, in comparison with the previous supplementary pension insurance scheme, which had a "commercial" basis and thus provided incentives for people. As one of the respondents stated, in the case of supplementary pension saving, the increase expected is not as high as that experienced in case of the preceding supplementary pension insurance scheme.

The low maximum deductible tax allowance amounting to SKK 12,000 was criticised, in comparison with SKK 24,000 in 2004. It is questionable whether this tax allowance fulfils its original motivating role to save for a pension on a voluntary basis. Greater freedom in decision-making, how to handle the balance of one's own pension account should be left to the savers/pensioners, to compensate for reduced tax allowance.

However, some of the experts warned against tax allowance, since if this is utilised, a certain group of private products and services is privileged over others that are discriminated against. Furthermore, tax allowances violate tax reform principles.

Employment Policy

Labour Market in the SR	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Average monthly nominal gross wage *(in SKK)*	10,003	10,728	11,430	12,365	13,511	14,365	15,825	17,082*
Real wages growth *(in %)*	2.7	-3.1	-4.9	1.0	5.8	-2.0	2.5	5.2* 4.1**
Registered unemployment rate *(in %)*	13.8	17.5	18.2	18.2	17.8	15.2	14.3	11.7* 13.1**
Unemployment rate (Labour Force Survey) *(%)*	12.5	16.2	18.6	19.2	18.5	17.4	18.1	17.0*
Number of unemployed *(in thousands of persons)*	317	417	485	508	487	459	481	451*
Number of employed (Labour Force Survey) *(in thousands of persons)*	2,199	2,139	2,093	2,092	2,127	2,165	2,170	2,203*
Creation of new jobs *(change to previous year in %)*	-0.3	-2.7	-2.1	-0.1	1.6	2.0	0.0	1.5*
Real labour productivity growth *(in %)*	4.6	3.8	2.6	2.3	4.3	3.6	5.2	4.2**

Notes: Labour Force Survey = Labour Force Sample Survey of the Statistical Office of the Slovak Republic
** ING Bank Forecast*
*** Ministry of Finance Forecast*
Source: Statistical Office of the SR, Ministry of Finance of the SR, ING Bank (www.ingfn.sk)

Registered Unemployment Rate* *(in %)*

Year	*2003*												
Month	*1.*	*2.*	*3.*	*4.*	*5.*	*6.*	*7.*	*8.*	*9.*	*10.*	*11.*	*12.*	*Annual Average*
	17.7	17.1	16.5	15.4	14.8	14.6	14.5	14.3	13.9	13.8	14.2	15.6	**15.2**
	2004												
(%)	16.6	16.5	16.0	15.3	14.5	13.9	13.7	13.2	13.1	12.7	12.6	13.1	**14.3**
	2005												
	13.4	13.1	12.7	11.9	11.3								**12.5****

** registered unemployment rate (as of the last day of month) is calculated from the number of disposable job applicants; data from the Headquarters of Labour, Social Affairs and Family*
*** 5 Months Average*
Source: Statistical Office of the SR

Unemployment Rate according to the Labour Force Sample Survey of the Statistical Office of the SR *(in %)*

Quarter/Year	*1/01*	*2/01*	*3/01*	*4/01*	*2001*	*1/02*	*2/02*	*3/02*	*4/02*	*2002*
(%)	19.7	19.2	19.0	18.7	**19.2**	19.4	18.6	18.2	17.9	**18.5**
Quarter/Year	*1/03*	*2/03*	*3/03*	*4/03*	*2003*	*1/04*	*2/04*	*3/04*	*4/04*	*2004*
(%)	18.4	17.0	17.0	17.4	**17.4**	19.3	18.5	17.5	17.1	**18.1**
Quarter/Year	*1/05*									
(%)	17.5									

Source: Statistical Office of the SR

According to the information of the Headquarters of Labour, Social Affairs and Family, the active labour market policy underwent numerous changes in 2004, which were reflected in structure of the provided benefits as well, in terms of the Act on Employment Services, which came into force as of February 1st, 2004. *(see chart below)*.

In 2004, 332,573 job applicants were activated in total, by means of the active labour market policy. Employment authorities fostered the creation of 7,657 job positions in 2004. Of total of unemployed persons directed to active labour market policy instruments, as represented in the chart *(see below),* disadvantaged job applicants (unemployed graduates younger than 25, citizens above 50, permanently unemployed persons [at least 12 months], selected groups fulfilling their parental obligations, persons unemployed due health problems, individuals migrating within EU territory, physically/mentally disabled persons) comprised almost 78 per cent. The share of permanently unemployed citizens presented almost 64 per cent of the total activated job applicants directed to active labour market policy instruments, within the instruments shown in the chart below.

Contributions to activation achieved several "most... " attributes in 2004. This instrument was the first among the new active labour market policy instruments in 2004, Labour Offices signed the

most contracts (4,778) with entities (activation administrators) for jobs created during the year (219,876), most of the job applicants were involved in activation activities (243,426) and the highest amount within the active labour market policy was used for the performance of activation activities (almost SKK 986m, i.e. more than 53 per cent). Resources from the European Social Fund represented a substantial amount of active labour market policy funding in 2004.

The contribution to moving for jobs, as one of the less frequently used active labour market policy instruments, were provided to 51 job applicants in total, whereas 18 (of 46) Labour Offices did not grant this contribution at all. The Headquarters of Labour, Social Affairs and Family named the low amount of the contribution (SKK 10,000) and strict rules established by law (e.g. employment contract, corroborating the justifiability of expenditures, harmonisation of the place of employment with the new permanent address) as the principal reasons of the low interest of job seekers and the application of this instrument.

In 2004, exactly 5,618 job positions were created and occupied for self-employment activity, and as a result, this active labour market policy instrument became dominant in the field of supporting the creation of new job positions.

The Headquarters of Labour, Social Affairs and Family labelled 2004 as a successful year in the field of active labour market policy. In their report, they state that the objective of the activation of job applicants was achieved at 161 per cent and the objective of job creation, at 118 per cent.

Active Labour Market Policy Benefits*	**Number of Created/Supported Jobs or Persons**	**Total Amount of Financial Contributions** ***(in SKK)***	**Average Contribution per Supported Job or Person** ***(in SKK)***
Contribution to Activation *(recipients are both the institution, which provides small works and voluntary services, and the unemployed)*	219,876 workplaces for activation (243,426 persons)	985,964,553	4,484
Contribution to Self-employment *(unemployed who are registered for min 3 months, and start and keep business for at least 2 years)*	5,618 jobs (5,618 persons)	320,083,467	56,975
Contribution to Labour Market Preparation and Training of Job Seekers *(paid to job applicants and education/training institutions)*	27,208 persons	211,667,038	7,780
Contribution to Graduate Practice *(recipients are both school graduate and employer)*	14,462 persons	199,879,537	13,821
Contribution to Employment of Disadvantaged Job Seekers *(employer is the recipient)*	1,778 jobs (1,801 persons)	109,541,958	61,610
Contribution to Creation and Maintenance of Sheltered Workshops and Workplaces *(paid to employer who employs a proportion of physically/mentally disabled persons)*	138 jobs (127 persons)	13,929,496	100,938
Contribution to Physically/Mentally Disabled Persons to Operate or Carry out Self-employed Activities	108 jobs (108 persons)	10,748,968	99,527
Contribution to Activity of a Work Assistant *(entitled are physically or mentally disabled unemployed)*	18 persons (work assistance for 52 disabled people)	2,089,198	116,067
Contribution to Moving for Jobs *(min 30 km distance, change of permanent residence is condition)*	51 persons	458,589	8,992
Contribution to Labour Market Preparation and Training of Employed Persons (paid to employer)	0	0	0
Contribution to Cover Operating Costs for Maintaining of Sheltered Workshops or Workplaces and to Fund Transport Costs for Disabled Workers	0	0	0

Total	**269,257**	**1,854,362,804**	**6,887**

** according to the Act on Employment Services*
Note: Within an active labour market policy, partial compensation of travel costs for job seekers (related to job interview with potential employer), travelling allowances related to participation in activities defined within an Individual Action Plan and contribution to childcare services (entitled are job applicants in education and training), may be granted in terms of the Act on Employment Services as well.

Source: Headquarters of Labour, Social Affairs and Family, Vagač, L. (2004): The current situation on the labour market and labour market policy in Slovakia

Act on Illicit Work and Illicit Employment (definition of illicit work and illicit employment; straitening the scope for illicit employment; widening the obligations of evidence and registration towards the Social Insurance Agency; extension of inspections; stricter sanctions)

The Deputies of the National Council of the Slovak Republic approved the government bill of the Act on illicit work and illicit employment on February 9th, 2005.Slovakia has not had any legal regulation, which would **define illicit work and illicit employment.** The approved Act set out illicit employment as the exploitation of work without a duly concluded employment contract in writing, or an agreement on the temporary work of students and consequential neglect of the notification duty of an employer towards the Social Insurance Agency. Illicit work was defined as work performed by a natural person for a legal entity, which is an entrepreneur and does not have a legal relationship established in terms of a separate regulation.

The following inspection bodies perform the **inspection of illicit work** and illicit employment:

- Labour Inspectorate,
- Headquarters of Labour, Social Affairs and Family and
- Labour, Social Affairs and Family Authorities.

Thus Labour, Social Affairs and Family Authorities were added to the existing inspection bodies. The authority to perform labour inspection of an employer was enhanced to be legitimate outside the territorial scope of the respective Labour Inspectorate. Further authorisation with respect to free admission to the premises of an employer, as well as proving the identity of a natural person present at workplace were added.

The Act established the **obligation for the employer to register employee policyholders** and savers within an old-age pension saving scheme to health insurance, pension insurance and unemployment insurance prior to the commencement of said insurance, no later than **prior to the commencement of the performance of activities**, delete them from said register not later than on the day following the expiration date of insurance. An employer must notify the Social Insurance Agency of the hiring of a new employee even before the employee actually starts to work. In terms of the existing legislation, providing notification of a new employment relationship within 8 days of the commencement of the employment relationship was sufficient.

In addition, the Act placed a new duty on the employer to keep a file of work performed during the employment relationship, as well as the performance of work on the basis of an agreement on the temporary work of students, for the purposes of monitoring the hours worked. Furthermore, the registration of this group of workers in the Social Insurance Agency was introduced. Inspection bodies may, in the course of their inspection activity, verify whether or not a law has violated by an employee or employer, using data provided from this register.

The new regulation entitled authorised bodies to impose fines on an employer for neglecting the provisions of the Act on illicit work and illicit employment up to the amount of SKK 1m and to impose a disciplinary fine, in the event of obstruction of the inspection of illicit employment, up to the amount of SKK 20,000. This entity will be excluded from the public procurement and state aid process for 5 years. The Act assigns the responsibility for illicit work to the employee himself/herself, in addition to the employer.

According to the proposers, illicit work has substantial macroeconomic consequences on the state and public budgets. During the second half of 2004, Labour Inspectorates, Trade Licensing Offices, Police and Tax Authorities revealed 661 cases of illicit work, which was twice as high as the previous six months. This concerned mainly employment without an employment contract, or an otherwise substantiated employment relationship. The commencement of effectiveness was accompanied by a Slovak operation, "**Wind**", focusing on discoveries of illicit work. From April 4th to April 12th, 2005, Employment Authority and Labour Inspectorate representatives performed 7,077 inspections. Inspectors discovered more than 990 cases of employment without a labour contract, or agreement, in 12 days. According to the data of the Social Insurance Agency, employers filed 38,600 new job positions, thanks to the **"Wind"** operation, which shall increase the accrual income increment of the Social Insurance Agency from premiums by at least SKK 40m

per month, according to the Ministry of Labour, Social Affairs and Family. Consequently, the Ministry of Labour, Social Affairs and Family launched an operation titled0 "**Wind 2"**, which took place from June 6th to June 10th, 2005. During this operation, 338 illicitly employed individuals were discovered and penalties amounted to SKK 2.5m were imposed.

Some of the entrepreneurs blamed the Ministry for focusing on suppression rather than on motivation and did not save on similar administrative measures, in order to be able to reduce high payroll taxes consequently, which are one of the reasons for undeclared work and illicit employment. According to them, the administrative burden was increased for entrepreneurs and a motivation for the corruption and bribery of inspectors and labour inspectors, instead of increasing employment as a result of a low tax and payroll tax burden and thus labour costs.

Evaluation of the Experts' Committee:

The evaluating experts perceived the effort to combat illicit work in a positive manner. According to several of them, it is appreciated that the government has started to be devoted to this issue after having proceeded to cardinal system measures, which made the labour market significantly more flexible. The measure was marked as the establishment of the governing law and equal conditions for everyone on the market. It was accomplished that dutiful employers, who have higher labour costs since they pay payroll taxes for their employees, are not in a comparative disadvantage anymore, in comparison with companies practicing illicit employment. Illicit work should most definitely not continue to be fostered. Although this measure in itself has not created a system solution for the unemployment problem, the repressive nature of the measure and the introduction of transparency to the labour market registration system will probably be of substantial importance predominantly for the Social Insurance Agency and the balance shall return to legitimate employment and will contribute thereby to the elimination of undeclared work. One of the respondents deemed the measure as an effort to protect employees, e.g. so that they may participate fully in the new pension scheme.

However, according to many experts, the Act on illicit work and illicit employment resolves "only" effects, but not causes. The payroll tax, still very high, is the main incentive to work illicitly. The professional public believes that the options of radical reduction of the payroll tax burden have not been completely exhausted, since there is only a small chance for this measure to pass at present, due to a lack of political will. It would require namely a more radical redefinition of all the items that public insurance should cover. One of the respondents saw a significantly larger space in the field of minimum wage, where several forms of recognition could be considered. He was also missing "creative" (motivational) measures in the form of tax advantageous vouchers in cases of non-declared work of e.g. tradesmen in the service sector. Even though some of the evaluating persons were missing incentive items in the Act, the necessity to introduce repression to areas where a specific complaint has spun out of control was not decreased, according to them.

In the case of each tax, thus solidarity greater than zero, there will be motivation to avoid it. The performance of the solidarity principle thus requires supervision, ergo monitoring of illicit work. In the case of the introduction of effective inspection, the Act may yield improvement of the labour market quality. However, according to a critical point of view, the originators of the Act forgot to strengthen the inspection departments of Labour, Social Affairs and Family Authorities, from a personal and financial side (at the expense of other departments of state bodies), since in order to maintain the effectiveness of inspections, numerous inspection teams must perform the inspections, not individuals or pairs who may fail to notice something; moreover, they may be threatened or bribed more easily.

According to sceptical opinions, a problem may occur in the execution of the Act itself, which would mean the risk of a negative net effect of the measure – illicit work would not be eliminated and employer expenditures would increase, in this case.

A lot of respondents perceived an increase of the administrative demandingness of employing and registering employees as a negative issue. Enhancing employees' accounting and registration obligations towards the Social Insurance Agency created administrative barriers for entrepreneurs. Critics expressed the fear that the "chicanery" of employers may occur on the part of the Social Insurance Agency, the administrative capacity of which has been enlarged and its "overhead expenses" increased, meaning a reflux of funds that could be used otherwise. The new obligations have created certain pressure on employers, mainly small and medium-sized businesses, which may even to a larger extent force employees not to enter a classical labour-law relationship, but to start a business. In this event, the social impact of the measure on employees is rather questionable.

Health Care Policy

Health Care Reform - Act on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services Related to the Provision of Health Care (reducing basic package of the health care - priority diagnoses; non-priority diagnoses - patients' co-payment to be set by the Government; categorisation of drugs; enlarging the area of people exempted from flat payments for health care related services), Health Care Act (catalogisation of medical services)

After the implementation of stabilising measures at the beginning of the period of service of a new government coalition aimed at the restriction of high consumption in the health care sector and at obstructing of the system misuse (e.g. introduction of flat payments for health care related services) there were system and network measures implemented.

The Members of the Slovak Parliament passed on 22nd September the government **Act on the Scope** of Health Care Covered by Public Health Insurance and on Payments for Services Related to the Provision of Health Care which abolished the Act on Treatment Code in force as so far. After the President veto it was re-passed on 21st October 2004.

The equity of the Act is the establishment of the legal frame enabling the scope of the health care which shall be covered by the public health insurance. The Act includes an amendment which involves the list of approximately 6,000 diagnoses, so-called priority diseases (to reflect social and professional priorities). The costs of their treatment shall be in full (100%) covered by the public health insurance (so-called basic benefit package). The list of priority diseases may be changed by the Parliament in the form of an amendment to the Act. The amount of co-payment at settlement of costs of medical services of other ca 3,000 diagnoses which are not included in the amendment to the Act – in the list of priority diagnoses – shall be established (original proposal – the Ministry of Health of the Slovak Republic) by the categorisation regulation what are according to the Ministry of Health of the Slovak Republic the instruments characterised by the political neutrality and universality since every political garniture shall have an open door for the implementation of its health care policy and may flexibly react to the volume of resources in the health care and to the purchasing force of the population. The amount of the patient's co-payment shall be determined in the form of a fixed payment as well as the supplementary payment to the determined payment amount of the health insurance company or as percentage payment from the health care price. At determination of the co-payment amount the Government shall consider the seriousness of the disease and age of the policyholder. The law allows also a differentiation of co-payment in dependence on various indication restrictions (e.g. state and origin (smoking) of disease and the like). It might happen that pensioners, children or economically active citizens shall provide supplementary payments for the same disease. There should be applied a rule that citizens shall either partially or fully provide supplementary payments for the treatment of less serious diseases – e.g. influenza, sprained ankle, hair transplant, acne treatment or dental caries treatment at missing prevention while medical services of life threatening or chronic diseases shall be fully paid from the basic benefit package. Delimitation of the so-called basic benefit package, i.e. the scope of health care services paid at the cost of public resources, via mechanism of priority determination took place in more countries (e.g. Oregon in the USA, the Netherlands, New Zealand, Sweden, Great Britain).

Division of Diagnoses for the so-called Priority and Non-Priority Diagnoses

Diagnoses	Actual Volume of Payments from Health Insurance Companies	Total Cases	Total Costs	New Volume of Payments from Health Insurance Companies	New Volume of Payments from Patients	New Payments From Public Insurance
Priority (ca 6,000)	SKK 19.990bn	41%	67%	SKK 19.990bn	SKK 0	100%
Non-Priority (ca 3,000)	SKK 9.989bn	59%	33%	SKK 6.992bn	SKK 2.997bn	0 - 95%
Total	*SKK 29.979bn*	*100%*	*100%*	*SKK 26.982bn*	*SKK 2.997bn*	

Note: data are estimated and forecasted
Source: health insurance companies, calculations: Ministry of Health of the SR

The average payment from the patient for the co-payment on financing of medical services was estimated by the Ministry of Health of the Slovak Republic in the last-year calculations for a new system from SKK 50 - 200 according to the demands for the diagnoses.

Policyholders shall provide supplementary payment for:

- treatment of disease which is included in the list of the so-called non-priority diagnoses (co-payment shall be set by the Government in the form of a Decree),
- drugs, medical aids and dietetic foodstuffs which are not fully covered by the public health insurance while under the law each anatomical-therapeutic group shall include at least one drug fully paid for by the insurance company,
- spa health care according to the kind of disease and according to the approved indicative list,
- services related to the health care (for the stay and food in the hospital, for the visit of surgery, for medical prescription, for medical transport) *(see below)*.

Health insurance companies shall refund:

- preventive examinations (law defines frequency of visits which are covered by the public health insurance; the insurance company shall pay also for the preventive examination carried out by the sport doctor),
- urgent health care (in case of person's life threatening; delivery; the transport to the hospital is not refunded),
- diagnostic examination leading to the disease determination (both priority and non-priority),
- treatment of the so-called priority diseases,
- treatment of dental caries in case the patient undergone the preventive examination a year ago,
- drugs and medical aids which patient receives at the hospital treatment,
- drugs, medical aids and dietetic foodstuffs which are fully covered by the public health insurance,
- health care within the dispensarisation (special care) if determined so by the insurance company,
- spa care according to the kind of disease (indicative list shows the spa treatment of which disease shall be fully covered by the insurance, partially covered and with which disease the insurance company shall refund also services; the payment of the spa treatment shall be approved by the relevant health insurance company).

The objective of the Act declared already in the Memorandum of the Government of the Slovak Republic is the enhancement of the financial sustainability of the public health insurance system and cutting a growth of debt in the health care at concurrent non-reduction of quality of the provided health care. The external debt (against external creditors – debt of bed health care facilities against suppliers, debts of health insurance companies against pharmacies, state budget and other health care providers) in Slovak health care amounts up to approximately SKK 30bn. Before reform starting the debt was growing by SKK 700m per month. The stabilising measures assisted at the reduction of debt growth in 2003 by SKK 4bn to SKK 5bn. The estimates of internal debt level (both moral and technical wear of assets and equipment) of Slovak health care amount to approximately SKK 50bn.

The reasonable report states that the sustainability of the health care covered by public resources is threatened by several factors:

- gradual change of disease structure (shift from acute to chronic),
- demographic factors (population ageing),
- technological progress (e.g. in pharmaceutical industry),
- expectations of inhabitants (improvement of health services supports growing expectations),
- accessibility of resources (in 2002 revenues of health care achieved 6.4% of GDP according to the data of the Ministry of Health of the Slovak Republic while the expenditures were 7.2% of GDP; the similar difference has been recorded also in the last years since 1997 – *see the table on page 80)*.

Regarding the fact that the volume of available funds in the health care is restricted and the increase of health care costs grows substantially faster than the ability of economy to increase necessary resources for their coverage at present, it is inevitable, according to the Ministry of Health of the Slovak Republic, to assimilate the scope of the health care covered by the public health insurance. The main objective of this catalogisation and categorisation of medical services, diseases, drugs, medical aids and dietetic foodstuffs is to provide maximum effect under the most effective conditions. "If the unified health insurance system is to be sustainable, it is impossible for every client to receive free health care in the non-restricted scope" argue the proposers in the reasonable report. This results in the need of restriction (rationing). The so-called "silent" rationing becomes according to the Ministry of Health of the Slovak Republic a serious ethic

problem and corruption source. It is to be substituted by explicit rationing, i.e. establishment of clear and transparent rules valid for each participant of the system while respecting medical, ethic and economic criteria with preserving health care quality.

Total official (legal, formal) direct payments of citizens achieved in 2002 the level exceeding 10% (i.e. approximately SKK 7bn) of total official resources in the health care sector while the average of OECD countries achieves 18.7%. In compliance with the study of the World Bank and UNAID it is, however, possible to estimate that the total amount of informal payments (bribes) achieves approximately SKK 6.5bn in the Slovak health care sector. The total amount (formal and informal) of patient's co-payment approaches in compliance with the impact study of the Ministry of Health of the Slovak Republic *(see the table below)* actual average of OECD average.

Estimates of Inhabitants' Expenditures in the Health Care Sector before and after the Reform *(in SKK bn)*

Expenditures / Year	**2002**	**2003***	**2004****	**2005****
Drugs, Medical Aids, Dietetic Foodstuffs	5.20	6.00	7.00	7.50
Medical Services (above standard services, care at own request for other than medical purpose and the like)	1.63	2.00	2.50	3.00
Flat Payments for the Stay in Hospital, Surgery Visit, Drug Prescription, Transport	0.00	1.50	3.00	3.00
Total Formal (Legal) Co-payment:	**6.83**	**9.50**	**12.50**	**13.50**
Informal Payments (Corruption Estimate):	**6.50**	**4.50**	**3.50**	**2.50**
Formal + Informal Co-payment:	13.33	14.00	16.00	16.00
Health Service Resources (including Informal Payments)	*72.08*	*75.41*	*80.21*	*87.72*
Patient's Co-payment (as %-age of Total Volume of Health Service Resources)	***18.49%***	***18.57%***	***19.95%***	***18.24%***

** Estimate*
*** Forecast*
Source: Pažitný, P., Maďarová, H. (2004): Impact study of the health care reform, daily SME

The elimination of the actual health care basic benefit package which is fully covered by the public resources is considered by a lot of analysts to be a key element of the health care reform. The amount of co-payment at the disease treatment shall however always be a political decision since the government shall decide on it by passing the decree. They may decide about low or zero co-payment. The list of patient's co-payment amounts at particular non-priority diseases has not been released yet and it is not expected until the parliamentary elections in 2006. It has been just criticised by the opposition in the Parliament. They said the Members of Parliament approved "a pig in a poke". By non-quantification of co-payment at the treatment of "non-priority" diseases it is impossible to set the social network, according to the opposition. They even did not like that this step means getting round the Parliament.

Besides supplementary payments for treatment, drugs, medical aids and dietetic foodstuffs the patient shall provide flat payments for the health care related services as it is so far. Those services are covered fully or partially by the public health insurance only in case the health care related to the provided services was covered by the public health insurance. Those services have contractual price because they are provided by contractual providers. The amount of policyholder payment for the hereinafter services shall be established by the Government's Decree.

Patient's co-payments for the health care related services:

- food and stay in bed during institutional care provision (including spa treatment) (SKK 50 for each day, for 21 days at most, without limitation at spa treatment),
- stay of a guide in institutional care,
- processing of data found out at provision of out-patient care in electronic form at each visit of doctor's surgery within the first aid medical service and institutional emergency service (SKK 20),
- statistical processing of doctor's prescription/medical certificate related to the release of drugs or dietetic foodstuff/medical aids prescribed on one medical prescription/medical certificate (SKK 20),
- medical transport (SKK 2 per km),
- pursuant to the new Act on health care *(see below)* it is possible that elaboration of the medical opinion and provision of the record from the medical documentation.

The taxatively denominated policyholders groups are exempt from the duty to pay those flat payments. In comparison with the government proposal the Members of the Slovak Parliament have extended the circle of patients exempt from the payments *(note: not all policyholder groups are exempt from all payments)*:

- patients with threatening disease,
- patients with assessed compulsory treatment,
- pregnant women accepted to the hospital with risk pregnancy or for risk delivery,
- children up to 3 years of age (at visit to surgery – children up to 1 year of age),
- people in material distress (from 4th day of institutional care provision),
- multiple blood donors (holders of at least silver Janský plaquette),
- at carrying out examinations before free blood donation,
- soldiers of compulsory military service,
- citizens executing civil service,
- policyholders at preventive examination,
- policyholder at the repeated visit of the same doctor within 7 days from the visit at which such services were paid for at this doctor,
- companions of children within 3 years of age and oncological patients within 18 years of age at the stay in the hospital,
- at the transport the patients engaged in chronic dialysed or transplant programme, oncological patients, patients who are provided with cardiosurgical treatment, severely handicapped patients who are left to individual transport by passenger car,
- policyholders up to 18 years of age who are classified by the health insurance company for dispensarisation (special care),
- at the issue of medical aid the policyholder who is the holder of the health certificate of severely handicapped citizen and can prove that the relevant authority awarded him/her the allowance for the compensation of the increased expenditures.

The Act on the scope contains also provisions concerning **categorisation** of drugs, medical aids and dietetic foodstuffs. The categorisation determines the amount of payment of the health insurance company and rate of patient's co-payment. At present it is based on the two-round auction principle (pressure on producers' prices reduction) and the reform leaves it unchanged. There was, however, changed a provision introduced by the Amendment to the Health Care Act from the half of December 2002 in relation to the change of the sale price of a drug, medical aid or dietetic foodstuff. So far the patient's co-payment has been constantly determined and at the change of a drug price only the part paid by the health insurance company was changed. Much older system involved completely different system. The new Act established that at the reduction of the sale price of a drug, medical aid or dietetic foodstuff there occurred a direct reduction of the payment amount of the insurance company and the insuree. The ratio of the health insurance company payment and patient's co-payment shall be preserved. This provision de facto means that the amount of the policyholder co-payment on drugs, medical aids and dietetic foodstuffs is a percentage amount.

The documents for the categorisation are prepared by the relevant **categorisation commissions** – advisory bodies which consist of the representatives of the ministry of health, health insurance companies and experts nominated by the Minister of Health. Particular categorisation commissions shall have 11 members - 3 members are nominated by the Ministry of Health of the Slovak Republic, 5 members are nominated by health insurance companies and 3 members are nominated by the Slovak Medical Chamber. The categorisation is issued by the Ministry of Health of the Slovak Republic by the measure. Categorisation decisions including reasoning shall be published by the Ministry of Health on its internet site. This procedure is aimed at enhancement of categorisation process transparency. To ensure the categorisation process of medical services, drugs, medical aids and dietetic foodstuffs the Ministry of Health of the Slovak Republic was expected to accept 5 employees according to the reasonable report from 2004 what would cause the total costs of SKK 2.6m this year.

According to the reasonable report the Act on the scope shall have an impact on the state budget, it shall not affect budgets of communities and higher territorial units and it shall have a positive impact on economy of health insurance companies. It was not possible to quantify with regard to the absence of categorisation and other measures of the Government and the Ministry of Health of the Slovak Republic which shall be approved gradually.

Some opposition politicians referred to the Act on the scope of Health Care covered by the public health insurance and on payments for Health Care Related Services as anti-constitutional since in their opinion it cancels free health care and they asked the President of the Slovak Republic to return it back to the Parliament for rehearing. On the contrary the proposers of the Act from the Ministry of Health of the Slovak Republic are persuaded that the standard results from the wording of the article 40 of the Constitution of the Slovak Republic because it sets conditions for the provision of free health care on the basis of health insurance.

On 22nd September (after President's veto repeatedly on 21st October) the Members of the Slovak Parliament passed also a government **Act on Health Care** and Services Related to the Provision of Health Care which is closely related to further reform health care acts and it defines health care in a new manner on the basis of understanding the health care in a technical sense as "services" and from the point of ethic as "mission". The aim of new legal regulations is especially a definition

of health care and forms of its provision, rights and duties at keeping and provision of medical documentation (including regulations on data disposal at anonymous deliveries) and health care with emphasis on the adjustment of the informed consent (acceptance of the treatment by patient), especially at biomedical research, sterilisations and transplants. The act regulates the standardised procedure at death, reservation of conscience of health care providers as well as competence of the state administration and self-government authorities in the health care section. The standard contains general conditions and ethic of projects of biomedical research, storage and transfer of organs, tissues and cells and it introduces health care information system.

The Act divided the health care (it introduced the notion of domestic health care carried out by nurses or midwives) and related services which might be charged *(see above)*. Health care is a package of working activities carried out by medical professionals including provision of drugs, medical aids and dietetic foodstuffs. The Act generated a notion – urgent health care which is fully covered by the public health insurance. It is a care at states threatening the life of a person, for example at injuries after traffic accidents, heart attacks, collapses including changes of behaviour which threaten patient's life and his/her surrounding. The patient does not pay in such cases for medical traffic to the hospital. The emergency health care includes also delivery.

In the field of diagnostics there is for the first time a connection between the health care and diagnosis or disease regulated by law. The link of health care provision to diagnosis is according to the Ministry of Health of the Slovak Republic a key one with regard to the entire health care reform because it enables to assign a standard diagnostic and therapeutic procedure to particular diagnoses. The standard diagnostic and therapeutic procedure is correctly provided health care (the so-called "lege artis"). The health care "lege artis" is provided only when all steps for the determination of correct diagnosis were taken and correct preventive or treatment procedure was ensured. The health care "lege artis" brings into the health care system for the first time its technical measurability which is substantial also in relation to the Act on the Scope of Health Care Covered by Public Health Insurance *(see above)* and Health Insurance Companies and Surveillance Authority Act *(see page 84)*. The uniform definition of notions means the health care standardisation enabling much clearer and much precise defining of the fact who is entitled for what or what might be used as a basis for possible dispute solving in relation with health care provision. The stated health care standardisation

- shall, according to the Ministry of Health of the Slovak Republic, enable to the health care provider to find out expressly what is objectively considered to be correctly provided health care,
- shall enable to the health insurance company to define expressly what is the basic package of the health care what shall result in better risk identification,
- shall inform the patient about what he/she may require at the given diagnosis from the provider (express definition of what he/she is entitled for),
- shall enable objective output of surveillance of health care by the Health Care Surveillance Authority; decision on the correctness of procedure at health care provision shall thus not be dependent on eventual subjective interpretation of health care provider .

Catalogue of medical services is one of inevitable conditions for the generation of binding standard procedures. It is issued by the government in the form of a decree. Each diagnosis is being assigned medical services which are considered to be indicated according to the current medical knowledge by the catalogisation commission at the Ministry of Health of the Slovak Republic. They include medical services which shall be carried out at the particular diagnosis always, some may depend on the seriousness of health condition and others may mean application of alternative procedure. The catalogue of medical services distinguishes between a diagnostic procedure (medical services leading to the diagnosis determination, e.g. urine test, blood picture, thorax RTG – these are fully covered by the public health insurance *(see above)*) and therapeutic procedure (medical services leading to disease removal – treatment of the disease, e.g. pre-operation examination, surgical procedure, pharmacotherapy – here the patient's co-payment may be required *(see above)*). In the process of catalogisation of medical services the price, unlike the price in catalogisation of drugs, medical aids and dietetic foodstuffs, is not determined since it is a subject of contracts between providers and health insurance companies. The catalogue of medical services shall serve for the calculation of price between the health care provider and the insurance company, the patient shall participate in payment of medical costs of particular diseases not individual medical services according to the catalogue of medical services. The condition of payment for medical service to the health care provider from the health insurance company by the publication of the service in the catalogue of medical services results from the requirements to pay only "lege artis" services from the health insurance.

The health insurance company shall be responsible for the provision of reasonable health care (**patient management system**). The health insurance company shall have the possibility to pay the health care and the related services also above taxatively delimited scope. Hospitals or doctors will be able to determine the amount of patient's co-payment for above-standard services themselves. The legal regulations enable the health insurance company to exercise a claim of recourse against the policyholder in case the policyholder provably breached the treatment regime

or in case of health damage due to addictive substance effect and on the contrary, it is entitled to grant the policyholder with a privilege in case the policyholder follows a healthy way of life and prevention. According to the Ministry of Health of the Slovak Republic this means an important tool for the implementation of a just health care policy for the health insurance company.

The Act on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services Related to the Provision of Health Care including the Act on Health Care and Services Related to the Provision of Health Care came into effect on 1st January 2005.

Evaluation of the Experts' Committee:

Professional public accepted in general that the health care system in Slovakia needs reform and that's why the acceptance of a package of 6 reform acts is deemed a very important step forward for which no government garniture has been prepared so far. The Act on the Scope of Health Care Covered by Public Health Insurance and the Act on Health Care and Services Related to the Provision of Health Care can be considered as key standards of the entire reform because they create conditions for particular measures defined in other 4 accepted health care acts.

The base of the entire reform process – effort to economise public health care as a reaction to financial agony of the system (great indebtedness) and lagging behind especially via the use of the advantages of market powers is considered to be great contribution. Finally there is established a definite finalisation of health care understanding as a system in which all is "free" for everybody, there is reflected a fact in reality that there are restricted resources, it might assist to reduce waste and partially (especially at diagnoses which are not covered from the benefit package) there is created a competitive environment. The experts perceive the complexity of the reform, effort to realise substantial change aimed at effectiveness and financial sustainability of the system.

Even the richest countries of the world cannot afford to satisfy all needs of inhabitants related to the health conditions via publicly financed health care system. The practical solution accepted and used everywhere in the developed world is the classification of health care services according to the rate of significance and "rationing", i.e. delimitation what shall be (urgent health care, the so-called priority diagnoses) and what shall not be (part of costs from the so-called non-priority diagnoses and health care related services (so-called 50- and 20-Koruna notes) financed from public insurance in such a way so that resources and acknowledged needs can be settled with the least negative impact to the actual accessibility. This approach was adopted also by "Zajac reform" what caused positive evaluation on the part of the evaluating professional public. Introduction (in some cases of increase) of patient's co-payment on financing of his/her treatment could not be postponed till all is blue and it was (or shall be) inevitable to implement it.

A new classification of medical services (including drugs, medical aids and dietetic foodstuffs) means completely new health care philosophy enabling the concentration of public resources for key services with the direct impact on health quality of a citizen and on the contrary leaving financing of less serious diseases treatment, e.g. common cold, directly to the patient. This is quite common in some countries, the employee simply calls the employer that he/she does not feel well and stays at home for several days, thus removing the useless visit to the surgery sometimes increasing the risk of the secondary infection. The wage increase in the Slovak Republic may cause costs reduction in health care since with higher wage and small problems it is not worth going to see the doctor.

The significant plus of the reform is that one of its basic ideas is the enhancement of personal involvement and care of citizens about their own health via health preventive programmes (list of publicly covered preventive examinations is vast and covers in fact all basic risks). Creation of conditions for the long-term support of prevention concerning own health of citizens is a significant tool of health improvement, reduction of disease rate and sickness absence of employees what might finally be reflected not only in economic indicators of companies and economy but especially in the long-term enhancement of living standard of citizens and thus the whole society. The passed acts shall concurrently improve knowledge of citizens – policyholders including achieved treatment results.

The opinions related to the manner of health care reform implementation were very different in general public, very often totally antagonistic, what, however, was not so evident with professional public. Despite that, there appeared also doubting and critical opinions at evaluation. Some respondents doubt the reasonableness to be such express reform leader and pioneer in the field of reform since the application of a completely new system, not tested anywhere before, which is often based on principles typical for other sectors, may bring appreciable and maybe useless risks. It is difficult to estimate the reform impacts in advance. It is just after the situations in a real life can show where necessary corrections shall be made. According to another opinion there was missing an inevitable longer discussion held in the society on public goods, services in health care in order to be able to define longer-term social objectives and consensus. This was supported by

the intended hectic rate of preparation and submission of laws and regulations thus excluding the elaboration of alternatives.

The risk of new regulations is according one evaluator "excessive" self-treatment (the patient shall not come even when it is necessary), the problem shall include effective, however, not in compliance with political will, definition of the list of priority and other diagnoses, in this respondent's opinion there is left unsolved a question of social impacts to low-income groups of inhabitants. Payment for diagnoses is, however, not expected in the near period (within parliamentary elections 2006) what is in the opinion of another respondent useless postponing of the necessary higher patient's co-payment on his/her treatment thus reducing also the entry of new players to the health care market. Establishment and changing of the list of the so-called priority and non-priority diagnoses and the amount of patient's co-payment with the second group shall become political goods with which purposeful "bartering" is expected. Application of some exceptions for particular groups of inhabitants (soldiers, policemen) was not appreciated.

There was expressed an opinion that despite the effort of the Ministry of Health there had been and was only a weak discussion especially in regions on particular aspects of the reform both on professional level and on the level of the relation to citizens (weak information campaign) what results in greater resistance against the reform due to the weak knowledge.

Health Care Reform - Act on Health Insurance (division of health insurance into public and individual; increasing payroll tax burden; increasing assessment base; annual balancing of premium payments; 85.5% redistribution of prescribed premium between health insurance companies; penalties; rights and duties of health insurance companies and policyholders).

The Members of the Slovak Parliament approved on 21st September (after the President's veto repeatedly on 21st October) the Government Act on Health Insurance which amended the Insurance Act. A new rule of law supersedes a substantial part of provisions of the previous Insurance Act.

The new act **is aimed at** the contribution to cutting a growth of debt in health care and to more transparent flows of funds in order not to cause high corruption rate both within and outside the system as up to now. Lack of funds in the health insurance system and in the entire system is according to the Ministry of Health of the Slovak Republic the consequence of the current state since there did not exist such legislative environment which would enable health insurance companies and health care providers to behave responsibly and execute their activity in order to create profit in case of good economy and to dissolve in case of bad economy. The legislative environment shall be according to the Ministry of Health of the Slovak Republic of such character so that the state cannot participate in debt rehabilitation of those who behave in non-economic and non-responsible manner.

Estimated Official Resources in the Health Care Sector *(in SKK bn)*

	´95	´96	´97	´98	´99	´00	´01	´02	´03	´04	´05	´06
Revenues from Premium	18.7	23.7	26.8	28.7	29.5	32.1	34.8	38.8	42.3	47.7	51.9	56.3
out of which: Employees and Employers	*17.8*	*22.5*	*25.5*	*27.0*	*27.5*	*30.0*	*32.8*	*36.6*	*40.4*	*44.0*	*48.0*	*52.3*
Self-employed Persons	*0.9*	*1.0*	*1.1*	*1.3*	*1.4*	*1.4*	*1.5*	*1.7*	*1.8*	*3.6*	*3.7*	*3.8*
Others	*0.0*	*0.3*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*
Penalties, Outstanding Premium	*0.0*	*0.0*	*0.0*	*0.1*	*0.3*	*0.4*	*0.2*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Premium paid by the State	7.1	10.3	10.4	10.5	11.1	11.2	13.0	15.5	16.1	18.5	20.7	22.0
Premium paid by the National Labour Office	0.1	0.3	0.4	0.5	0.6	0.5	0.4	0.5	0.6	0.0	0.0	0.0
Other Resources	0.3	1.0	0.8	1.7	1.9	1.4	1.4	0.0	0.0	0.0	0.0	0.0
Total Public Health Insurance Resources:	**26.3**	**35.4**	**38.4**	**41.4**	**43.0**	**45.3**	**49.6**	**54.8**	**59.0**	**66.2**	**72.6**	**78.2**
Budgetary Chapters of the Ministry of Health, of other Ministries and State Administration Bodies (including Capital Expenditures and Funds for Research)	4.1	4.6	4.9	4.7	4.4	4.5	4.9	4.8	4.8	4.1	3.8	3.1

Expenditures paid by the Social Insurance Agency	0.9	1.0	1.2	1.3	1.3	1.0	1.1	1.2	0.7	0.0	0.0	0.0
Patients' Co-payments and Individual Insurance	1.8	2.6	3.8	4.1	5.4	5.9	6.3	7.0	10.5	14.0	16.0	19.0
Total Health Insurance System Resources (public + private)**:**	**33.1**	**43.6**	**48.3**	**51.5**	**54.1**	**56.7**	**61.9**	**67.8**	**75.0**	**84.3**	**92.4**	**100.3**
Revenues *(as % of GDP)*	6.1%	7.2%	7.0%	6.9%	6.4%	6.4%	6.4%	6.4%	5.3%*	5.2%*	6.5%	6.5%
Expenditures *(% of GDP)*	6.2%	7.2%	7.6%	7.6%	6.9%	7.2%	7.3%	7.2%	6.1%*	5.36%*	6.5%	6.5%
Balance *(Deficit, Indebtedness) (as % of GDP)*	**-0.1%**	**0.0%**	**-0.6%**	**-0.8%**	**-0.5%**	**-0.9%**	**-0.9%**	**-0.9%**	**-0.8%**	**-0.15%**	**0.0%**	**0.0%**

** other source from the Ministry of Health of the SR*
Source: Ministry of Health of the SR

In the Act the health insurance is divided into two basic types - public health insurance and individual health insurance. **Public health insurance** is the insurance on the basis of which each citizen of the Slovak Republic is entitled for the health care and the health care related services within the scope determined by special regulations (Act on Health Care and Services Related to the Provision of Health Care, Act on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services Related to the Provision of Health Care - *see page 74)*. The public health insurance is universal and benefit health insurance (as so far) with regard to the fact that each policyholder has the duty to pay premium imposed by law without regard to the fact whether he/she withdraws the health care within the set scope or not. Solidarism (redistribution) is shown in the fact that particular categories of employees who are not able to pay the premium (e.g. children, pensioners, people in material distress) are entitled for the payment for the provided health insurance respecting public interest. The health care on the basic of public health insurance is provided for each policyholder according to his/her needs within the scope set by the special regulation (e.g. Act on the scope) and not according to the financial ability to pay. It means that each citizen shall be entitled for getting the same health care for the same needs from the public health insurance disregarding his/her social status or income amount. Some critics pointed at the need of introduction of at least partial merit.

Basic mechanism of fulfilment of this objective shall be **the system of redistribution of resources between health insurance companies** on the basis of risk rate of particular policyholder groups who form the insurance stock of the insurance company (as so far). It means that insurance companies (e.g. General Health Insurance Company) with relatively most numerous patient groups with high risk index (e.g. pensioners) shall gain within the redistribution mechanism more resources than insurance companies with relatively "healthy" insurance stock. This shall assist, at the demotivation of health insurance companies, to "skim off the cream only" or "choose only raisins" meaning not to concentrate only to economically active people with lower risk index. This should lead to the restriction of risk of the so-called adverse selection on the part of policyholders. On the other hand the setting of redistribution has direct impact on the motivation of insurance companies to maximise the premium collection. The more is redistributed, the smaller the motivation is. This resulted in setting of effective redistribution rate to 85.5% (85% currently) while there shall be redistributed 90% from the redistribution base what is 95% of the prescribed premium. Actual redistribution base is 100% of the collected premium being a demotivating factor for insurance companies to increase the premium collection or to exact payment arrears. In case the insurance company collects from payers less than 95%, it shall have to pay the difference from its own resources. On the contrary if it collects more money, money surplus shall be its revenue. Based on the results of the redistribution, the health insurance companies for which there was generated a liability from redistribution against other insurance companies shall be obliged to deposit funds directly to their accounts. There was thus cancelled the intermediary in the form of the so-called special redistribution account criticised especially on the part of health insurance companies representatives who disliked often too long retention of funds on this account or impossibility to recover receivables. The Health Care Surveillance Authority established by the Health Insurance Companies and Surveillance Authority Act *(see page 84)* shall supervise the redistribution of premium for the public health insurance.

The Act has changed some **parameters of payroll taxes to the health insurance**. There were increased premium rates for some policyholders groups including assessment bases which required, according to the Ministry of Health of the Slovak Republic, valorisation since they have not been valorised for several recent years. This led to the increase of the payroll tax burden of both entrepreneurs and employees what caused the attacks. The Ministry of Health of the Slovak Republic expected increase of resources for the health care sector by SKK 7bn from this step what would create space for postponing of the decision on patients' co-payment of payment of the so-called non-priority diseases *(see page 74)* up to the period after the parliamentary elections.

	Old System	New System
Min Assessment Base	SKK 3,000	Minimum Wage *(SKK 6,500)*
Max Assessment Base	SKK 32,000	3 x Average Wage *(SKK 43,095)*
The Lowest Possible Payroll Tax	SKK 420	SKK 910
The Highest Possible Payroll Tax	SKK 4,480	SKK 6,033
Employee	4%	4%
Employer	10%	10%
Employer of Physically/Mentally Disabled Worker	2,6%	5%
Self-employed Person	14%	14%
Self-employed Disabled Person	6,3%	7%
State *(in old system - Social Insurance Agency and National Labour Office)*	according to the State Budget	4%*

** assessment base is the average wage*
Note: the state is the payer of the premium for the policyholder who is not an employee or a self-employed individual in case he/she does not have an income being the subject to income tax exceeding minimum wage; in case such a person has a taxable income exceeding the minimum wage, the insurance rate of 14% applies to him/her; the premium for the public health insurance for the state is paid by the Ministry of Health of the SR

For vulnerable groups of population (children, pensioners, unemployed, people in material distress, handicapped – more than 3 million people) the premium for the public health insurance shall be paid by the state from average monthly wage in the Slovak economy for the calendar year which proceeds 2 years before the year in which the state pays the premium and not according to the provision in the state budget what shall according to the Ministry of Health of the Slovak Republic mean higher inflow of funds from the state for "its" policyholders, what was criticised often in the past and considered to be one of the reasons of funds shortage and indebtedness of the health care, financing depolitising, better predictability and closer connection to the actual economy.

The Act introduces a new institute of **annual balancing of premium payments** for the public health insurance which aim is to ensure premium for the public health insurance from all revenues achieved not only in the relevant calendar month but in the entire calendar year (the insurance shall be paid in the form of advance payments). Regarding the close relation with tax report filing there was established a period for the submission of annual balancing of premium payments in compliance with periods established for filing of tax report according to the tax income. The annual balancing of the employee shall be carried out by the employer. If the sum of advance payments for premium which was paid by the payer in the previous calendar year is lower than the premium due for this year, the payer of the premium has the payment arrear on premium which shall be paid to the relevant health insurance company not later than 30th June of the calendar year in which the annual balancing of premium payments was executed. This measure served for the restriction of speculations when the employee was given the minimum wage for 11 months and the "rest" exceeding maximum assessment base is then paid in one month thus achieving the reducing effective premium rate.

The Act regulates also **penalties** for delay with premium payments. The penalty interest for delayed payments was set to 2.5-multiple of the basic interest rate of the National Bank of Slovakia. The individual who fails to pay advance payment for the premium for 3 months or who shall have unsettled payment arrear on premium after the annual balancing, shall be entitled for the payment of only urgent health care. This does not apply if the bad payer is the employer. The newly established Health Care Surveillance Authority *(see page 84)* shall penalise policyholders and premium payers for the breach of act and failure to fulfil the obligation within the range from SKK 5,000 to 100,000.

The Act on Health Insurance sets rules at the payment of health care and names **rights and duties of the policyholder** as well as of **the health insurance company**. The policyholder is entitled for free choice of the health insurance company (as current state is) while the insurance company cannot refuse him/her. Up to now the policyholder could change the health insurance company at anytime, a new system enables only one change per year always with effect to 1st January of the following year. In such case the policyholder shall submit an application to the new health insurance company not later than 30th September. This change was the result of introduction of annual balancing of premium payments. The policyholder shall be entitled inter alia for the information about the fact with which health care providers the relevant health insurance company has entered into contract on health care provision with, the policyholder is entitled for the provision of urgent health care by the health care provider even when the relevant health insurance company has not entered into contract with this provider, the policyholder is entitled for the participation in the check of the provided health care, for demanding protection of rights and interests protected by law resulting from the public health insurance in proceedings in front of the Health Care Surveillance Authority.

The health insurance company shall be obliged with effect from 1st January 2006 to publish and update always to 20th day in the calendar month the list of health care providers on internet with which it has entered into contract on health care provision and the list of policyholders who failed to pay the premium for 3 months in the calendar year, payment arrear or payment for the health care. Insurance companies shall be able to check the premium payers – natural and legal persons while the check may be intended for the establishment of the correct amount of assessment base and the recognised premium.

Individual health insurance is characterised apart from the compulsory public health insurance by its voluntariness. It provides policyholders with possibility to pay wider scope of health care than ensured by the public health insurance (i.e. outside the scope of basic benefit package). On the basis of the individual health insurance the health care provision (including drugs and medical aids) shall be paid within the scope set in the contract with the insurance company executing individual health insurance on the basis of permission pursuant to the Insurance Act issued by the Financial Market Authority (ÚFT). Anybody shall be entitled for entering into contract for individual health insurance (not necessarily being the policyholder of the public health insurance) even with more insurance companies. Individual health insurance shall be a commercial product offered by insurance companies (both commercial universal insurance companies as well as transformed health insurance companies) within their line of business. Their activity shall be supervised by the ÚFT. New legal regulations including the Health Insurance Companies and Surveillance Authority Act *(see page 84)* and further acts shall, according to the Ministry of Health of the Slovak Republic, create new competitive environment for all participants of the health market. The critics however object that it is unrealistic to expect big competitiveness until the Government's Decree (assumption – after elections in 2006) defines the financial co-payment of patients at payment of costs related to the treatment of the so-called non-priority diagnoses since then those services shall be also covered by the public health insurance as so far.

The Ministry of Health of the Slovak Republic estimates that after the reform starting next year the individual health insurance shall bring into the health care sector additional SKK 3bn what would be the ratio exceeding 4% on the public health insurance. So far the commercial health supplementary insurance has not found free space in Slovakia. At the end of 2004 the insurance companies Union and Vzájomná životná poisťovňa Sympatia (Mutual Life Insurance Company Sympatia) started to be involved in the supplementary health insurance. On commercial basis it was possible to provide supplementary insurance in that period (often within life insurance) for example for: hospitalisation, sickness absence, injury and its permanent consequences, civilisation diseases (cancer, heart attack), fees for the visit at doctor's surgery and stay in the hospital, above-standard operations and services (preventive examinations, equipment of a hospital room, telephone ordering, services of specialists and the like).

Evaluation of the Experts' Committee:

The Health Insurance Act changes substantially the health insurance system in the Slovak Republic towards the standard of the highly developed countries. Its key moment is the division of the health insurance to the public health insurance and individual health insurance which is a commercial supplementary insurance. The system of the public health insurance is further delimitated in a broad manner to guarantee the universal accessibility of health care service covered by the public insurance for all citizens. The Act offers the chance for making relationships and financial flows in the health care more transparent.

Introduction of the institute of individual insurance is an interesting moment with several aspects. One of the main arguments against this change is the requirement of equal status for all citizens in the field of the health care. In practice it is, however, impossible to achieve it, what is proved also by several researches (e.g. LeGrand, 1982). There arises a question whether to preserve the dogma, as the neighbouring Czech Republic tries to do, or whether to accept the reality and set the transparent rules of a game, what rate of unequality can be admissible (liberals ask directly why the richer ones who contribute for the poorer one within solidarism could not be provided with the service of a higher quality especially in case when the basic accessibility is guaranteed for the poorer ones). It is surely real so that a rich entrepreneur within individual insurance was entitled for getting an appointment without waiting, for a special room and the like (after all his/her time is objectively more expensive than the time of the pensioner – if we are unable to cancel waiting due to lack of resources). Individual insurance may have one more positive impact – it could stimulate the condition when medical professionals start to respect the patient more what could gradually apply also to the public insurance system. On the other hand the market with commercial individual health insurance shall be significantly developed probably after the elections in 2006, thus after political decision on the amount of patient's co-payment at payment for the treatment of the so-called non-priority diseases.

Moreover the Act establishes the rights and duties of the policyholder and new rules of premium redistribution for public health insurance. The redistribution is aimed at the restriction of the so-called policyholders selection resulting from the natural fact that the most advantageous is a

healthy policyholder with high income and on the contrary a pensioner means in fact an automatic loss. The basis for redistribution is minimum 95% of the prescribed premium thus reducing the space for speculations and motivating the maximisation of premium collection. It is expected that the redistribution effective rate achieves ca 85%. Some respondents consider the redistribution rate of the collected premium to be too high and the redistribution criteria to be subjective. Along with a duty of annual balancing of premium payments on the part of policyholders, it would be contributable if the insurance companies were obliged to create and send their policyholders annual records of examinations or breakdown of expenditures spent on particular policyholder on the part of the insurance company in the relevant year.

The important aspect of the Act is a pre-definition of provisions on premium rates where the payroll tax obligation of the state for "its" policyholders on the level of 4% from the assessment base, which is 12-multiple of the average monthly wage in the decisive period, is established. This ends the period when the Parliament assimilated the state contribution for its policyholders to the situation of the public finances and political priorities thus stealing billions of Korunas from the health care.

The increase of payroll tax burden and its timing caused the criticism from the majority of evaluators. Some lacked better reasoning of the assessment base valorisation need. The total payroll tax burden shall be increased with negative impact to the creation of new jobs. One respondent made a comment that if the wages serving as the basis for the payroll tax calculation had been higher, the payroll tax burden could be lowered.

Health Care Reform - Health Insurance Companies and Surveillance Authority Act (transformation of health insurance companies into joint-stock companies; introduction of hard budget constraints; patient management system; waiting lists; quality indicators of health care providers issued by the Government; regulated competition of insurance companies on the part of purchasing health services; licensed insurance companies allowed to enter the health care market; establishing the Health Care Surveillance Authority; control; penalties).

The Members of the Slovak Parliament passed on 21st September (after the President's veto repeatedly on 21st October 2004) the Government Health Insurance Companies and Surveillance Authority Act on the basis of which the health insurance companies are transformed into joint-stock companies and the Health Care Surveillance Authority (hereinafter referred to as Surveillance Authority) is established. A new legal standard which cancelled previous health insurance act adjusts conditions for execution of the public health insurance, activity of the transformed health insurance companies, their organisation and control including scope of activity, organisation, control and economy of a newly established Surveillance Authority.

The current health insurance system was based on financing of health care via funds created within health insurance companies which were public law institutions. This health insurance system had neither created, in the opinion of reform authors, sufficient space and conditions to solve the basic discrepancy between the resources and needs (expenditures) of health care, nor it created the mechanism which would use the existing resources intended for the health care rationally and purposefully. Those shortcomings were caused according to them by the central regulation of funds intended for the health care and lack of efficient economic regulator of those funds application. The proof of this is according to the proposers the fact that system functioning has not been improved despite several interventions and despite several tens of billions invested additionally by the state. On the contrary, the over-dimensioned system as for offers in which there does not exist moving of a non-effective, non-quality health care provider "out of game", created greater and greater differences between financial possibilities, resources (in 2002 – 6.4% from GDP) and actual expenditures (7.2% GDP) of health care (the debt was growing by more than SKK 700m monthly).

According to the Ministry of Health of the Slovak Republic the health insurance companies due to the existence of the so-called soft budget constraints (state guarantee for solvency, exclusion of part of assets from executions *(see page 97)*, low responsibility for the patient management system, high rate of regulation on the part of the state and absence of basic tools inevitable for the evaluation and motivation of health care providers did not behave as effective successor of available and quality medical services. Absence of exact rules of funds disposal intended for health care caused, according to the Ministry of Health of the Slovak Republic, non-effective and discrimination behaviour of health insurance companies in relation to medical facilities. This state created conditions for corruption between medical facilities and patients – policyholders who

through various illegal manners required health care provision. On the other hand there was created a space for corruption in relations of health insurance companies and medical facilities at gaining payments for the provided services. Medical facilities within the existing system demanded from health insurance companies the benefits for the provided services the price of which was independent from the quality, effectiveness or success of their internal economy. Even the plurality of health insurance companies, there are 5 of them at present, did not create competitiveness among health insurance companies and neither ensure more advantageous health care of higher quality for their policyholders. This situation was caused, according to the Ministry of Health of the Slovak Republic, especially by soft budget constraints and wide basic benefit package of health care and services covered by the public health insurance. The health insurance companies were only redistributors of the collected premium for health insurance and the amount they received from the redistribution package. Health insurance companies varied only in the amount of indebtedness. None recognised positive economy and the most in debt was and is the biggest of them – the General Health Insurance Company which is influenced by the state at most.

The objective of a new Act is to introduce hard budget constraints (the state shall not guarantee the solvency, i.e. bankruptcy at bad economy and not the debt removal on the part of the state) in the economy of the transformed health insurance companies, transparent financial relationships and bookkeeping and compulsory independent audit. The Act has the ambition to create framework for greater competition and introduction of greater influence of market mechanisms at the health insurance execution and health care provision. On one hand the insurance companies should compete within the public health insurance at purchasing health care services and operations with particular providers (hospitals, surgeries) which should, on the other hand, compete among themselves for the operations and services ordered by the insurance companies thus forcing the managements of medical facilities to respect own economy, operating costs, medical capacities, their justification and use, work effectiveness, employee structure and the like. According to the Ministry of Health of the Slovak Republic the Act should ensure that health insurance companies shall, on the basis of their insurance services, compete for policyholders. However the competitiveness on the part of premium collection is due to the redistribution mechanism and impossibility of policyholder rejection restricted *(see page 80)*. The proposers expect that health insurance companies shall introduce effective patient management system (including enabling waiting lists) and also they shall pay the health care providers only eligible costs for the actually provided health care. According to the reasonable report to the Act the state would like to leave a non-effective position of producer and insurer and would like to concentrate on the creation of medical policy, rules of a game, regulation and control.

By the Act the companies of private law (according to the Commercial Code) which must have permission for this activity shall be entrusted with health insurance. For health insurance companies there is prescribed a legal norm of a joint-stock company. The reason that companies of private law are entrusted with health insurance and health care provision (hospitals, health centres, sanatoria – *see page 90)* is according to the reform authors the need to create motivation and legal environment and conditions ensuring professional, purposeful and economic disposal with funds intended for the public health insurance. The assurance against the defraudation of financial resources shall include besides the enhancement of competitiveness and better elaborated internal and external revision and check mechanism also a threat of bankruptcy order for the property of the health insurance company or medical facility with mismanagement which is in insolvency and their consequent dissolution or permission or license cancellation. On the other hand, if the health insurance company or medical facility management leads to profit, it shall use it as any other business entity while observing legal restrictions. A new system shall enable the state to execute the public health insurance via the health insurance company established by it in which the state shall be the only of one of several shareholders.

The transformation of health insurance companies into joint stock companies shall be implemented according to the Commercial Code under the transformation project which shall be approved by the absolute majority of insurance company founders. The transformation project contains the detailed procedure of transformation and data on the current health insurance company and future joint-stock company and particular activities at transformation. The share capital of a health insurance company as a joint-stock company shall be at least SKK 100m and a reserve fund shall achieve 10% of the share capital, however at least SKK 10m. The founder of the transformed health insurance company shall ask the Surveillance Authority to issue a new permission for health insurance execution. On the establishment date of a joint-stock company the whole insurance stock shall be passed to the transformed health insurance company. In case the health insurance companies do not implement the transformation into joint-stock companies within 30th June 2005 and they fail to acquire a new permission, their entitlement for activity shall be valid only within 30th September 2005. In case the health insurance company fails to implement the transformation into a joint-stock company within the stated term or fails to acquire the permission for activity from the Surveillance Authority, it shall be liquidated. In such case the entire insurance stock shall be passed with the approval of the Surveillance Authority to another health insurance company under the contract with the dissolving insurance company. The transfer

of insurance stock may be ordered also by the Surveillance Authority. It means the insurance company is dissolved, its clients should become clients of a running insurance company with valid permission and shall not stay outside the health insurance. The insurance companies under the state influence, the General Health Insurance Company (VšZP) and Common Health Insurance Company (Spoločná zdravotná poisťovňa), have to be transformed within 31st March 2005. The Members of the Slovak Parliament passed the provision according to which the state shall own 100% of shares of those insurance companies after the transformation. That's why the privatisation of the "state" insurance companies shall not be possible without amendment to the Health Insurance Companies Act. With other – non-state health insurance companies the change of share owners shall be possible. If the share transfers result in the acquisition of more important votes, these shall be the subject of the previous approval of the Surveillance Authority. The Act does not limit the establishment of new health insurance companies providing public health insurance if they comply with conditions. Their legal form shall have to be a joint-stock company from the beginning.

Despite the fact that health insurance companies become the subject of private law, their economy shall be pursuant to European System of Accounts - ESA 95 reflected in the management of public finances circle. Since the state becomes 100% shareholder of the biggest health insurance company – VšZP after the transformation, it was necessary to consider costs related to this process in the amount of SKK 40m in the budget for 2005 in order to increase share capital for the level required by law of SKK 100m. The functioning of health insurance companies shall not require supplementary budgetary costs according to the reasonable report since the health insurance companies as companies of private law shall ensure their management themselves. The inevitable part of health insurance companies transformation into joint-stock companies shall be the solution of their liabilities against private entities and medical facilities. According to the estimate of the Ministry of Health of the Slovak Republic it is an amount of SKK 10bn.

Scope of business of health insurance companies. The main task of insurance companies shall be premium collection and health care payment pursuant to the Act on the Scope of Health Care Covered by the Public Health Insurance *(see page 74)*. The Members of Parliament left out the provision from the Act enabling health insurance companies to carry out the large distribution of drugs and medical aids and health care provision. The Act however does not prohibit carrying out this activity via companies under their ownership control. The exclusion of insurance companies from health care provision which was caused by fear from damage of competitive health care providers as well as policyholders what might, in the opinion of critics, strengthen the dominant position of current hospitals or health centres in some regions what may finally be not a positive sign for policyholders. The Act enables health insurance companies to pay costs for health care as it is in case of commercial universal companies, to enter into contracts on individual health insurance (above the scope of the basic benefit package) and to execute sickness insurance under conditions stated by special law. Voluntary individual health insurance would be according to the Ministry of Health of the Slovak Republic the main platform for the entry of new players into the market and competitive fight among insurance companies. Critics, however, object that it is unrealistic to expect big competitiveness until the Government's Decree (assumption – after elections in 2006) defines financial co-payment of patients at payment of costs related to the treatment of so-called non-priority diagnoses (*see page 74)* since then those services shall be also covered by the public health insurance as so far.

Use of profit of health insurance companies for the dividend payout to shareholders is restricted by law. The dividends can be paid out when all claims of policyholders for settlement of medical service, drug or medical aid are settled (i.e. no policyholder on the waiting list). If such claims exist, the insurance company is obliged to reinvest the profit for their settlement. According to the critics the risk includes the fact that the excessive regulation may discourage investors to run business in heath insurance and they prefer investing in more paying assets.

The Act put great emphasis to the **check of health insurance companies management**. It shall be implemented on several levels and by several methods in order to reduce the space in maximum extent for such decisions of managers and shareholders which could do harm to the interests of policyholders and concurrently to publicise eventual difficulties of the insurance company for the external environment (Surveillance Authority, government, Ministry of Health of the Slovak Republic, Ministry of Finance of the Slovak Republic, policyholders, creditors) in time. Besides check from external environment the health insurance companies shall be checked internally (Supervisory Board, Board of Directors, while their members shall be at the execution of their function responsible for the damage caused, unit of internal check, shareholders). On the other hand the health insurance companies shall be entitled for execution of check via their inspection doctors anytime and without previous notice at providers to which they pay for the provided health care. The check shall be aimed at accounting documents regarding the scope of the provided health care, scope and quality of health care provision considering the health condition of the policyholder, purposefulness, effectiveness and economy of public health insurance funds spending. Health insurance companies shall be able to execute inspection activity at all premium payers aiming at finding out the correct amount of assessment base, recognised

premium, paid advance payments, correct calculation of annual balancing of premium payments and observation of maturity date for premium advance payments.

The most important external check subject shall be a newly-established **Health Care Surveillance Authority** with its registered office in Bratislava which shall ensure the supervision over the health insurance companies at the execution of public health insurance on one part and health care providers on other part. Regarding health insurance companies the Authority shall follow whether the insurance company executes the activity in compliance with the permission, it shall monitor and check ownership conditions in health insurance companies via exactly set and regularly evaluated criteria, health insurance company solvency, rate of indebtedness against the third persons (e.g. against banks), use of insurance company profit, audit of reporting, it shall monitor and participate in redistribution of premium among health insurance companies. The duty of permanent keeping of solvency which is defined by the ratio of own resources on the premium from public health insurance after the redistribution for the previous 12 months seems to be a very important standard. Own resources shall achieve at least 3% of the premium, however, at least SKK 50m. The previous approval of the Surveillance Authority is required at ownership, property and personal changes in health insurance companies. The health insurance companies shall not be able to accept credits or loans without previous approval of the Authority and they shall not be entitled for entering into credit or loan relations as guarantors at all. The Surveillance Authority shall decide about the application for the issuance of permission for health insurance company activity within 2 months from application delivery on the basis of evaluation of observation of taxatively stated conditions in law – material, personal and organisational assumptions conditions for the execution of public health insurance. The permission is issued for the indefinite period of time and it cannot be assigned to another legal or natural person. The Surveillance Authority keeps inter alia a central register of policyholders, list of premium payers, list of health insurance companies, list of health care providers and it operates an information system. The Health Care Surveillance Authority was assigned entitlements on the basis of which it may supervise health care providers or provided health care in the scope and quality prescribed by law – whether they observe procedures "lege artis".

The Surveillance Authority shall be entitled for awarding **fines** within SKK 5m and further **penalties** for the breach of law or permission. It shall be entitled for ordering the restriction or suspension of health insurance company assets disposal, it shall be entitled for issuance of preliminary measure by which the insurance company is ordered to execute a service or to refrain from any activity, it shall be entitled to (non-demonstration of minimum solvency rate within the stated period, loss exceeding 50% of shareholders' equity in one calendar year or 20% of shareholders' equity in three consequent calendar years) or in some cases it shall have to (e.g. untruth of data, serious or repeated breach of law, non-execution of the public health insurance during 6 months, non-ensured minimum solvency rate during four consequent months) cancel the permission of the insurance company for the execution of the public health insurance, assign duty to elaborate a recovery plan, to introduce forced administration (after 3 months of insolvency defined by law, control of health insurance company is carried out by the administrator), it shall be able to accept applications from new policyholders and enter into contracts with health care providers, it shall be able to issue an order for assignment of the insurance stock to another insurance company, it may temporarily suspense the execution of shareholders rights and issue the decision on health insurance company liquidation.

The bodies of the Health Care Surveillance Authority shall include: a chairman (nominated and removed by the Government under the proposal of the Ministry of Health of the Slovak Republic), 7-member Board of Directors (the chairman of the Board of Directors, deputy chairman and further 5 members, 3 out of whom are not employees of the Authority, are nominated and removed by the Government under the proposal of the Ministry of Health of the Slovak Republic; the deputy chairman of the Board of Directors is nominated by the Chairman of the Surveillance Authority), 5-member control body of the Authority – supervision (nominated and removed by the National Council of the Slovak Republic). Functional period of all shall be 5 years.

The Health Care Surveillance Authority shall under the law act independently and impartially at execution of its legal duties. The Surveillance Authority shall be entitled for the establishment of branches fulfilling tasks falling within its scope of activity. **Financing of the Authority** shall be ensured from contributions of health insurance companies in the amount of 0.5% from the sum of annual premium after redistribution. The Authority shall manage, except for the above mentioned contributions, for activity also the interests for late payments, profit from previous accounting periods and payments for the Authority activity (e.g. payments for issuance and change of permission, for the issuance of the previous consent, for the issuance of decision on receivables from premium, for the approval of recovery plan, transfer of insurance stock). It is assumed that the annual budget of the Authority shall be on the level of SKK 300m. Financial resources of the Authority shall be deposited on the account in the State Treasury System.

Initial costs for the Health Care Surveillance Authority operation starting shall achieve according to the reasonable report approximately SKK 100m. This amount is necessary for the initiation of the

Authority's activity during the first year when health insurance companies do not pay the contribution yet. Its activity shall require 150-200 primary employees who shall be acquired by shifts within the system from the Ministry of Health of the Slovak Republic (approximately 30), from local state administration bodies within the decentralisation process from the current positions of state district doctors and state regional doctors and pharmacists (approximately 150). Concurrently the Authority shall employ approximately 60 to 80 internal and external pathologists in own or leased dissecting rooms who shall come from medical facilities.

Relation of health insurance company against health care providers. Pursuant to the law the health insurance company is obliged to enter into contracts on health care provision (their duration is determined by law for minimum of 12 months) with health care providers (hospitals, doctors, pharmacies, health centres) at least within the scope of public minimum network. The minimum health care providers network is a quantitative parameter which shows such number of health care providers in particular locality (region) which would ensure good accessibility and competence of the provided health care *(see page 90)*. Minimum health care providers network shall be determined by the Government Decree. The health insurance company shall have to enter into contracts with such number of health care providers which would comply with the criterion of the minimum health care providers network. Besides this decree in comparison with the original proposal the Act contains the provision according to which the health insurance company shall enter into contract with everybody who provides general outpatient care in case such provider has entered into contract with at least one policyholder. Health insurance companies shall have also legal duty to enter into contract with every pharmacy. In critics' opinion both cases bring a non-systematic solution creating the unequality between health care providers and it resists the character of the minimum health care providers network. The health insurance company shall be obliged to ensure payment for urgent health care even in case when provided to the policyholder by the health care provider which has not entered into contract with the relevant health insurance company. The fact whether it is an urgent health care shall be determined by the health insurance company of the policyholder. The health insurance company shall be able to contribute to its policyholder also for the payment of urgent health care provided by the non-contractual health care however under condition of its previous approval and compliance with criteria for the provision of such contribution published in advance. The amount of insurance company contribution shall not exceed ordinary price for the relevant health care. This provision is aimed at prevention of the thick division line between contractual and non-contractual providers. According to the Ministry of Health of the Slovak Republic also the policyholder using the care from non-contractual provider should be entitled for the payment from benefit package under the stated conditions.

The passed Health Insurance Companies Act, in comparison with the original draft, dealt with the determination of rules on the basis of which the health insurance companies shall enter into contract with the particular health care provider in order to fulfil the requirement of the minimum health care providers network in a different way. Since the selection criteria for contractual providers should have been originally in hands of health insurance companies, the Members of the Slovak Parliament have passed a version according to which the Ministry of Health shall elaborate the so-called **quality indicators** and the Government shall issue them in the form of a Decree. They shall be updated annually. The indicators shall be elaborated for the evaluation of health care results, accessibility, effectiveness and reasonability, resources employment effectiveness and perception of the provided health care by the patient. The health insurance company then according to the successfulness of quality indicators fulfilment, criteria of personal and material-technical equipment and certificate on the quality system *(see the Act on Health Care Providers – page 90)* shall create order of health care providers and shall consider this order at entering into contracts. This should, according to the proposer, ensure that insurance companies would enter into contract with the most quality providers. The critics, however, doubt it and point out at the possible non-transparency and corruption as well as at negation of market mechanism based on free selection. The same discussion in their opinion is caused also by the fact how the Surveillance Authority, Government and the Ministry of Health of the Slovak Republic shall deal with the situation when there are no "compulsory" agreements between providers and insurance companies concluded due to different ideas on, for example price of services. In comparison with the Government proposal the Members of Parliament have included in the Act also the provision aimed against price dumping. If the competitive provider offers the price reduced by 10%, it shall together with the health insurance company submit the price calculation to the Surveillance Authority.

The Act specified also conditions under which contracting parties (insurance companies and providers) might **terminate contracts**. In case the insurance company shall have the possibility to agree lower prices with the competitive health care provider, it shall be entitled after fulfilment of particular conditions for the termination of contract with more expensive provider to which it shall enable the price reduction first. If the provider reduces the price, the health insurance company shall be obliged to accept its proposal and shall not be able to terminate the contract. On the contrary, if a health care provider is given opportunity to achieve more advantageous price

conditions at the competitive health insurance company, it shall be entitled for the termination of contract with the original contractual insurance company. In such case the procedure shall be much simpler since the provider is not obliged to provide the original insurance company with the chance to increase the price, what is according to the critical opinions the proof of a strong influence of interest groups on the part of medical community and hospitals and creates unequal rules for players in the health "market". The health insurance company shall be entitled to terminate contract, if there occurred the change in the order of health care providers in relation to the fulfilment of quality indicators, personal and material-technical equipment and certificate of system quality as of 31st December. It may withdraw from a contract also in case that the deviation of the provider quality indicators approved by the check of the quality of the provided health care executed by the health insurance company is repeated and statistically significant.

Health Insurance Companies and Surveillance Authority Act came into effect on 1st November 2004 due to the need of sufficient time period for the establishment of a new Health Care Surveillance Authority. A lot of provisions came into effect on 1st January 2005 in relation to the effectiveness of other health care acts and some shall come into effect on 1st January 2006.

Evaluation of the Experts' Committee:

Via the transformation of health insurance companies and health care providers into joint-stock companies there shall be built clear legal relations and business rules between particular subjects in the market. Settled and stabilised joint-stock companies shall be governed by the Commercial Code in the same way as other business entities in the company. The joint-stock companies shall thus become an equal partner with transparent business, financial and ownership relations with clearly determined check mechanisms on the part of the state. Except for the effort to make financial flows between health care providers and insurance companies transparent, there was evaluated also the intention of legislation to create market relations and competitive environment in the field where majority of funds in the health care is used.

The objective of changes in the Act is a substantial enhancement of competences of health insurance companies which should acquire right and motivation to manage the health care system for real (at present they function only as redistributors of funds) thus giving their functioning real meaning (simple redistribution could be done – more cheaply – by the state). However, just at passing this Act there were accepted a lot of changes which substantially restrict the rate of functioning of the health insurance "quasi-market". The first example is the restriction of entrepreneurship activities of insurance companies which prohibits them e.g. to provide the health care directly or to carry out the large distribution of drugs. Some accepted changes, according to the critical opinion, cause narrowing of the health insurance market competition potential which is on the basis of experience e.g. from the Netherlands quite restricted and increases the risk that insurance companies shall behave in a different manner than the reforms expects.

Health insurance companies should enter into contracts with providers while in primary care it shall be in fact a citizen who shall decide about this process (the insurance company shall enter into contract with every general practitioner in case at least one citizen is registered). Insurance companies shall also enter into contracts with all subjects included in the minimum health care providers network and with all pharmacies in order to ensure basic accessibility of services. In other cases they shall be free in decision making while the basic criteria of the provider selection shall be quality (equipment, results, existence of quality control system) and probably a price. This manner supports the generation of so-called system of a "managed care", which is typical e.g. for the USA where it approved at the system costs reduction. The patient shall have the possibility to choose the provider of the specialised and bed care, in case it was a non-contractual partner he/she shall have only costs up to the amount of costs accounted by the insurance company with contractual partners paid from the public insurance. It is assumed that this difference shall be covered by the individual insurance, i.e. the richer shall have wider possibility of choice of a specialist doctor.

For the purpose of ensuring the transparency of decision making about contracts conclusion, the insurance company shall publish selection criteria and on the basis of those criteria it shall set the order of providers which it shall respect. Despite it seems to be a relatively transparently functioning process it is possible to expect a lot of problems in practice. There is missing more clearly formulated policy and tools of quality guarantee (accreditation). Quality indicators shall be set by the Ministry of Health thus introducing (via the proposal of the Members of Parliament) a centralising element into the process. It is hard to assume that quality indicators shall respect different input state of patients (e.g. endoprothesis at the age of 50 and at the age of 70 means substantial difference). That's why according to one respondent it is probably better that those data on clinical quality shall not probably be provided for citizens at all. The system of contract termination between health insurance companies and providers concluded for the indefinite period of time is too complicated while the price is involved in the process in this final moment. The price should be involved already in the selection process. Within the public health care it is more suitable to find out who shall provide necessary quality for the best price rather than the provider

of maximum quality. The condition of the quality system is only a formal matter at present – there are a lot of companies from which the quality certificate can be purchased disregarding the actual state in the organisation. The condition (proposal of the Member of Parliament) that the provider offering the price reduced by 10% (price dumping) shall submit price calculation is, in the opinion of one evaluator, irrelevant ("paper can bear anything").

The Act's contribution is a definition of the so-called "waiting lists" (the order of patients who cannot be provided with particular service due to lack of funds on the part of the health insurance company) while the profit of the insurance company shall have to be used right on financing of claims of the waiting patients. The introduction of waiting lists, however, does not contain/does not solve transparently the alternative when patient waits since the service cannot be purchased anywhere. The negative is the fact that the Act does not adjust waiting lists at providers.

According to one respondent the key problem of the Act is the establishment of the Health Care Surveillance Authority. On one hand no other solution was obvious according to it since at present professional organisations are not able to guarantee their duties in the field of health care quality control and there must exist an authority which shall solve disputes between insurance companies and providers. On the other hand it is an introduction of an element of state dirigisme with classical failure risks. The Authority shall be politically manageable (the chairman and members of the Board of Directors shall be nominated by the Government), the problem shall be to gain real experts as employees. Experience from the developed countries with higher quality of democracy proves that regulation authorities in majority of cases are not able to fulfil their functions, more effective is the self-regulation resulting from the inside of the system. Another evaluator wonders about the belief in the system failure-free operation. Check mechanisms existed and shall exist however, everything depends on people.

There was expressed a fear so that the market with health insurance was not entered by discreditable speculative entities.

Some respondents did not agree with gradual application of profitability criteria before satisfaction of needs of all patients who shall need the health care. On the basis of those opinions it would be desirable to follow example from other countries where the health care is not a machine for profit creation and where hospitals are under the administration of regional institutions.

Health Care Reform - Act on Health Care Providers, Medical Professionals and Professional Chambers (transformation of medical facilities into joint-stock companies; allowing licensed providers to enter the health care market; minimum public health care providers network; evaluating quality system of providers according to governmental regulation; voluntary membership in professional chambers established by the law; dissolution of 4 chambers, one new established; strengthening decisions taking power of chambers - license issuing), Act on Emergency Health Service (defining minimal number of ambulances, placement; tenders; coordination - Ministry of Health)

The Members of the Slovak Parliament passed on 22nd September (after the President's veto repeatedly 21st October) the government **Act on Health Care Providers**, Medical Professionals and Professional Chambers which regulates the transformation of state health care providers (hospitals, health centres, sanatoria) into joint-stock companies, sets conditions for the execution of medical profession, defines origination, position, bodies and scope of activity of professional chambers, duties of health care providers and medical professionals, as well as the supervision over the observation of obligations and penalties. New Act cancelled a lot of previous standards. Act on Health Care Providers took in some provisions from the current legal regulations a new structural and contents version but brought also decisive changes for the system of health care provision which should enhance independence and autonomy of decision-taking of particular health care providers and their own responsibility for the consequences of the accepted decisions. Concurrently there was emphasised the check and supervisory function of the state over the execution of those activities. From the current legal regulations there have beed taken over the provisions on medical facilities, medical professionals, their further education, recognition of competence certificates for the execution of medical profession acquired abroad, on execution of medical profession and on position, tasks and activity of professional chambers in the health care which are, however, elaborated with regard to a new philosophy of the Act.

The Act states that **health care provider** is a legal or natural person with license for the operation of medical facility (so far it was provided only for non-state facilities) issued by the

Ministry of Health of the Slovak Republic (ambulances of emergency medical service, ambulances of the first medical aid, mobile intensive units, ambulances of air emergency medical service, furthermore specialised hospitals, natural treatment spa and facilities of biomedical research) including the permission from the higher territorial unit (surgeries, health centres, general hospitals, facilities providing one-day health care, stationeries, agencies of home nursing care, homes of nursing care, facilities of common examination and treatment compositions, hospitals, hospices). Health care providers may include also medical professionals (doctors, nurses, midwives, physiotherapists, treatment and specialised pedagogues, speech therapists, masseurs) with license for the independent medical practice acquired from the relevant professional chamber. Some medical professionals need also the Trading license for the execution of medical profession (e.g. dental technicians, eye opticians, health transport). The Act strengthens the claim of decisions after fulfilment of the condition required by the Act. The intention of the Ministry of Health of the Slovak Republic is the stipulation of free entry of the licensed providers to the health market.

The significant part of the Act on the Health Care Providers amendment is formed by provisions on **the transformation of state health care providers into joint-stock companies** thus finalising the process of disestablishment of medical facilities which started in 1992. The transformation of the state budgetary and semi-budgetary organisations shall be implemented in the same manner as with the Health Insurance Companies and Surveillance Authority Act pursuant to the Commercial Code. The transformation process and issuance of new permissions shall be finished within 31st December 2006. The Ministry of Health had to prepare its administrative part within 30th March 2005. The share capital of new joint-stock companies shall be formed by an in-kind contribution (current assets of providers) reduced by 5% value of the reserve fund. The shares of the transformed providers shall be on name and shall have due to the reason of ownership structure transparency the character of a registered security. The change of their character or form is prohibited. The passed Act excluded the controversial possibility of free of charge transfer of providers' shares to their employees. The Act, however, enables free of charge transfer of shares of the transformed medical facility to the public universities, self-governing regions or communities. Those shall have a 10-year prohibition to dispose with those shares and minimum 51% of shares shall have to stay in the ownership of the state. It is a result of doubts, that the privatisation of the state joint-stock companies would mean suppression of the public interest in health care provision. In critics' opinions the risk of the providers' transformation consists in the enactment of majority ownership rights of the state since the state is a bad economist according to them. This could lead to the weakened expected effects of the transformation. The critics from the other part point out the fear from the non-advantageous and non-transparent privatisation process in the health care. The change in comparison with the original proposal is that liabilities of the transformed health care providers shall be passed to the joint-stock company. Even before the reform initiation the Government made efforts to settle debts of medical facilities (by a state owned joint stock company Veriteľ) in a maximum extent possible. In August 2004 the Government approved the appropriation of funds in the amount exceeding SKK 7bn from the state financial assets (funds from privatisation and Russian debt liquidation) for the settlement of hospitals. The Cabinet had also proposed so that the Social Insurance Agency remitted a debt to the hospitals in the amount of SKK 6.5bn.

The objective of the transformation of health care providers is similarly as in case of health insurance companies transformation *(see page 84)* the establishment of the so-called hard budget constraints and transparent accountancy (the duty to review the financial statement by the independent auditor). In case there is on one hand a pressure created by insurance companies to pay the providers only eligible costs for actually provided services, on the other hand the medical facilities and medical professionals shall be forced to maintain their solvency on a standard level what requires strict revision of their own costs. Failing to do this the providers shall be exposed to penalties – executions, bankruptcy and in the boundary solution to the permission and license removal and liquidation. The profit should be a reward for good management. Apart from health insurance companies the use of providers' profit shall not be the subject to any special restrictions.

The health care providers network is defined in the Act in a new manner. There are introduced new notions – public network of providers and **minimum public health care providers network**. While public network involves providers which at least one health insurance company has entered into contract on health care provision with, i.e. non-restricted number of providers (the only restriction or condition is entering into contract with the health insurance company), the definition of the minimum public network means the least number of providers in all kinds of medical facilities in the respective area (higher territorial unit or a district) which shall ensure effective, accessible, continuous and professional health care. The minimum network shall be established by the Government Decree with consideration of the number of inhabitants and demographic development of the respective area, sickness absence and mortality rate of people in the respective area, migration of foreigners and state safety. The critics do not appreciate that in particular cases it shall be the state authority deciding on the number and location of (even if

"only" within the scope of minimum network) e.g. dentists, general practitioners or paediatrists and not the market via free entering into contracts between health care providers and health insurance companies. This shall cause inefficient allocation of funds and possible non-transparency at arbitrary determination of minimum network.

In case the public network in the given area be smaller than the minimum public network, the Ministry of Health of the Slovak Republic and the respective self-governing region in cooperation with the Slovak Chamber of Doctors shall have to ensure a sufficient number of health care providers in the respective Higher Territorial Unit so that the minimum network can be complete. If there is a sufficient number of the required health care providers in the region but some insurance companies have not entered into contracts with them and thus the requirements of the minimum public network have not been met, the Ministry and the self-governing region shall announce the candidates that are eligible for the contract within 90 days. However, the problem can be expected if the public network shall be smaller than the minimum network due to the lack of the required types of health care providers. In this case, the Act does not clearly specify how the state should ensure a sufficient number of medical facilities and professionals. Therefore, according to the observers, it can be expected that in case of 'nominal' shortage of doctors, the government will try to determine the minimum network in accordance with the existing size of the public network in the given area to avoid such problems. It has also been pointed out that the government might be at a risk of being motivated by the effort to sustain the medical facilities remaining under the influence of the state alive, even artificially, and thus include them in the minimum public network so that the insurance companies can be forced to enter into contracts with them. That is considered to be a conflict of interests.

The members of the Slovak Parliament have passed a provision according to which, until 31st December 2006, the minimum public network must neither be extended nor restricted by more than 15 % compared with the present network of medical facilities. This has been justified by a greater legal security of the health care providers. According to the critics, however, it means that the present medical capacities will be put off substantially for a minimum of 2 years and concurrently the declared market-based decision-making process of health insurance companies on which health care providers they shall enter into a contract with, shall also be restricted. The opponents believe that unless a sufficient number of parallel private health care providers is ensured, there shall be a lower degree of competition between health care providers, smaller pressure on the quality of the provided health care and smaller pressure will also be exerted on medical professionals and their behaviour – from managers, through doctors to nurses.

A health care provider is obliged directly under law to provide and constantly improve the quality of the provided health care both in term of medical treatments and personal and material-technical equipment. **Health care providers quality system** shall be assessed by authorised persons in accordance with the generally binding legal regulation to be issued by the Ministry of Health of the Slovak Republic. The observers emphasise the importance of quality scales of medical facilities (hospitals) and medical professionals (doctors) as well as their publication in order to increase the awareness of the final consumer – the policyholder. The key issue here will be how the subjects responsible for this agenda – the Ministry of Health of the Slovak Republic (the government) and health insurance companies - shall manage the situation. In other foreign countries such surveys and quality scales of health care providers (hospitals, in particular) are often conducted and published by various independent institutions or consumer's associations.

A medical professional is obliged to carry out his/her medical profession on a highly professional level, in accordance with the generally binding legal regulations and the Code of Ethics, enclosed to the Act. Medical professional is under the law obliged to improve his/her education continuously. Criteria and method of assessing the continuous learning of a medical professional will be specified by a generally binding legal regulation to be issued by the Ministry of Health of the Slovak Republic.

The Act restricts the health providers' right to strike. Should the life and health protection of people be endangered as a result of medical professionals' strike, the government shall decide to terminate the strike.

Meeting the obligations set by this Act shall be **supervised** by authorities empowered to issue permissions for the operation of a medical facility (the Ministry of Health of the Slovak Republic, Higher Territorial Unit) and authorised professional health care organisations – chambers entitled to issue licenses and register medical professionals. These authorities will be entitled to impose fines (up to SKK 1m) to revoke or temporarily suspend the permission or a license and impose disciplinary remedies (on part of an authorised chamber – e.g. fines up to SKK 100,000.00,-). The Health Care Surveillance Authority shall be able to submit a proposal to impose sanctions against the relevant authorities to issue permissions and against the chambers.

The Act also adjusts the **role of the professional medical organisations in the health care** – professional chambers. Despite the ideas initially formed in the Minister's reform team suggesting that the role of professional chambers should be that of voluntary professional associations without legally defined tasks and duties thus weakening corporativism in the health care in favour

of a competition (reduction of corporativism was one of the government's objectives included in the Memorandum of the Slovak Government), the approved Act further adjusts the role of chambers, however, from now on the membership in the chambers will be voluntary. Even though the Act has dissolved some of the chambers, along with the already existing chambers, the Slovak Chamber of Doctors, the Slovak Chamber of Dental Doctors, the Slovak Chamber of Pharmacists and the Slovak Chamber of Nurses and Midwives, there has been formed a new chamber – the Slovak Chamber of Other Medical Professionals, Assistants, Laboratory Technicians and Technicians which associates medical professionals of the dissolved chambers, i.e. the Slovak Chamber of Medical Professionals with a University Degree, the Slovak Chamber of Psychologists, the Slovak Chamber of Medical Professionals with Secondary Education and the Slovak Chamber of Dental Technicians. As opposed to the original idea of the Ministry of Health of the Slovak Republic, the Act has strengthened the rights of chambers to issue certificates confirming the fulfilment of the requirements necessary for the execution of a respective medical profession, to issue assessments of professional and ethical competence of medical professionals and to supervise a duly execution of professions in the health care, moreover, it has furthermore increased the number of licensed activities.

The main tasks of Chambers include the representation of their members, registration of all medical professionals (without a registration it is impossible to execute the relevant profession), making decisions on issuing, temporary suspension and cancelling of licenses permitting medical professionals to execute their professions and independent practice, supervision the members of the chamber and their meeting the obligations and imposition of disciplinary remedies. The chambers issue certificates confirming the execution of a medical profession on the territory of the Slovak Republic for the relevant authorities abroad, they cooperate with self-governing regions when establishing public network, in case the public network is smaller than the minimum public network and they cooperate with the relevant state administration body when supervising the fulfilment of requirements necessary for the operation of medical facilities.

Licensing of the medical profession execution has passed from the Ministry of Health of the Slovak Republic to the respective chambers. The objective of the shift of the state administration execution to the professional chambers is to relieve the state administration bodies of the activities that may be better assessed and ensured by the chambers. To prevent a possible conflict of interests and discrimination of the non-members of the chambers, the Act sets an obligation of chambers to bear the responsibility for the damage caused by their inactivity or a wrong decision. There have also been introduced strict state check mechanisms to ensure the observation of a citizen's right for the issuance of the respective decision. A citizen may appeal to the state administration body that fulfils the tasks in the health care.

The Act, according to the reasonable report should have no impact on public finances.

The Act on Health Care Providers, Medical Professionals and Professional Chambers came into effect on 1st November 2004, apart from several provisions that came into effect on 1st January 2005 and some provisions that will come into effect on 1st January 2007.

On 22nd September 2004 (after the President's veto repeatedly on 21st October) the Members of the Slovak Parliament passed the **Act on Emergency Health Service** which was elaborated in succession to the Act on Health Care Providers, Medical Professionals and Professional Chambers. This Act deals with the role and conditions of financing the emergency health service.
Emergency health service is providing urgent health care to the person who is in a state when its life or health is immediately endangered and this person is reliant on such health care. The health care will be financed by the public health insurance. The transport out of the urgent health care will have to be financed by the patient. The emergency health care shall be provided within the integrated rescue system by the operating distress call centers of emergency health care and by the health care providers with the license for the operation of a emergency health care centre.

Operating emergency health care centres shall be established by the Ministry of Health of the Slovak Republic as budgetary organisations that shall be controlled by the instructions of the integrated rescue system coordinating centre. Operating centres shall control and coordinate the emergency health care in such a way so that its smoothness and continuity can be ensured, they shall preserve audio recordings of distress calls for the period of 10 years from the day of their origination (the stations of emergency health care shall be obliged to deposit the records of the interventions and their counterparts for the period of 10 years from the day of the intervention).

The emergency health care providers shall be obliged to establish in the area determined in the permission for the operation of the **emergency health care surgery** (i.e. first health care surgeries, mobile intensive units, air ambulances) the intervention centre to ensure that emergency health care unit departs within one minute from the moment of the instruction receipt from the coordinating centre or operating emergency health care centre. The registered offices of emergency health care centres and their areas of intervention shall be defined by a generally binding legal regulation of the Ministry of Health of the Slovak Republic. The tender for the issuance of permission to run a emergency health care centre shall also be the responsibility of the Ministry of Health of the Slovak Republic. The Ministry has had a study elaborated the objective of

which was the determination of the minimum number of emergency health care stations so that the ambulance reached the patient within 15 minutes. According to the study there should be 207 emergency health care centres, at present there are 96. There should be 7 air emergency health centres. Providing that in some regions the health care providers shall not be interested in providing emergency health care, according to the claims of the Ministry of Health of the Slovak Republic representatives, the state providers shall be ensured.

The Ministry of Health of the Slovak republic shall be entitled to impose a **penalty** up to SKK 500,000.00,- in case an emergency health care ambulance does not depart within one minute. The penalty up to SKK 20,000.00,- may be imposed on the provider in case it fails to make a record of the emergency intervention or this record does not contain all the data determined by law.

Two emergency health care centres in Bratislava and Košice shall be transformed into joint-stock companies. Total expenditures connected with the adoption of the Act on Emergency Health Care are estimated in the amount of SKK 130m annually and they include maintenance costs and basic investment necessary for establishment of 8 operating emergency health care centres. The expenditures shall be allowed for in the state budget in the chapter of the Ministry of Health of the Slovak Republic. As for the job opportunities connected with the establishment of the operating emergency health care centres, it is estimated that there should be 24 new jobs created to be financed from the state budget.

Evaluation of the Experts' Committee:

Professional public appreciates the effort to make the financial flows within the health care providers transparent and to create competitive environment among them. The health care reform shall introduce the principles of market mechanism into the health care system which shall promote competitive environment, effort to win the patient and better care for its needs. The market principle shall naturally exclude the unhealthy and inefficient subjects from the market.

The Act brings a more complex definition of the health care providers network, e.g. it clearly incorporates the home health care agencies and one-day health care facilities in the system what definitely is a positive sign. It defines the minimum public network as a measure taken to ensure general accessibility of medical services. This network should be a compromise between the market and social values connected with the health care. However, it is difficult to estimate to what extent its principle shall be applied. On one hand, it can be misused as a means for preserving the inefficient providers, on the other hand, after the transformation of health care providers into the subjects of private law there shall be no interest to provide medical services that shall not be sufficiently financed (the proofs of what may happen in case of insufficient financing of medical facilities are the processes taking place in self-governing regions – in 2004 regions started to "sell" medical facilities in big numbers, e.g. Banská Bystrica is going through major changes, it is going to sell 9 medical facilities). One of the respondents enquires if it is not a better idea to have a functional financing that would provide better guarantee of health care services accessibility than a minimum network.

The controversial issue here is the transformation of the current state providers into joint-stock companies, which should occur till the end of 2006 and the result of which should be economisation of medical facilities operation, hospitals in particular. Here, according to one of the respondents, we are walking on eggshells. Based on his statement, according to the contemporary modern theory of public economy, the proprietary form is not a substantial factor guarantying the quality and efficiency of public services provision (Pollit and Bouckaert, 2000; Medveď and Nemec, 2004). According to him experience of highly developed countries clearly proves that state or autonomous hospitals can function equally efficiently as the private ones. In majority of countries faculty hospitals have not been privatised from the point of view of their proprietary form, it was only the management system that has been 'privatised'. The pressure forcing medical facilities to behave economically can also be created by the suitable adjustment of conditions of "business" environment (the transformation from budgetary organisations into true public entrepreneurial organisations). The change of proprietary form while preserving a monopolistic status, usually does not solve the problem, on the contrary, it worsens the situation (Cullis and Jones, 1992 in this respect warn not to change the state monopoly into a private one). Therefore the competitive environment between institutional health care providers cannot be created in the underfinanced system – because even a private management can maximise its profits by means of efficient pressure on the increase in prices of services (which is the simplest way) rather than economisation. A good example is an experiment conducted in Great Britain where the competitive environment was not created even when the prices of services achieved the level of the most expensive providers. (Le Grand, 1990).

Some respondents are afraid that the transformation of medical facilities into joint-stock companies and the subsequent privatisation may saturate the need of management or proprietary interests of certain political groups and representatives of speculative capital. On the contrary, there is an opinion according to which the state's share in the transformed institutions is

reasonable only at a certain transient period. In the future there should be no obstacles preventing complete privatisation of medical facilities.

According to the specialists, it shall be necessary to take measures to decrease corruption in the health care, e.g. to introduce a wider salary differentiation and a better assessment of quality doctors and nurses or to implement quality control and assessment of the provided medical services and to compare the quality of medical facilities publicly (via media).

A major drawback, according to the professional public, is strengthening of chambers' power including the threat of its misuse. The original concept of the health care reform was planning to eliminate the privileges of professional chambers, however, the final version of the Act brings only one significant change - voluntary membership. The powers of chambers have been strengthened what allows them, for example to regulate the chances of subjects to enter the market, however, the entitlement to claim a number of the rights, supposing the conditions taxatively stated by the law have been fulfilled, has also been improved.

The Act on Emergency Health Care contains two main ideas – every citizen in any part of the republic is entitled to have an immediate access to the first health care disregarding its ability to pay. This service, from the technical point of view, can be provided by any legal entity that has received a license. As it is the means of saving a fair amount of lives and immediate and urgent health care that is being considered here, the operation of emergency health care shall be financed by the public health insurance. There shall be created more than 200 stations of the emergency health care thus guaranteeing an intervention within 15 minutes at maximum (except for hard accessible places). The issue that remains open is whether the estimated number of stations is to be established indeed, since the precondition for the entry of non-state and private subjects at the given "market" is the financial profitability of service provision.

Amendment to the Act on Medicaments and Medical Aids (ownership of pharmacies by legal entities and non-pharmacists allowed; selling drugs in supermarkets not approved; setting up the use of drug books; more obligations for pharmacists)

On October 27th, 2004, Deputies of the National Council of the Slovak Republic approved a government bill of the Act on medicaments and mdical aids, which links to six-member groups of reform Acts *(see pages 74-95)*.

The amendment to the Act on medicaments **extended the opportunities for owning a pharmacy**. While only a natural person – pharmacist - could own a pharmacy prior to adoption of the amendment, currently, **legal entities and natural persons who are non-pharmacists** with a university qualification may own a pharmacy. However, these persons shall acquire a licence only if they appoint, i.e. employ, a qualified representative who shall prove his/her professional qualification with a certificate on graduation from university study in pharmacy and with a document proving his/her experience of no less than 5 years in a pharmacy and a diploma concerning specialisation in pharmaceuticals.

The amendment thus returned the state to a few years ago, when it was permitted for legal entities to own a pharmacy for a certain time. At that time, limited liability companies in particular took advantage of this. Penta Group, a.s. commenced to utilise the possibilities given by the amendment, as it expressed a resolution to purchase more than 100 lucrative pharmacies (approximately 10 per cent of all pharmacies) and create a network of those pharmacies which would link to the sphere of activities and projected activities of this company in the health care system of Slovakia. There are states where only pharmacists are entitled to own a pharmacy, but there are also countries where ownership is unrestricted.

Critics of the opening of the market point out the risk that the creation of a network of pharmacies may occur by a stronger market player which will be able to control the whole drug chain of health care facility – distributor – pharmacy – health insurance company; a dominant position on the entire medical market that could cause an increase of prices for the patients and a monopoly annuity for a dominant private company. In the words of the President of the Medical Chamber, the idea of health care system reform and market competition thus fades away. Proponents of the amendment thought that the ownership of pharmacies should not be restricted solely to pharmacists, who would have an advantage over the others, in this manner.

In comparison with the original bill of the Ministry of Health of the Slovak Republic, **the provision of the amendment which could approve sale of selected drugs in hypermarkets and department stores was left out**.

The amendment introduced an option for a health insurance company to issue **drug books** for its policyholders, in which prescribed (doctor) and dispensed drugs (pharmacist) shall be recorded in order to ensure an overview of the drugs a patient takes, and to avoid health complications for

patients who might be taking combinations of drugs that may affect the health. Drug books should also serve for the reduction of expenditures of health insurance companies on drugs. According to the Minister of Health, Rudolf Zajac, 15 per cent of patients use 85 per cent of all resources for public health insurance.

The amendment to the Act further contains a **restriction of requirements** for all entities working with drugs and medical aids, particularly **for licence holders for the provision of health care.**

The amendment stated that a medical licence holder is **obliged to conclude a contract on the provision of medical care with the health insurance company** of a policyholder in the provision of medical care covered on the basis of health insurance. The contract may not be terminated if the licence holder adheres to the applicable legal regulations in charging a price for dispensed drugs and medical aids and permits pricing inspections by a health insurance company.

The Slovak Chamber of Pharmacists expressed their radical dissent within annotation proceedings to a proposal for the establishment of pharmacies by legal entities, the establishment of medicament dispensation points in hypermarkets, the obligation to conclude contractual relationships with health insurance companies and the submittal of the projected range of data on the dispensation of medicaments and supplementary line for the purposes of statistical processing.

Evaluation of the Experts' Committee:

Lifting barriers for commencement of business is a positive feature, which includes the area of health care provision. Reasonable market deregulation in the dispensation and sale of medicaments and medical aids may bring about benefits for patients (improved accessibility, services, and lower prices). Enabling legal entities and non-pharmacists to own a pharmacy should improve competition on the market and should force pharmacy owners to act more competitively in a still highly regulated environment (in comparison with the world prices of medicaments, there is a certain space for the reduction of prices of medicaments in Slovakia).

The respondents believed that the state could manage to avoid the potential misuse of the dominant position of any entity on the pharmacy market that would raise prices after the creation of a pharmacy network on a short-term basis, force out its competitors and consequently increase prices after having gained control over the market, by exploitation of the existing instruments (antimonopoly legislation and institutions). Apart from higher prices, the accessibility of medicaments would be reduced due to a lack of competitive pharmacies. Several evaluating persons warned of the risk that different groups with a questionable reputation might gain control over numerous pharmacies, whereas the appointed responsible pharmacist will have hardly any opportunity to eliminate negative events, as directed by the provider. Critics expected negative impacts on the medicament policy as well, since the tendencies of enormous commercialisation of pharmacies may prevail, as a pharmacy will have to yield profit to its owner – non-pharmacist – in addition to the pharmacist.

A respondent who expressed satisfaction from the European liberalisation wave in service pharmaceuticals, which came to Slovakia at last, held an opposite view. After Great Britain and Northern European countries, even Germany approved a "networking" of pharmacies, though at a restricted level (an owner has no more than 5 pharmacies). Fortunately, Slovakia went much further. "(Semi-) mafia" groups have already been creating pharmacy networks, despite the legal restriction. After the change of the Act, respectable investors and foreign investors were allowed to enter the Slovak market, when they did not tend to entrench themselves in a non-transparent environment characterised by the evasion of pointless legal restrictions in past.

Several of the evaluating persons expressed support of the sale of selected medicaments in hypermarkets, which would probably result in an improved accessibility of medicaments and possibly, lower prices. It was unreasonable to fear this, since this has been a reality in numerous developed countries. In the Czech Republic, the market in over the counter medicine was partially liberalised, however according to one respondent, strong pressure of the pharmacies on producers and distributors discouraging them to cooperate with "non-pharmacies" was the result, threatening the termination of contracts. Thus, fulfilling the objective of improving competition in the Czech Republic did not seem very positive, according to this opinion. The Czech example was an opportunity to note that, whatever the intention of the law may be, the reality can be exactly the opposite.

One of the respondents feared a persistently increasing rate of the administrative duties of the pharmacist.

Prolonging the Execution Protection of Medical Facilities and Health Insurance Companies until the end of 2005 and Allowing the Transformation of State-owned Hospitals into Non-Profit Organisations

On December 2nd, 2004, the Deputies of the National Council approved the government amendment to the Act on health care providers, health care staff and professional associations in the health care service, which **prolonged the execution protection of medical facilities by another year.** The Ministry of Health substantiated the necessity to adopt alteration on the standpoint that medical facilities, which are to be transformed to joint-stock companies by the end of the year 2006 in terms of the Act on health care providers *(see page 90)*, will be highly vulnerable in the transformation process as of January 2005. The resolution of their liabilities still has not been settled, whereas the government of the Slovak Republic set aside SKK 7.3bn for covering the liabilities of medical facilities and was searching for resources to provide additional SKK 1.3bn. Therefore, the Ministry of Health deemed it purposeful to limit the possibility of the execution of property, medicaments and financial resources on accounts of these medical facilities and to introduce hard budgetary constraints up to the moment of their transformation into joint-stock companies. Within that period, the debt should be definitively resolved.

As a result of the next clean bill, which was approved by the Ministry of Health of the Slovak Republic, **state medical facilities will be able to be transformed not only into joint-stock companies, but into not-for-profit organisations providing general benefit services**. The alleged profitability of this legal form for smaller hospitals should be the reason for this solution. In negotiating six-member reform Acts *(see page 90),* some opposition deputies and medical organisations required the permission of this form of transformation, whereas the Minister of Health, Rudolf Zajac was strictly against it, since non-profit organisations do not have distinct powers, relationships, auditing or bookkeeping and operate under soft budgetary constraints, in comparison with joint-stock companies.

After having approved the transformation of a state medical facility to a non-profit organisation by the government, the state shall place its property in the new organisation, with the result that the rights and obligations in relation to this property pass to the new organisation along with the property rights to state property, which was passed to the ownership of the non-profit organisation. According to critics, this means the privatisation of the property of transformed hospitals in favour of possible interested persons (health care staff or legal entities, which can prove performing actions in the field of health care provision, social aid, or humanitarian aid), whereas in the case of transformed hospitals, the state must keep at least 51 per cent of the shares, and the rest of the shares may be alienated without payment to public universities, self-governing regions, or municipalities, which will not be allowed to handle the parcel within a period of 10 years.

The objectors criticised; the reform principle in the field of the transformation of medical facilities was eroded and softened. According to critics, the Ministry of Health enforced this measure, since it was discovered that in non-profit organisations, property is treated in a more liberal manner; eventually the Ministry realised it would not manage to resolve the debts of state hospitals prior to the completion of the above mentioned execution protection. State medical facilities, which are to be transformed into non-profit organisations shall, within the extent of their priority property (dedicated to the provision of general benefit services, i.e. for health care provision), exercise execution protection even after the year 2005.

On December 2nd, 2004, the deputies approved an amendment to the Act on health insurance companies and supervision of health care, aiming to **protect** the property and financial resources of the existing **health insurance companies against execution** proceedings, similarly as defined in the case of medical facilities. The Ministry of Health deemed it useful to limit the possibilities for the execution of property and financial resources on the accounts of health insurance companies for a temporary period (no later than until the end of the year 2005), and to launch hard budgetary constraints from the moment of transformation into joint-stock companies, when their liabilities should be settled definitively.

The adopted measures were evaluated as a logical step towards gaining time for the finalisation of debt settlement in medical facilities and health insurance companies and their smooth transformation into joint-stock companies, whereby the jeopardised health care provision due to potential execution orders could be eliminated, according to proposers.

Execution prohibition towards health insurance companies and medical facilities and its persistent prolongation has been evaluated three times within the HESO project as being negative. Critics considered the fact that executions are one of the standard possibilities for creditors to regain their money, which was denied by this provision. According to them, individual market participants were disadvantaged by this step – in this case creditors - the business environment was affected

as were constitutional rights in relation to private ownership. Similar non-system measures diminish market credibility. Market rules must be related to health insurance companies and medical facilities, as well.

Criticism was expressed with respect to the fact that the amendments were adopted in a hurry and silently – in a summary legislative proceeding - whereas reform Acts, which were approved instantly prior to this – on October 21st, 2004 - were amended by these amendments even before entering into force.

Evaluation of the Experts' Committee:

Health care system reform and the transformation of hospitals is a very sensitive issue generally, as well as politically. Several respondents deemed the advantages of the measure (protection of medical facilities, unless a debt has been completely settled) as slightly prevailing over the disadvantages (system-free measure, discrimination against others). The measure thus acted like a hot needle sewing.

Numerous critical opinions were expressed in the evaluations. According to these, it was essential to finally set hard budgetary constraints towards medical facilities. The outcomes of an analysis describing the procurement process in hospitals were obvious proof that these facilities do not respond appropriately to the necessity to economise their operation, not to mention the quality of the services provided to patients.

Opening medical facilities using a standard economic process, to which execution proceeding unquestionably belongs, or eventually bankruptcy, should be one of the pillars of health care system reform. "It should be understood that it is hardly enforceable from a political point of view, however it shall remain at this level", critics stated. They compared it to a state when the government and the parliament teach a child to swim, promising him/her that when he/she learns, they will give him/her the pool. However, the child could drown; indeed… According to a member of the evaluating committee, the managers of medical facilities will learn how to husband in an efficient manner only if they fear the possibility of execution, or bankruptcy. There is no reason to fear the health care market. Thus, this is the best filter that shall release only efficiently husbanded entities, which is a precondition for permanent sustainability of quality health care provision.

One of the respondents expressed doubts concerning the honest intents of this measure. He perceived it as a preliminary treatment of already agreed and forecasted privatisation. He warned against tampered privatisation without appropriate competition in questionable impacts on the condition of medical facilities, particularly in case of major lucrative and fruitful facilities with a large territorial authority and in the case of specialised workstations.

Part of the evaluating committee agreed to a gradual spread of forms of the transformation of state hospitals to non-profit organisations, however another part of the opinion spectrum deemed it as attenuation of the market principle, or only a step and stopping midway. The hospitals will enjoy the position of a state organisation; however their property shall remain in the possession of the state. Non-profit organisations shall only administer it, whereas they will not be able to administer it efficiently, since the Act does not allow the sale of the property. A proposer of this opinion pointed out that hard budgetary constraints may also be set for non-profit organisations on good will, and those may be subject to stricter transparency rules such as the Commercial Code, to which partnerships referred in meeting minimum transparency standards is not applied.

Education Policy

Draft Act on Student Loans (payment of tuition planned to introduce; state-regulated student loans; more social scholarship recipients; abolishing salary grades for the remuneration of teachers and raising their salaries; equal rights for public and private universities)

On May 28th, 2004, the government of the Slovak Republic approved the draft Act on student loans. However, the Act has not been approved by the parliament. The draft introduced changes in funding universities, social security of students and remuneration of teachers. The objective was to facilitate access to quality university study to everyone who proves the ability to study, regardless of the momentary financial situation of the family or student. The draft was aimed at motivating students to take a responsible approach towards their studies and strengthen the salary position of young qualified teachers. A proposal of equalisation for private and public schools and the abolishment of salary grades for the remuneration of university teachers (depending solely on the length of professional experience) were additional innovations.

The draft Act in question, which was labelled as the key regulation of university system reform, introduced a new system of student loans, amended the Act on universities and altered the Act on the remuneration of selected employees in performing work in the public interest.

The draft Act on student loans approved by the government:

- Introduced a student loan system, which should be designated solely for covering costs related to the payment of tuition fees, in comparison with the existing regulation.
- The maximum loan amount shall be bound to the rate of the tuition fees of a particular university for the respective academic programme.
- Each student with a permanent address within the Slovak Republic who studies in Slovakia or in another foreign university should have the legal right to be granted this loan.
- The loan would be granted for one academic year in two equal instalments, however no longer than 10 academic years. It would be directed to the account of the university, whereby the money flow would change concurrently - the student would decide at his/her own discretion which university would receive his/her tuition fee.
- The interest rate was proposed at the amount of costs incurred by the state, which the state has to expend in borrowing the amount (at that time, in the range from 4.7 per cent p.a. to 5.7 per cent p.a.). According to the option chosen in an agreement on a student loan, the interest rate would be either fixed or floating. In the case of a loan without a guarantor, the basic interest rate would advance by an additional rate, which should not exceed 1.5 per cent.
- The loan itself could be repaid by the student pending studies in the form of fixed monthly instalments specified by the fund administrator. The fund administrator would, however be responsible for setting a zero instalment if the debtor requested this instalment in the case of the continuation of study. The proposed upper limit of the instalment for a student who postpones repayment until after graduation was set at 10 per cent of his/her income. Should his/her income not reach minimum wage, a zero instalment would be set as well.
- The debtor would be entitled, in terms of the draft Act, to set the due date at his/her own discretion. The loan fund would not be entitled to set the due date period, against the student's will, as less than 10 months.
- The draft Act created conditions for facilitation of the assumption of the student's liability by another person. An opportunity of declaration of the government program of loan repayment for selected groups of debtors would be opened and graduates who employ themselves in the public sector (e.g. teachers, or less "lucrative", but substantial professions), would be partially or completely exempt from loan repayment.
- All the rights and obligations of the Student Loan Fund should be assigned to a new legal entity (non-profit organisation) incorporated by the Ministry of Education of the Slovak Republic, which would thus become the administrator of the loan fund. Its objective would be to issue general commercial terms for the provision of student loans, after being approved by the Ministry of Finance of the Slovak Republic. Expenditures on the operation of the company would be covered from the state budget, whereas it would act on behalf of the Ministry in fulfilling its tasks. Students' representatives should nominate one of the three members of the Supervisory Board within the inspection of fund administration. After said changes, the Student Loan Fund should be dissolved at last.
- The Ministry of Finance and Ministry of Education of the Slovak Republic would be authorised to inspect the observance of the law and the loan granting process.

The authors of the Act excluded commercial banks, which would cover only the needs of credible clients and the state would be obliged to provide more expensive loans to less credible clients, according to the submitters, from participation in the system by the introduction of said scheme. They marked the responsiveness of instalments on the development of debtor's income as an advantage of the draft. Thus they should be set in a manner as to avoid the creation of a substantial burden during the working age of the graduate.

Draft amendment to the Act on universities

The draft amendment regulated the participation of students in expenditures of their study by means of tuition fee. This would improve the responsibility of students for the results achieved, their demands on the quality of education and the financial contribution for universities, according to the proposers of the amendment.

- As of the academic year 2004/2005 it introduced the proposal of tuition fees within a range of 0.5 to a threefold base for determination of the tuition fee, regulated in the Act (10 per cent of the average annual expenditures per student, set at SKK 73,000 in the year 2004). Thus, students could pay SKK 3,650 to SKK 21,900 yearly.
- Based on comments of members of the Slovak Chancellor Conference, the formerly proposed bottom limit of the tuition fees (SKK 3,650) was decreased to zero for the academic years 2005/2006 and 2006/2007.
- The amount of the tuition fee for a particular academic programme, form of study and academic year is to be determined by each university.
- In order to avoid the excessive increase of tuition fees for new students in subsequent years of study, the amount of the tuition fee may not be altered for a particular student and a particular academic programme, represented as multiples of average expenditures during the standard length of study. In other words - the coefficient would remain at a fixed rate. If the school sets a tuition fee amounting to 1.2 times the base (SKK 7,300), this would represent SKK 8,760 for the 2004/2005 academic year. Should the Ministry of Education change the base in the subsequent year (using a method defined in the Act on universities), e.g. to SKK 8,000, the tuition fee for a given student and academic year would be SKK 9,600 (1.2 * SKK 8,000).
- The tuition fee should also apply to internal inceptors at universities, whereas a university chancellor would have the possibility to reduce or cancel the tuition fee for external inceptors.
- Should a student fail to settle the tuition fee, he/she may be expelled from study. If a university decided to respect this failure to pay and did not expel the student, the university would not be entitled to award him/her a diploma after finishing study, unless the student settled the entire amount due.
- The funds obtained from the tuition fee would be directed as revenues to the school budget. As it results from the draft Act, at least 25 per cent of the revenue from tuition fees would have to be utilised by a public university on achievement and incentive scholarships and loans by its scholarship fund.
- An improvement of the power of students in reallocation (the remaining 75 per cent) of the funds obtained from tuition fees was suggested. Their exploitation would be subject to separate approval of the academic senate, whereas a Chamber of Students would have to approve a proposal on the reallocation of funds, along with the overall consent of the academic senate.
- For the purposes of improving the monitoring of the quality of individual educational activities, the proposed alteration of the Act allowed the accreditation committee to delegate a professional entitled to attend those activities, e.g. examinations, including state and Doctorate viva voce examinations, and to participate in a closed examination committee meeting.

Currently only those students who overstep the standard length of study pay the tuition fee. (However, a university chancellor may cancel the tuition fee.) A proposal for a change of funding of universities and introduction of the participation of students on funding study was substantiated by the drafters by an inefficient system of reallocation of funds for schools, in which satisfaction and the potential to assert oneself is not taken into account.

Social scholarship system

The provision of social scholarships should constitute the most significant part of the student support system, which shall complement the provision of social scholarships for university students. The proposers expected from the intended system a substantial improvement of the support to socially weak students, thus by increasing the portion of students drawing social scholarship, by enhanced directness and advanced transparency. Students with a permanent address within the Slovak Republic attending full-time study would be entitled to a social scholarship. According to an analysis of the impacts of this Act, 30 to 35 per cent of university students would become the beneficiaries of a social scholarship. A student would be entitled to a minimum social scholarship amounting to SKK 250 per month if the marginal net income of his/her household represented the amount of SKK 34,760 in the case of a family consisting of four members, of which two are university students, studying away from their permanent address. The maximum amount of the scholarship was proposed to be at the level of social subsistence, i.e.

SKK 4,580 or SKK 6,870 per month for students whose permanent address is located no closer than 30 km from the address of the university seat. A student whose total household income does not exceed the amount of subsistence per capita would be entitled to the maximum social scholarship amount. At the time of the approval proceeding with respect to the Act, students were entitled only to a maximum scholarship amounting to SKK 2,000 per month.

The draft Act did set out the obligation of a university to contribute to the accommodation and boarding of the students and it concurrently omitted a provision on the basis of which a university would receive a subsidy from the state budget for covering contributions for boarding and accommodation for students. In 2003, the amount of this contribution was set at SKK 900 per month for a student of a subsidised boarding house. As stated in a case study, in 2003 approximately 34 per cent of the students had the opportunity to utilise this, 47 per cent of these being full-time students. A bundle of SKK 500m, received by boarding houses for the purposes given above, had to redirected for increased scholarships; thus it would reach SKK 700m annually.

Remuneration of employees performing work in the public interest

The Act on the remuneration of selected employees performing work in the public interest, which *inter alia* adjusts remuneration methods with respect to university teachers, should also be amended. The draft abolished salary grades used in the remuneration of teachers based on the number of years and conferred a tariff salary upon each teacher in the highest salary grade as defined for the respective salary category (depending on qualification) in which respective teacher is categorised. Conditions for the higher remuneration of young qualified teachers depending not upon the length of professional experience, but on actual efficiency and a science-pedagogical degree, should thus be created. The new salary tariff chart for university teachers would contain only one line, without salary grades.

Salary Category	***9***	***10***	***11***	***12***	***13***	***14***
in SKK per month	16,750	19,630	21,070	22,590	24,290	26,250

The salary of each employee in the academic field should thus be increased. Young professional assistants whose salary should exceed SKK 20,000 would experience the highest increase. The effort of the proposers of the draft was to resolve the generation problem – the low representation of young teachers in universities and the high average age of university teachers. The improvement of the conditions of university teaching was aimed at attracting the interest of young teachers in academic employment and to enhance the dynamics of university development at last.

Equalisation of private and public universities

The proposal for the equalisation of funding private and public universities was a part of the draft Act on student loans. According to the presented draft, private universities should be subsidised equally to public universities, from the state budget. Within the effort to support the development of private universities, the authorisation of the Accreditation Committee was modified. The committee could, within the accreditation of an academic programme of a branch of foreign university, take into consideration the specialties of the university education systems of Slovakia and home country of the foreign university. The objective was to enable any foreign university to apply its know-how brought from abroad in Slovakia.

The Minister of Finance, Ivan Mikloš wanted to create conditions for the support of private university education, to attract branches of quality foreign schools (such as New York University of Prague), with a space for the establishment of new private universities. Student loans should be another incentive for the establishment of new private schools in Slovakia, which could, in terms of the draft Act, be utilised for settling the tuition fee at these schools. This could result in the improvement of competition as well as the resolution of the current insufficient capacity of university tuition, particularly from the view of quality.

The currently valid Act on universities was deemed to be the least liberal among all the Visegrad countries in the field of the acquisition of subsidies, as well as the establishment of private universities, by the proposers of the draft. The number of these types of schools in neighbouring countries proved it in implicitly. In the Czech Republic and Hungary, 36 private universities were filed, 137 in Poland, whereas in Slovakia there were three private universities at the time of negotiating the regulation. A lengthy and complicated accreditation process is one of the barriers of the entry of any private university to Slovakia.

This, the second government bill of the Act on student loans, incurred critics of students, as well. Eventually, the nature of the said draft Act was more favourable, according to the Council of Students; thanks to the incorporation of annotations, the Council had some reservations to the social scholarship system. The Council proposed to adjust the system so that 50 to 60 per cent of students would become beneficiaries of the scholarship and eventually to enable the Student Loan Fund to lend funds not only up to the amount of the tuition fee, but for covering living costs. The Council feared that the students would not have sufficient resources to pay the increased expenses for accommodation as a result of the cancellation of global subsidies on boarding houses

and the transfer of the funds to social scholarships. This step would, according to them, have a negative impact primarily on middle-class students, as they would be influenced by the increase of the price for accommodation and board. Representatives of students required the improvement of the quality of university studies, which was handled by the draft bill only marginally.

The objectors presented the opinion that schools with a permanent high interest (e.g. law faculties) have no reason to think of ways to advance. The Council of Students, together with the Slovak Chancellor Conference agreed to reject the proposal of the Minister of Finance to equalise the funding of public and private universities and the demand to increase the budget for universities annually by 0.1 per cent of the GDP, whereby Slovakia could gradually approach the level of OECD countries. They called for a higher amount of resources.

The chancellors of the Slovak universities did not agree in their opinions whether the vote of the deputies against the draft Act on student loans in the parliament was in favour of the university system, or not. The proposal of the Ministry of Finance for the equalisation of funding of private and public schools, in particular contained substantial imperfections. Private schools namely do not, according to chancellors, have equal conditions with respect to their establishment or modification of the tuition fee, thus they are disadvantaged. The draft act contained numerous positive and incentive elements, including the abolition of salary grades and the increase of social scholarship. The Slovak chancellor conference finally approved the draft Act with annotations.

The draft Act on student loans, approved by the government, was not advanced to a second reading by the deputies of the National Council at their session on June 17th, 2004, since 2 votes were missing for approval in the first reading. The authors of the university system reform thus have the opportunity to present a draft Act again in six months. The Ministry of Education wants to utilise this time for negotiations on alterations that would make the Act passable.

In February 2005, the government approved and submitted to the National Council the third draft Act on student loans. This draft was rejected on May 17th, 2005, this time in the second reading. Disapproval of the act by the objectors was substantiated by the argument that the Act did not guarantee improvement of the quality of universities in its proposed wording. The critics of the opposition stated that the Act would place an excess burden on middle-class students and that the loans would incur problems in starting a family, or in purchasing an apartment. The argument was also presented that an inappropriate amount of funds was spent inefficiently on administration of the loan fund.

This draft Act was almost identical to the previous draft, its proposer incorporated several annotations and compromise solutions into the wording, which resulted from the annotations of the objectors. The maximum amount of the tuition fee could, with respect to the increased average costs of a student, range around the amount of SKK 26,000 for an academic year. The draft Act further reckoned with an increase of the bottom limit of tuition fee from zero to 0.5 times the base (10 per cent of the average annual expenditures) as of the academic year 2007/2008, which would represent a bottom limit in the amount of SKK 4,300. Contrary to the previous draft Act, there was a new possibility to draw a loan from the Student Loan Fund for the settlement of living costs, up to the amount of SKK 40,000 per year. In terms of this draft Act, 35 per cent of the revenues from the tuition fee, instead of 25 per cent, as considered within the draft Act from the year 2004, should be directed to merit and incentive scholarships. In the draft from the year 2005, there was a new provision, in terms of which a private university should receive a full subsidy, only if its tuition fee did not exceed the maximum amount – SKK 26,000. Should this occur, the subsidy per student shall be reduced by the amount representing the difference between the amount of the tuition fee and the said limit.

After an unsuccessful legislative process of the said draft Act on student loans, the proposers as well as the objectors came up with the intention of a partial modification of the package of university Acts. The introduction of incentive and merit scholarships and simplification of the operation of branches of foreign universities from EU and EFTA countries was approved in the parliament late June 2005. An intention to introduce tuition fees only for external study occurred among coalition deputies, as well. The Prime Minister, Mikuláš Dzurinda suggested proposing the draft Act on student loans to the National Council again in six months, proposing an effective date of September 1st, 2007, whereby the current coalition would step aside in the execution of the Act in practice with respect to parliamentary elections in autumn 2006. Due to insufficient political will, the proposer of the draft Act, Minister of Education Martin Fronc did not present a positive standpoint on further submission of this regulation.

The previous government has also done its best to enforce various forms of multi-source funding of university education, thus also the introduction of tuition fees, since the year 2000.

Evaluation of the Experts' Committee:

The draft Act on student loans was perceived positively by the vast majority of the professional public and was marked as a step in the right direction in Slovak university system reform. The Act should be a part of a wider concept of university system reform. This reform is essential, primarily

with respect to a long-lasting problem of funding for universities and their diminishing standard. The measure should bring about an increase of resources for funding the university system, both from state budget funds and from the collected tuition fees, the availability of a university education should be improved for everyone who has the intellectual preconditions for university study. The introduction of tuition fee, the change of the system of providing student loans and social scholarships, the modification of the remuneration of university teachers, as well as the equalisation of funding public and private schools, were daring and positive steps.

The reform itself should be initiated, according to many experts, by the privatisation and danationalisation of schools. The introduction of tuition fees would be a positive step, but an insufficient one, without prevailing private ownership. The improvement of quality leads through competition among private owners (for-profit and non-profit organisations) – by means of competition.

Tuition fees should, in addition to securing resources for funding the university system, aim to exert pressure on intensifying competition among universities. The requirements of students and their responsibility towards their future would increase, and the quality and efficiency of universities would finally improve. The proposed introduction of tuition fees for university study would, according to some evaluating persons, resolve the additional funding of the university system, but could not possibly create sufficient pressure on the quality of the university education. One of the respondents pointed out the increasing difference in quality among schools where a tuition fee has already been introduced (e.g. the USA) and universities where no tuition fee has been introduced. University study enhances the qualification of a given individual (prospective labour force), whose value on the labour market is consequently higher. This is a sufficient pre-requisite for the retroactive funding of study by the repayment of a loan. Education is thus a good investment to which corresponding initial capital should pertain. The system of loans designated for the settlement of expenses of tuition fees is common world-wide. The legal right of each student for the approval of a loan is substantial. There are several proposals according to which the tuition fee should be paid in full, with the right of the student for a loan guaranteed by the state, since a university education is predominantly a private asset. The high indebtness of students after graduation was seen as a drawback by other respondents. In respect of the tuition fee itself, its maturity should be postponed until the end of the academic year, and eventually could be completely cancelled for first-year students, as they are fully dependent on their parents.

The Act should bring about better directness of the social scholarship system. However, some of the experts criticised the proposed measure for a wide scope of beneficiaries of social scholarships. The idea of student loans was thereby eroded and even the mechanism of coverage of the increased expenditures on scholarships and its relation to the collected tuition fee were not clear. The idea that social scholarships would disadvantage students, and therefore they should not be applied, was also presented. Some persons suggested an extension of the scholarship institution to cover the provision of living costs of students.

According to the given critical evaluation of one respondent, the Act solely reversed the flow of funding of universities to the loan fund, which is a public finance item, whereby new administrative agenda and clerks would be added. In his words, the reform itself would not change the academic programmes of schools; students would not yet have an influence on the quality of a school or the quality of the services provided by the teachers. In part, this would be possible by the means of the introduction of tuition fees to facultative subjects. If the people truly do not have sufficient resources to pay the tuition fee, it cannot be introduced, even with the assistance of the loans; the only thing that is essential to do is to increase some of the fees and allow the students to adjust them to a certain extent. Improvement of the quality should be achieved by the government, according to this opinion, by increased supply and reduced price – by building new premises, boarding houses and libraries, especially in Bratislava. Public universities funded from the state budget should constitute the main pillar of the system. Study in a private university should be settled by the students entirely from their own resources, not with the assistance of public resources.

The equalisation of funding private and public universities met mainly with a positive response in the professional public. The enhancement of competition, emphasis on quality as well as an increase of the capacity of university education, would be positive aspects. However, in the event of an entry of a foreign university to Slovakia, it would be assessed by the accreditation committee in which a conflict of interests could occur, which would be a problem.

The experts gladly accepted the proposal for the abolishment of salary grades in the remuneration of university teachers, whereby a space for an increase of salary, namely in the case of young academics, was created, which would help to eliminate the migration of a quality labour force abroad and could consequently "shake up" academia by reducing the average age of the teachers as a result.

Public Servants • Members of Parliament

Constitutional Act on Conflict of Interests (notification duty, including property returns, so-called after-employment restrictions, stricter sanctions, enforcing law on self-government as well)

On May 26th, 2004, the National Council of the Slovak Republic passed the long-awaited Constitutional Act on Protection of Public Interest in the performance of positions of public servants (the so-called Conflict of Interests Act). Within the last two years, it has been the fifth attempt to regulate the area of conflict of interests of public servants by explicit law. The aim of legal regulation of conflict of interests is to prevent or at least to reduce the creation of situations in which a public servant may abuse his or her position and rights to decide on important questions of public interest in order to obtain property or other benefit for themselves and people close to them. According to the Substantiation Report of the Act, in comparison to the recent regulation, the new Act:

- Modifies and extends the personal scope of legal regulations;
- Refines the legal definitions of duties and restrictions of public servants and extends the circle of positions, posts and activities that must not be performed with parallel performance of a relevant public office;
- Introduces an obligation of public officers to notify of the property situation not only of themselves but also of their spouse and minor children;
- Simplifies the proceedings on conflict of interests of public servants;
- Introduces a system of sanctions and public control to the law; and
- Also introduces new institutions, such as after-employment restrictions and the duty to notify the personal interest of a public servant in the case.

When performing their duty, public servants must abstain from anything inconsistent with this constitutional act, must pursue and protect public interest and must not prefer their personal interest. The act specifically lists what a public servant must not do.

Within 30 days from the date on which a public servant assumed his or her position and always before March 31st throughout the service, public servants are obliged to file a written notification for the previous calendar year stating if they meet the conditions of unconformity of positions, information on other employment and positions in business entities, in state and self-governing bodies. Further, public servants must declare their income during the year ensuing from their position as a public servant and other positions, employment and activities, as well as to file a property return including, besides the property of the public servant, the property of their spouse and minor children living with them in a single household. A certificate on filing a natural person income tax return, including the basic data (identification, tax base, tax due) must be attached to the written notification. According to the legislators, the purpose of this **notification duty** is to create a real opportunity to verify the adherence to duties and restrictions implied by the Constitutional Act on Conflict of Interests.

Written notices will be submitted to bodies that will be authorised to verify the completeness and faithfulness of the notices. Obliged persons from self-governments will file the notices to committees of municipal or city councils, or councils of higher territorial units. Other public servants will file the notices to the Committee of the National Council of the Slovak Republic for unconformity of positions of state servants.

The Constitutional Act introduced a new institution into the area of protection of public interest and restriction of conflict of interests – the so-called **after-employment restrictions**. Most public servants who, within a period of 2 years before the termination of the performance of a public office, have decided on provision of state aid, provision or permitting of other support, advantage or release from duty implied by generally binding law to a natural person or a legal entity, or performed establishing duty to legal entities, are, within a period of 1 year following the termination of the public office, prohibited from:

- Entering into employment with such persons or entities if their monthly remuneration in such employment would be higher than 10 times the amount of the minimum wage, currently SKK 65,000 (critics suggested decreasing the limit to 5 times the amount);
- Being members of a governing, controlling, or supervising body of such persons or entities;
- Being partners, members or shareholders of such persons or entities;
- Have a concluded contract on procuratorship, agency contract, commission contract, mediation contract, trade representation contract, silent partnership contract or a deed of donation with these persons or entities;
- Have a concluded contract authorising them to act on behalf of these persons or entities.

Within 30 days following the expiration of 1 year after termination of performance of a public office, public servants will be obliged to file a written notification stating where they were active in the previous year and what positions they performed, where they became shareholders or partners and with whom they entered into contracts, e.g. contracts on procuratorship, on mediation, on silent partnership, deeds of donation, etc. The body to which a public servant is obliged to file written notifications may issue an exception if an after-employment restriction would be inadequate to the nature of former activity of the servant; however, such restriction must be substantiated.

Proceedings on proposals in cases of conflict of interests will be performed by relevant councils for self-government servants, relevant academic senate for presidents of universities and the Committee of the National Council of the Slovak Republic for unconformity of positions of state servants for other public servants. These bodies will issue decisions in the cases. A decision on conflict of interests will include an **obligation of the relevant public servant to pay a fee**, or to **resign from a position, employment or activity** if such was marked as **unconformable with the performance of a public office**.

The highest sanction possible according to this act is the **loss of mandate or of public office**, which can only be decided upon in cases listed in the act. The loss of mandate of a Member of Parliament will require an approval of a 3/5 majority of all members of the National Council of the Slovak Republic.

Evaluation of the Experts' Committee:

Due to the high level of corruption in our society, it was necessary to adopt a legal regulation with an ambition to create legal mechanisms serving a gradual removal of these problems from public life. A strict and enforceable standard could potentially be linked to an increase of trust of the public to holders of constitutional and other public offices. Officers must be supervised and the best form of supervision is that performed by the informed public. Since the former Constitutional Act on Prevention of Conflict of Interest in performance of constitutional offices and offices of higher state officials has proven to be functionless in real life, the approval of the long-awaited new Constitutional Act on Protection of Public Interest in performance of offices of public servants, reached after several unsuccessful attempts, has been evaluated positively.

It was a step forward; however, according to the evaluating professionals, the Act could and should have been stricter and the sanctions towards public servants should not have been symbolic but deterring. The regulation of conflict of interest without enforcement of strict and, above all, enforceable sanctions is meaningless. Thus, many professionals criticised that a hard-to-reach 3/5 majority of the votes of the members of parliament or of the relevant committee will be required to enforce the sanction mechanism against certain public servants instead of a simple majority as proposed by the Minister of Justice and as approved for self-government servants or servants in universities. The key aspect will be how the act on conflict of interest will be practically enforced, and only then will one be able to say whether the new act is more efficient than the former one. Some respondents, however, considered the new Constitutional Act on Conflict of Interest to be more a code of ethical behaviour of public servants since it contained a number of restrictions of prosecution of public servants breaking the provisions of the Act.

The positive aspect of the Act is that it explicitly specifies to whom it applies and it lists the cases in which a public servant may lose their office or mandate. Several evaluators have criticised that the Act does not apply to the representatives of the National Property Fund of the Slovak Republic and of commercial companies with less than 100% state ownership. One of the respondents expressed their opinion that the Act should also apply to Slovak representatives in EU bodies (members of the European Parliament, the Commissioner, etc.). According to several evaluators, another defect of this legal norm is in the fact that not all obliged persons (e.g. self-government servants) have the notification duty to the public (i.e. self-government servants are excluded from the obligation to publish notices on the Internet) and information is not public in all cases of potential conflict of interest (e.g. information on third parties to which a public servant has rights or duties). It has also been criticised that the obligation to file property returns does not apply to a larger scope of persons living in a common household with a public servant. One of the respondents has presented disapproval of the maximum amount of wage of former public servants in their new positions (SKK 65,000) over a period of 1 year, which in his opinion should have been lower.

The fact that the Constitutional Act on Conflict of Interests also applies to local self-government servants was considered positive by the experts since in the process of public administration reform the decisive competencies of local self-governments increased significantly, bringing an increase of their responsibility for the administration of public affairs.

One of the respondents pointed out the deficiencies of the Constitutional Act on Conflict of Interests from the viewpoint of self-governments. According to this respondent, the extension of the scope of effect of the act was not systematic since it did not include all comparable categories

of public servants, and several provisions of the act do not apply to many public servants, corrupting the constitutional rule of equality of relationships of public bodies (e.g. the mayor-municipal council relationship). The respondent was afraid of politically motivated attacks on political opponents in self-governments and has criticised the concentration of supervision and control rights in the hands of the Parliament in the cases of public servants nominated and responsible to other constitutional bodies. According to this evaluator, the National Council of the Slovak Republic has, in the end, approved the constitutional act on conflict of interests in such a form that by adopting very flexible criteria it has practically excluded itself from the scope of effect of the Act.

Other Measures

Dissolution of the Tripartite Social Partnership Act (Government's advisory body - Board of Economic Partnership and Social Partnership of the SR established; voluntary social dialogue; Amendment to the Devolution Act)

The members of the National Council of the Slovak Republic have associated themselves with the governmental proposal and on September 22nd, 2004, they have approved an amendment to the Act on Organisation of Activities of the Government and on Organisation of Central State Administration (the so-called big competence act), dissolving the Act on Economic and Social Partnership Act (the so-called Tripartite Act) and establishing the Board of Economic and Social Partnership of the SR as a permanent advisory body to the Government in the area of economic and social partnership.

Subsequently, the dialogue between social partners started to flow on a more flexible basis based on "voluntariness", it is no longer bound to legal provisions and more trade and employer unions and groups can participate.

The Government has included restricting corporativism in its Programme Declaration. According to Daniel Lipšic, Minister of Justice, who proposed dissolving the law-based Tripartite at the end of 2003 and beginning of 2004, the situation in which two groups, no matter how important, were preferred in asserting their interests in the Government at the expense of others was non-standard. Pavol Rusko, Minister of Economy, submitting the Amendment to the Parliament, expressed his opinion that the former Tripartite did not meet its purpose and had to be dissolved due to political activities of the trade unions.

The European Union does not require compulsory social dialogue regulated by law and existing at the governmental level. In most European countries, the Tripartite is an advisory body to the government; in several countries it holds significant positions also reflecting certain traditions.

The representatives of employees and employers represented in the Tripartite considered the dissolution of the Tripartite Act to be the death of social dialogue in Slovakia and dictatorship of the Government to the social partners. According to them, the new social dialogue based on voluntariness negates the principles of democracy by not reflecting the representative positions of trade and employer unions. Finally, the new Statute of the Board of Economic and Social Partnership defined that the representatives of the employers will be the representatives appointed by representative associations of employers uniting employers from several economic segments and with at least 100,000 regular employees. The representatives of the employees are the representatives appointed by representative associations of trade unions representing at least 100,000 employees that are union members.

Evaluation of the Experts' Committee:

The majority of the Experts' Committee has agreed with the dissolving of the Tripartite Act that formalised social dialogue at the highest executive level and was already obsolete. According to experts, the former Tripartite lost its reason for existence. It has become a place where certain members from the side of employers pursued their own particular interests and the trade unions have often extended the lawmaking process, being more interested in politics than in performing their tasks in protection of employee rights in companies. Social partners should have no decisive rights in lawmaking. According to the new Statute of the Board of Economic and Social Partnership of the Slovak Republic, the Board is an advisory body to the Government and approved opinions of the social partners will serve as recommendations for the Government. Since the opinions approved will not be binding for the Government, it will depend on all social partners to reach consensus acceptable to all parties in negotiations. The experts have found it positive that the privileged positions of the Confederation of Trade Unions of SR and of the Association of Employer Unions and Associations of SR in the social dialogue were terminated. In the new situation, several trade and employer organisations meeting the conditions specified by the Statute of the Board will be able to participate in the dialogue, potentially supporting overall revival of the social dialogue. Several respondents expressed their hope that the new Board of Economic and Social Partnership of the SR will perform better than the former Tripartite, creating more space for cooperation in creation of policies, acts and regulations with stronger participation of social partners.

Some experts believed that former social partners have failed to be sufficiently qualified partners to the Government in enforcing the necessary reform measures. In their opinion, the only result of the functioning of the Tripartite was wasting of time of the ministers. The Government did not believe in the meaning of the Tripartite. By removing this formality, the trade unions lost the stick they could use to hit the head of the Government and for employers, it is no longer necessary to

define who should represent them in the Tripartite as a representative body. Several respondents would like the Government to be rigorous and courageous and to also dissolve the Board of Economic and Social Partnership of the SR, removing the camouflage – pretended social dialogue.

A minority opinion occurred in the evaluation not considering the dissolution of the Tripartite to be a good signal due to the fact that it came from the arbitrariness of the Government. In this opinion, the Government has an unwritten duty to cooperate with partners at all levels.

Slovakia and the European Union

Slovak Parliament's Resolution to Application of Transition Periods on Free Movement of Labour in EU Member States Starting from May 1st, 2004 (disagreement of the Slovak Parliament with old EU member states' protective measures on labour market against new EU members)

On March 4th, 2004, the members of the Slovak Parliament approved the Resolution of the National Council of the Slovak Republic to Application of Transition Periods on Free Movement of Labour in EU Member States after May 1st, 2004, in which they asked the Government of the Slovak Republic to express official and strong disapproval of restrictions of free movement of labour to labour markets of EU Member States and asked the Government to notify its opinion to the governments of the countries that adopted such restrictions.

Before the May extension of the EU, free movement of labour was one of the most controversial and discussed topics. Already at entry negotiations with the candidate countries, many Member States claimed a transition period during which any Member State of the Union, including new members, may restrict the employment of workers from other EU countries. It has been decided that before the end of the second year after the entry, the Member States will elaborate an overview of the functioning of internal protective measures and a proposal of whether they wish to keep the protective measures for another 3 years or to enjoy free movement of labour and submit them to the European Commission. After 5 years, the Member States may only extend the restrictions of their labour markets in the case of significant disequilibrium at their labour markets. They must also submit evidence that the workers from new Member States still represent a risk for their local labour markets. Even if an EU Member State opens its labour market to the citizens of new Member States without any restrictions, at anytime within 7 years following the entry of the new countries into the EU they may introduce protective measures.

Already at entry negotiations, several countries declared that they would enforce no restrictions of access to their labour markets. However, they started to rethink and change these declarations. Finally, after the extension of the EU, it is only Sweden, the United Kingdom and Ireland who use no transition periods; however, the two latter countries have tightened the access to social benefits to employees from the new Member States. Germany and Austria, on the other hand, are the strongest supporters of restricting of inflow of labour from the new EU Member States. They are resolved to using the protective measures for as long as 7 years. France expects a 5-year transition period. Other countries of the EU-15 use a 2-year transition period for free access to the labour market for the 8 new Member States of the former communist bloc (restrictions do not apply to Malta and Cyprus); several Member States restrict the issue of work permits by quotas or condition the issue of a work permit by lack of local applicants for the position.

Restrictions do not apply to persons legally employed in the EU for at least 12 months before May 1st, 2004 and to their families. Old EU Member States have subsequently introduced a preference of citizens of the new Member States to labour from non-EU countries. The Slovak Republic may also introduce internal measures to the citizens of any of the old and new EU Member States, but unlike the Czech Republic, Slovenia, Poland, and Hungary, the Slovak Republic has not even considered it. The three mentioned countries decided to apply reciprocal restriction measures to labour from old EU Member States. The new members have not restricted the access to their labour markets to one another.

Restrictive measures against newcoming countries are not a novelty in the extension of the Union. In the past, such measures were imposed on Greece, Spain and Portugal. Transition periods of 7 to 10 years were subsequently shortened when the countries learned that fears of flooding the labour markets in other EU countries were not well founded.

According to a recent Eurobarometer study, even with complete freedom of movement of labour, the migration of people from EU-10 countries to EU-15 countries would represent approximately 1% of the total working population of the new Member States in the coming 5 years. The analysis of the British University of Manchester also shows that there is no reason for great fears of massive migration of cheap, unqualified labour from the new Member States to the West. The will of inhabitants of the new EU Member States to move to their labour is low and the main migration wave already occurred before 2004.

Eduard Kukan, Slovak Foreign Affairs Minister, asked to reconsider the introduced transitional restrictions. In his opinion, development has shown that no masses that would flood the labour markets in the original EU Member States leave the new Member States. He accented that in Slovakia, labour restrictions are accepted negatively, with this question also being very important from the viewpoint of understanding the importance and functioning of the EU.

Evaluation of the Experts' Committee:

All members of the Experts' Committee see the use of transition periods on free movement of labour from the new EU Member States to the labour markets of the old EU Member States as a negative fact. However, the experts did not share the same opinion on the meaningfulness of the protest resolution of the National Council of the Slovak Republic to this area.

In the opinions of many experts, strong protest was necessary since the transition periods from the side of old EU Member States create unbalance and break the basic principles of functioning of the common market that also assumes free movement of people and thus, of labour. Further development at the EU labour markets, real interest of inhabitants of Central and Eastern Europe and reasonable political pressure on EU States will be important. From this point of view, the resolution of the National Council of the Slovak Republic was considered as basically positive and pragmatic, without unnecessary countermeasures or strong declarations. Professionals hope that the old EU Member States will soon reconsider their protective approach and open their labour markets. It is necessary to negotiate, to say aloud that those restricting the access to their labour markets are damaging themselves. It may well be the old EU Member States who need real liberalisation of the labour markets more than the new EU Member States who have more flexible labour markets. Administrative protective measures have never increased anyone's competitiveness.

According to the critics, the resolution of the Slovak Parliament was useless and populist to the Slovak electorate since it was the National Council of the Slovak Republic who approved the Accession Treaty to the EU according to which EU Member States enforce labour restrictions. Critics say that at its time, such declaratory disapproval was useless and the members of Parliament and the Government should have remembered earlier, during the negotiations with the EU when they should have participated in the discussions more critically and actively. Everyone knew that neither Slovakia nor other new EU Member States appreciate these restrictions.

Proposal to Reform the European Union's Subsidies on Sugar Production and Export (cutting the subsidised quota on sugar production; cutting guaranteed price of sugar; reducing spending on export subsidies; sale of production quota within European Union possible; compensations to farmers and sugar producers)

On July 14th, 2004, the European Commission (EC) submitted a proposal to reform the system of production and export of sugar in the EU. It is the first ever attempt to reform the sugar policy of the Union since 1968. The current system is consistently criticised by the whole world. It is said to support incorrect allocation of resources, damage economic competition, damage developing countries, and disturb the environment. It is unfavourable for the consumers and taxpayers.

Currently, the EU budget pays EUR 1.72bn to cover the sugar regime. The EC agreed on a proposal to reform the system by two substantial measures. First, the **sugar production quota shall be reduced** from 17.4m tons to 14.6m tons within 4 years (2005 to 2008). As the second step, a **reduction of the guaranteed sugar price** from EUR 632 per ton to EUR 421 per ton, i.e. by 33%, was proposed. The change should be made in two steps. A similar reduction should apply to the minimum price paid to the farmers for sugar beets. The price per ton of beets should decrease from the current EUR 43.6 to EUR 27.4 (approximately SKK 1,100) over two periods.

To **compensate** the sugar beet farmers for 60% of the loss of income (loss) caused by the reform, the EC suggested separate payments for the farms. These will go to every farmer who produces beets within a set quota; however, its amount will not depend on the production volume.

Sugar producers who will become non-competitive and terminate their activities due to a decrease of the sugar price will be authorised to claim similar compensation. The payment of EUR 250 per ton of sugar produced will be paid to declining companies only once and the EU will not co-finance more than 50% of the subsidy, the remainder to be paid by the state budgets.

The Intervention Price will be replaced by a so-called reference price, serving to specify the minimum price for producers, to open a private warehouse, to set levels of protection of borders and the guaranteed price for the system of preferential import.

The reform submitted by the EC also regulates the **opportunity to transfer (sell) the production quota between companies in a single country and within the internal EU market**. This should transfer the production from the less productive EU countries to the Member States that can produce sugar more efficiently.

A substantial **reduction of export subsidies expenses** and the end of payment for production of chemical and pharmaceutical companies should form savings in the budget of the Union. The highlighted aspect is that the export support payments of the Union will be much lower than today

– EUR 1.3bn. It is also expected that due to higher competitiveness of European production of sugar, import from countries in the import preferential regime will increase – especially from African developing countries by 500 thousand tons, from 1.9m tons to 2.4m tons. It is also expected that due to reduction of quotas and minimum prices, the production of sugar will discontinue in several regions of the EU.

According to the Agriculture Commissioner, full liberalisation of the EU sugar market would most probably liquidate the production of sugar in the EU and would be against the interests of weaker developing countries that can not compete against the strong ones such as Brazil, potentially taking the free positions at the market. It is necessary to find a compromise solution that the reform should bring.

The reform will also influence Slovak sugar producers. Within the transfer of quotas, it will be possible that foreign owners of Slovak sugar producers will transfer the production quotas to more efficient countries of the EU (however, this is also valid vice-versa – quotas from abroad may be transferred to Slovakia).

Besides from Germany, France and Poland, the original proposal of the EC was finally disapproved by Finland, Greece, Ireland, Latvia, Lithuania, Hungary, Slovenia, Portugal and Spain. In November 2004, the ministers of agriculture of EU Member States finished discussing the proposal of the EC with the aim of postponing the beginning of the reform, planned for July 2005. At the end of April 2005, the World Trade Organization (WTO) accepted the complaint of three countries (Australia, Brazil and Thailand) who claimed that the EU broke WTO rules by selling sugar with excessive subsidies on world markets. WTO decided that subsidising sugar exports deforms the world price and steals income from the competition. This is why the EC had to submit their (another) sugar regime reform proposal, this time in accordance with WTO requirements. This new proposal of the EC counts on reduction of guaranteed prices of sugar in two steps by 39% and of sugar beets by 42%, beginning in 2006/2007. One can see that the reduction is lower than in the previous proposal. The proposed reform also includes a voluntary restructuring plan for less competitive producers, helping them to leave the sector.

Evaluation of the Experts' Committee:

Almost all experts expressed their positive opinions on the effort of the European Commission to reform the system of support of production and export of sugar in the European Union. The proposal to reduce the subsidised quota for a volume of production of sugar, reduce the guaranteed minimum price of sugar and the proposal to reduce the export subsidies expenditure were accepted positively and considered to be a good compromise by experts. The approval could mean a step forward to further reforms at the EU agricultural market, creating competitive conditions and removal of huge subsidies for the inefficient agricultural sector. The experts have agreed that the scope of changes is insufficient. Though there may be a certain reduction of the sugar price after the approval, it will only be a cosmetic change. The compensations to farmers and sugar producers forced to close their non-competitive operations due to the reform should be cancelled.

The reform will also bring unpleasant effects. People from the sugar producing business, including Slovak producers, will have to bear their pain. However, the influence of the reform will be heavier for the traditional producers from original EU Member States.

On one hand, professionals said that the proposed reform is a small but positive step seen in the effort to improve the current status; on the other hand, they accentuate that the sugar regime and the entire Common Agricultural Policy (CAP) of the European Union are meaningless. They rob the citizens of the Union and deform the competitive environment. The system is already "over ripened" and presents an unsustainable problem that even the World Trade Organization (WTO) is trying to fight. This regulation of the agricultural sector should not have been introduced at all and several experts supported its cancelling as soon as possible.

Draft Amendment to the EU Directive on Working Time (restricted possibilities of working overtime; strengthening the influence of collective bargaining)

On September 22nd, 2004, the European Commission approved a proposal to modify the key aspects of the Directive on Working Time. The basic criteria that the Directive should have considered were securing of a high standard of health protection and employee safety at work in relation to work time, prevention of unreasonable requirements of certain employers regarding their employees and last but not least, more regard for the work time and family lives of the employees.

According to valid law, the EU permits a working week of a maximum of 48 hours. Based on an agreement of the employer and the employee, there can be a voluntary extension of the working time (the so-called "opt-out"). The modification of the Directive in the form proposed by the commissioner for employment and social affairs wanted to restrict the possibility of voluntary agreement of the employer and the employee. For example, the employer would not be able to obtain consent with extension of working time at the time of signature of the employment contract and the employee would be able to withdraw their consent at any time. The working time could only be extended in the collective agreement on the basis of agreement reached at a meeting of the management of the company and of the trade union or on the basis of a collective agreement valid for a certain sector.

Another change to be brought by the Directive was the extension of the reference period from a maximum of 4 months to one year. The reference period represents the period during which the average number of hours worked per week is calculated. The proposal was based on the fact that companies with seasonal fluctuation of demand require a more flexible organisation of working time.

The proposal of the Directive created a new category of being on standby, the so-called non-active part of working time. During this time, the employee is present at his position but does not perform his duties – usually, this applies to doctors in emergency wards, fire brigades and paramedics. The proposed Directive left the decision as to whether or not to include such time into the working time to the Member States.

Number of Hours Worked	
Country	*(hours worked per year)*
Czech Republic	1972
Poland	1956
Slovakia	**1814**
Japan	1801
USA	1792
Canada	1718
Great Britain	1673
France	1453
Germany	1446
Netherlands	1354
	Source: daily SME, OECD

The representatives of the employees welcomed several more liberal parts of the proposal, but on the other hand, they requested the removal of the restrictions and criticised the stronger position of trade unions and collective bargaining. The trade unions criticised the new Directive as well. They were interested in a wider restriction of exemptions under which the maximum working time can be extended.

On the contrary to the Amendment to the Directive submitted by the Commission, the members of the European Parliament approved a wording that would fully ban work exceeding 48 hours a week. Within 3 years after the effective date of the Directive, no worker could, in a yearly average, work for more than 48 hours a week, independently of the number of employment contracts (employments).

After the decision of the EP, the Directive returned to be discussed by the European Commission. In a new proposal, the Commission also proposed to cancel national exceptions from 48-hour working time and decreased the maximum number of hours worked in any week by 10 hours to 55 hours per week. On the other hand, Member States could keep their individual exemptions according to the proposal of the EC if they substantiated their application sufficiently. According to this proposal, any exemptions from maximum working time could only be agreed by the employer and employee with participation of the trade union. The proposals of the EP and the EC both faced disapproval of the members of the Council of Ministers of the EU for Employment, Social Affairs, Health and Consumer Protection. Several Member Countries rejected the restriction of the exceptions – besides Slovakia, also the United Kingdom, Luxembourg, Poland, Malta and Germany; the cancelling of exceptions was supported by Sweden, France, Greece, Belgium and Hungary. At the meeting of the Council of Ministers of June 2nd, 2005 this modified and proposed Directive was blocked and the discussions on the regulation of maximum overtime will continue in the further lawmaking process.

Evaluation of the Experts' Committee:

Within the HESO Project, the expert's committee provided a negative opinion on the proposal of change of the European Directive on Working Time. The professionals considered the proposal to limit the opportunity to enter into agreement on extension of the maximum working time and

support of collective bargaining in this area to be a useless barrier that would not improve the conditions for employees or reduce unemployment but, on the contrary, it would significantly reduce the flexibility of employment relationships. The labour market of the European Union needs more flexibility and this can not be reached through similar proposals. With such measures, the struggle for higher competitiveness of the EU according to the Lisbon Strategy can only remain on the level of nothing but words. A part of the respondents marked the proposed regulation as an example of an act with a socialist soul. The legal requirement of consent of a trade union with extension of a working week (over 48 hours a week) would complicate the situation of companies that schedule works to shorter periods or have seasonal work. To achieve higher competitiveness, companies need to have the opportunity to set a working week higher than 48 hours upon agreement with the employee without participation of any third party.

The arguments of the supporters of the regulation that restricting of the working time would increase the protection of the employees were based on the still widespread and nourished perception of an employee as a tyrannised worker and the employer as the cold-hearted exploiter. In modern economies, this myth has no real substance. The employment relationship, scope of work and compensation for it need to be based on a voluntary agreement of an employee and an employer, favourable for both parties. If a person is willing to work more than others, it is senseless for anyone (e.g. the trade union) to prevent him from doing so and to claim doing it for the benefit of the employee.

A small part of the experts supported the regulation of working hours. This applies to situations where the weak (employee) meets the strong (employer). When discussing extensions of working time, the employers have an advantage; should the employee be dissatisfied with the decision of the employer, they could lose their job. The partners would be more equal if the agreement was a result of collective bargaining. According to one of the respondents, the competitiveness of companies and economies should be based on factors other than absolute freedom in employment relations.

2005 Budget of the European Union (budget deficit of EUR 10.2bn; expenditures amounting to EUR 116.5bn; revenues of EUR 106.3bn; 42.7% of expenses for agriculture; 36.4% for structural actions)

On December 16th, 2004, the European Parliament (EP) members granted the final approval to the budget of the enlarged 25-member EU with a planned deficit of EUR 10.2bn. The EP approved expenses of EUR 116.5bn, increasing them by 6.1% compared to 2004. The approved payments of the Member States to the EU budget represent EUR 106.3bn (1.004% of the estimated Gross National Income (GNI)), which is 4.4% more than in 2004. The increase of expenses was mainly due to full inclusion of the new Member States and due to financing of European priorities, such as the support of the Lisbon Strategy, support of freedom, peace, justice and strengthening of informing EU citizens on the questions of the future of the Union.

The approved payments to the budget on the level of approximately 1% of the GNI of the European Union were lower than the requirements of the European Parliament and the European Commission.

The largest part, 42.66% of the total expenditure, will traditionally belong to agriculture. The expenses for agriculture were planned in the amount of EUR 49.7bn, representing a 10.2% increase compared to the previous year. Structural activities, usually serving to balance regional differences and to help new or less developed Member States, will receive EUR 42.4bn (36.4%). Internal policies, such as the war on terrorism, health care, consumer protection, research, education, culture and transportation, will consume EUR 9.1bn. Expenses of EUR 5.2bn are planned for the areas of common foreign policy, targeting the restoration of peace and democracy and containing substantial aid to Iraq already for the second year. The budget also includes expenses for pre-accession aid. The planned amount of this aid is EUR 2.1bn.

This has been the first full-year budget for a 25-member Union that was approved with full participation of the Slovak representatives. It is also thanks to this budget that in 2005 Slovakia can obtain approximately SKK 25bn if it successfully disburses the money dedicated to European fund projects.

According to the statements of several Slovak representatives, the budget should have been more generous to the new Member States of the Union. The EU invests substantial money in third countries; however, the sooner the new Member States reach the level of the old Member States, the sooner they will be able to support the development of the less developed countries of the world.

Evaluation of the Experts' Committee:

The budget of the enlarged EU brought critical reactions of professionals. Experts criticised the EU for failing to find courage to perform the necessary reform of expenses. A pro-reform drive of the European leaders is missing. The largest negative of the budget is considered to be the deficit and the too high spending on agriculture and its regional targeting. One of the respondents commented ironically that from the viewpoint of development of our civilisation, investing into picking of forest fruits and hunting of game is the only thing worse than investing into inefficient agriculture. The deficit of the budget will increase the requirements on the Member States in covering it. There was no visible activity in the area of the EU's own income. Also, the goals of the budget were criticised for being too general.

In several opinions, from the viewpoint of Slovakia the approved amount of expenditure for support of underdeveloped countries and regions was a negative. One of the respondents considered the 6% growth of total budget expenses to be insufficient for the financing of the enlarged EU, for the support of the Lisbon Strategy and informing of citizens.

At the beginning of June 2005, the EP approved its own proposal of EU budget forecast for the coming 7-year period of 2007-2013. According to this proposal, the Union should use the amount of EUR 975bn, which is 1.18% of its GNI. The European Commission proposed payments of the Member States of the Union on the level of 1.23% of the GNI while Luxembourg, leading the Union, proposed 1.06% of the GNI. The final 7-year budget framework should have been decided by the Brussels summit of the EU in June, however, the highest representatives did not reach agreement. A rising agreement was blocked by Great Britain together with Finland, the Netherlands, Spain and Sweden. According to information in the media, the main reason for blocking an agreement on the budget was the dissatisfaction of Great Britain with the freezing of the so-called budget rebate (reduction of its contribution to the common budget of the EU). The British Prime Minister Tony Blair conditioned the decrease of the rebate by discussing the Common Agricultural Policy and too high spending of the Union on agriculture. However, France opposed. The Netherlands was dissatisfied with the highest net payment to the EU budget per capita. Sweden had similar reasons for voting against. The new budgetary framework for 2007 to 2013 was also opposed by Spain – up to now the biggest net receiver. The new Member States of the Union, including Slovakia, were highly interested in approving the budgetary framework. These countries tried to save the agreement by an unplanned proposal that they were willing to give up a part of the contributions from the EU budget that were already approved. Still, this initiative was not successful and several participants expressed their disappointment in the approach of the rich Member States.

Relaunch of the Lisbon Strategy from the Year 2000 (new strategy to support economic growth and employment in the EU; focusing on fewer objectives and removing time intention – year 2010 – to achieve the most competitive economy in the world; accent on the so-called knowledge-based economy – backing education, science, research, innovation and improving the quality of human capital; creating more and better job opportunities; responsibility of each member state for Strategy implementation – elaborating own national Lisbon strategies and action plans; creating national co-ordinators)

At the beginning of February 2005, the European Commission (EC) presented a proposal to reform the Lisbon agenda. The aim of this step is to improve the chances of a successful implementation since according to the representatives of the Commission, the original plans of 2000 failed.

The need to revise the Lisbon Strategy was clearly declared in the critical report of the workgroup analysing the condition of the "Lisbon". The report said that it was necessary to concentrate more on economic growth and employment. It stated that too many goals can not be reached. The responsibility for the failure is borne by the Member States, mainly due to lack of courage and political will. The enlargement of the EU did not support the reaching of the Lisbon aims either. New Member States, though with a high potential, start from a low base.

The Commission defined a specific action programme for the EU and its Member States in order to create permanent economic growth and a higher number of better employment opportunities. The unrealistic goal to overcome the USA in terms of competitiveness by 2010 was deleted from the proposal by the Commission.

The renewed Strategy did not bring a lot of new contents. Its main priorities are: **make Europe a more attractive place for investments and work, support obtaining knowledge and innovation to induce growth and create more and better job opportunities**.

Another step leading to revision of the original Lisbon Strategy was the creation of the positions of national coordinators. Besides, each country should elaborate one action plan of its own and one implementation report. This strengthened the responsibility of the states, promising a better result of the new Strategy compared to its original version. Once a year, the Commission will evaluate and compare the fulfilment of aims with the Member States.

According to Mikuláš Dzurinda, the Slovak prime minister, the Strategy is a good tool that can lead to increased competitiveness of the EU and to a higher quality of life of our people. He believes that a knowledge-based economy, investments in human resources, and building of an education-based competitive economy is the best way for Slovakia as well. The Government of the Slovak Republic believes that this Strategy can only be successful if it concentrates more to growth of competitiveness and employment with respect to the rules of sustainable development.

5 years ago, the original Lisbon Strategy set the goal for the EU to become the best performing knowledge-based economy in the world, to reach an average economic growth of 3% of GDP per year and to create 20 million new jobs, all by 2010. The Union has also undertaken to increase the spending on science and research to 3% of GDP. The representatives of the EU agreed that for reaching these goals, it will be necessary to concentrate on the transfer to a knowledge-oriented economy and society by supporting the information society, research and development, as well as by speeding up the process of structural reforms for the competitiveness and innovation and completion of the building of the common market. The second target area was to modernise the European social model, invest into human capital and fight social exclusion. The third area of the original Lisbon Strategy was a sustainable and healthy economic situation and growth by applying a suitable mix of macroeconomic policies. In the middle of the implementation phase (year 2005), many critics noted that no progress is visible in the reaching of the Lisbon targets.

The London-based Centre for European Reform (CER) elaborated a report (Lisbon Scorecard V), evaluation of EU countries from the viewpoint of fulfilling of the original Lisbon Strategy according to its areas.

Evaluation of the EU countries performance in areas of the Lisbon strategy

	Rating	*Heroes*	*Villains*
Information society	B	Denmark, Estonia, Slovenia	Bulgaria, Greece, Romania
Research and development	C–	Finland, Slovenia, Sweden	Greece, Poland, **Slovakia**
Liberalisation of telecoms and utilities	C+	Latvia, Great Britain	Germany, Italy, **Slovakia**
Liberalisation of transport	C+	European Commission	Belgium, Spain
Liberalisation of financial and general services	B–	Great Britain	France, Italy
Business start-up environment	C	Ireland, Spain	Greece, Portugal
Regulatory burden	C+	**Slovakia**, Great Britain	France, Italy
State aid and competition policy	C+	Estonia, Latvia	Germany, Poland
Bringing people into the workforce	C	Cyprus, Denmark, Sweden	Belgium, Poland
Upgrading skills	C+	Finland, Poland	Italy, Malta
Modernising social protection	B–	Czech Republic, Sweden	Belgium, Ireland, Great Britain
Climate change	C–	Germany, Netherlands	Portugal, Slovenia
Natural environment	C	Finland, Sweden	France, Ireland
Overal assessment of the EU	**C**		
The Lisbon process assessment		**Sweden**	**Italy**

Note: the "A" grade stands for the best rating

Source: Centre for European Reform, weekly TREND

The leaders of EU Member States have discussed and appraised the proposal of the revised Lisbon Strategy at the March EU summit in Brussels. Based on the results of the summit, on April 12th, 2005 the EC submitted the integrated guidelines on the basis of which the Member States will elaborate their 3-year national reform programmes to fulfil the targets of the Lisbon Strategy. Reform programs must be submitted by the Member States to the European Commission no later than on October 15th, 2005, and these programmes must mark the most emergent challenges for their economies and explain what steps they will take to face these challenges. The Member States will be obliged to report to the EC on the performing of the tasks each autumn. In January 2006, the EC will elaborate a development report that can serve as a basis for the adjustment of said integrated guidelines.

Evaluation of the Experts' Committee:

Most experts in the committee consider the revision of the Lisbon Strategy of 2000 to be a good step. In 2000, the European Union set a courageous and ambitious aim in this document – to become the most competitive economy in the world by 2010. To prevent profaning of the Strategy and support its implementation, an expert group was created that reconsidered the aims of the Strategy, with the final evaluation of real implementation clearly showing that most EU countries were lagging behind. The new Member States, ironically, are closest to reaching the Lisbon aims. The beginning of the process of reconsidering of the targets of the Lisbon Strategy was just a question of time.

The new Strategy, targeting support of economic growth and employment in the EU without setting a time schedule and with emphasis on the knowledge-based economy, is considered to be better than its original version by a large proportion of professionals. It provides a real view of the current situation, yet its targets are still sufficiently ambitious. The transfer of responsibility for elaboration of specific plans to a national level is perceived very positively. One of the problems in the Strategy, however, is that it sets the aims without analysing the causes of the problems. Despite the aforesaid, in the long term, the revised Lisbon Strategy can be considered a step in the right direction. Its text is significant at least for the setting of targets, horizons and vision of a common platform, though reminding many of the old "perestroika" times.

With regard to the demographic development in Europe, the aim to rebuild EU into most competitive economy in the world within a few years is viewed sceptically. Apart from the USA, there is a high development potential in countries like China and India, and the membership of the new EU Member States, expected accession of Romania and Bulgaria and the high increase of immigration to Europe means, according to critics, no chance of achieving the aim within a horizon of several decades. The European Union should not accept any time horizons for becoming the most competitive economy in the world as stated in the previous wording of the Strategy. First, the conditions for doing business must change in the EU and the position of state influences on the economy must weaken. Certain experts see the problem of the EU in the socialist governments of several, mainly large, European countries and their inability to push the aims of the Strategy through and to start the necessary structural reforms in their countries. According to several experts, the language of the document is now more a language of modernisers; however, these have no majority in the executive positions and, above all, have no strong political background on a Europe-wide or national level. From time to time, the spirit of the "old Europe" can be found in the document, e.g. in the classical bad habit of propose newer and newer institutions instead of proposing real solutions, in the mixing of targets with tools, etc.

According to several experts, from the economic point of view it is reasonable to concentrate on development of human capital and technological progress. With an inefficient implementation, the economic costs can be higher than the benefits. In the opinion of many experts, however, the main failure of the Strategy is that it treats key questions as marginal or does not treat them at all. Investing in human capital or infrastructure of the information society is beneficial beyond all doubt, but Europe currently needs a reform of the traditional institutions of a social state – social systems, health care and pensions. These changes will be painful especially for the economies with strong social orientation that will have to cut their too generous social programmes. And the longer they defer these necessary changes, the stronger and more painful they will have to be.

According to the criticising expert, the Lisbon Strategy is no more than a meaningless declaratory activist paper since the largest EU economies do almost nothing to increase their competitiveness. The Lisbon Strategy has become another document of the European Commission that lost its authority in decisions sharply inconsistent with its main idea – for example, the disagreement of the large EU Member States with the original, more liberal proposal of the Directive on Services *(see below)*. Logically, questions related to the sense of creating such documents arise.

One of the respondents expressed their fear that individual Member States will compete in fulfilling the targets of the Strategy on a national level, thus building internal competition between these countries instead of building a European competitive environment as a whole. A singular opinion that the revised Lisbon Strategy was losing, above all, its original dimensions in the social area was presented.

Proposal for a Directive on Services on the Internal Market (reduction of obstacles for undertaking in the area of services; exemption from directive in case of services such as public administration, education, financial services, public transportation, electronic communication services; domestic country principle when not settling down in another EU member state – providing services in the entire EU after fulfilling legal requirements of the home country, but also with obligation to respect minimum wage, health and safety regulations and standards in the host country)

The aim of the Directive is to remove legal and administrative barriers and thereby to create a real internal market in provision of services and to support the development of services between Member States. The removal of barriers in provision of services between the Member States should be of crucial importance for the support of integration of the EU and of a balanced and sustainable economic and social progress.

The Directive aims at removal of barriers of doing business in the areas from IT services to electricians. The proposal was related to all services of the private sector, however, it did not relate to areas like public administration or education that are not of a purely "economic nature". It also did not apply to financial services and transportation. Electronic communication services were only subject to this Directive if the regulatory package on electronic communication services of 2000 did not apply to them. All transport services belonging to the public transport policy framework, including city transportation and port services were excluded from the scope of effect of the proposed Directive. The proposal only planned to cover two types of transportation services – transport of valuables by security companies and transport of deceased persons. On the other hand, the Directive did apply to "public" services of an economic nature, such as health and social services, postal service, supplies of electricity, gas and water, which according to the proposal should have been liberalised within the internal EU market. For these services, the Member States could keep relevant measures related to quality, availability and performance of services. In such case, the domestic country principle would not apply to the provision of service.

The proposal of the Directive treated various forms of provision of services for the cases that:

- The provider settles in another Member State,
- The provider temporarily moves to the country where the customer is located,
- The provider provides services over a distance, from their domestic country, for example over the internet, by telephone or by direct marketing.

To services provided without settling in a different Member State, the proposed Directive applied the **Domestic Country Principle**. Providers of services should have the opportunity to provide services in another Member State upon meeting administrative and legal requirements in the country they are established in. No meeting of other conditions, such as authorisation or declarations when crossing the border would be required. Practically, this would mean that a company might provide services in the whole EU only upon adhering to the legal standards of the domestic country and would not have to meet various conditions in other Member States. In this point, the proposal contained numerous exceptions from the Domestic Country Principle, such as protection of public health, consumer protection, protection of workers and exceptions valid for extraordinary circumstances in individual cases. In such cases, the provider of the service would have to meet the rules and regulations of the country in which they provide services. The proposal set the **obligation to adhere to the minimum wage, working time and health and safety measures in the host country**.

The Domestic Country Principle should not have applied to **services provided when settled in another Member State**. These services would have to **adhere to all rules of the country**. Settling means creating fixed infrastructure, such as a permanent office or operation that actually performs economic activities. In the case of any service provided from fixed infrastructure and operated by the provider permanently, the provider would be subject to all rules and regulations of the relevant Member State.

The proposal of the Directive simplified the administrative procedures, including the obligation of each Member State to guarantee that potential providers of services will have easily available information on relevant legal and administrative requirements, and can complete all formalities and procedures at a single contact point despite communicating with several bodies.

Changes should have also applied to licensing processes. Setting limiting conditions for settling, such as discrimination on the basis of nationality or place of residence of the shareholders and managers and ban on settling in several member states, were considered unacceptable by the proposal of the Directive.

According to the EC, the real common market with services should have become a reality in 2010. That was when all potential transition periods were to end.

Despite the existence of consensus on the need for opening of the services market, the proposal of the Directive found resistance especially by the older and large Member States (mainly France). They asked to exclude other sectors from the scope of effect of the Directive (especially health services, public services, construction services). The key Domestic Country Principle was also endangered. According to the current commissioner for the internal market Charlie McCreevy, the one year old original proposal prepared by the previous commissioner Frits Bolkestein was impassable and needed to be redone in cooperation with the Member States and the European Parliament.

The ideas on the need for redoing the proposed Directive were based in the fears of France, Germany, Austria, Belgium and Sweden of competition of providers of services from other Member States in which provision of services is less expensive. These countries claimed that provision of services by companies from new Member States from Central and Eastern Europe subject to the conditions specified in the national laws of these countries would endanger the jobs and companies in the original EU Member States.

José Barroso, Chairman of the European Commission, supported the Domestic Country Principle in the Directive on Services. In his opinion, the common internal market does not reflect the needs of a modern business sector, and the largest potential for growth and employment is currently in services. According to Slovak Minister of Finance Ivan Mikloš, liberalising the services sector in the EU would reduce costs, bring significant improvement of the competition in the sector and allow most EU inhabitants to benefit from better and less expensive services.

Evaluation of the Experts' Committee:

Most members of the expert's committee considered the proposed European Directive on Services to be a very important measure. Liberalisation of provision of services would be a great benefit. Reduction of barriers of doing business in services and introduction of the Domestic Country Principle, which is an opportunity to provide services throughout the EU on the basis of meeting the legal requirements of the domestic country, represents a basic step towards the fulfilment of the mission of the European Union and one of its basic freedoms – freedom to provide services. The implementation of the regulations and conditions specified in the proposed Directive would obviously lead to development and reduction of prices of services (especially by entrepreneurs from new Member States). Small companies providing services would face lower costs and would be allowed to expand more significantly since it is these companies for whom the administrative costs related to obtaining permits in every single state block their cross-border activities. In the end, the Directive could considerably support the revival of the economic growth of the EU.

Together with a positive evaluation of the proposed Directive, professionals raised serious objections against comments of economically strong countries of the Union, especially France. The exceptions that they required and due to which the proposal was withdrawn and redone, represent a significant shift in an undesirable direction. The scope of exceptions should be the smallest possible, and several respondents did not agree, for example, with the exclusion of services in education and restrictions on activities of foreign accredited universities in another EU Member State. The disapproval of the original proposal of the Directive on Services is a major and serious mistake. Though the Directive is still being redone and it is not clear what the final version is going to be, especially after influences of old EU members, above all, Germany and France, but most experts were sceptical that the new Directive will be significantly worse than the originally proposed version, although the original already contained meaningless exceptions and restrictions. One of the respondents expressed their opinion that if the representatives of the European Union are unable to solve a basic problem of the internal market, they should not enter a knowledge-based economy, comparing it to a situation of a person wanting to make their living from explaining the e=mc2 formula without being able to remember the basic physical relationships – such as s=vt (distance is the product of speed and time).

One of the experts admitted the relevancy of the fears of developed countries for which the Directive would be a certain danger. However, the rules of the liberal economic market are rough and the stronger and more efficient providers of services win. Globalisation must take place in this sphere as well as in areas where certain services are protected by local interest groups.

Relieving the EU's Stability and Growth Pact Rules (allowing "temporary" and "soft" exceeding of the 3% of GDP threshold for fiscal deficit; defining the sphere of factors for which exceeding is allowed)

At the Brussels summit on March 22-23, 2005, the representatives of EU Member States agreed on modification of the Stability and Growth Pact. This Pact represents a tool to ensure a stabilisation framework for fiscal policies of Member States that supplements the existing common monetary policy and common currency.

The discussion on the regulation concentrated around two main positions. On one side there was France and Germany, countries that have broken the Stability and Growth Pact year after year since 2002 by large fiscal deficits, and on the other side, smaller countries like the Netherlands, Austria, Finland and Slovakia, insisting on a more strict interpretation of the Pact. Despite a long debate, a compromise solution was found at last. The reference values of the Pact, being the fiscal deficit of 3% of the GDP and 60% share of total public debt on GDP remained unchanged.

The appraisal of exceeding the first criteria was changed. In the case of excess fiscal deficit, extensive exceptions insisted on by France and Germany exist. Should the exceeding of the deficit be "temporary" and "close" to the reference value, the country may justify its deficit by a "relevant factor" pardoning the deficit and evade the sanctions:

- International solidarity, which is a fulfilled requirement of France not to include development aid and defence expenses in fiscal deficit,
- Meeting the so-called European political aims, including uniting of Europe, representing a fulfilled requirement of Germany not to include the costs for uniting the country,
- Pension reform costs for a period of 5 years after starting it; this is said to be a fulfilled requirement of the new EU Member States, especially Slovakia, Poland and Hungary,
- Fulfilment of the aims of the Lisbon Agenda (science, education, innovation), public investments, reduction of debt and improvement of the condition of public finance.

The deadline for correcting an excess deficit should be 1 year from its identification, with an option to extend it by another year. Countries will have 6 months instead of 4 to adopt measures to correct the deficit, beginning at the moment of receiving the recommendations of the European Commission. The procedure against excess deficit will not start against a country with a negative economic growth or with a long period of slow economic growth (the previous wording of the Pact allowed this for countries in recession and a –2% negative growth).

Besides the aforesaid rules, the Member States also agreed that in periods of strong economic growth, they would use extraordinary fiscal measures to reduce fiscal deficit and public debt. The overall aim is still seen in a close-to-balanced budget or a fiscal surplus.

Some experts said that one of the benefits of the agreement for the new countries of Central and Eastern Europe is the opportunity to implement structural reforms bringing high transformation costs and temporarily creating a higher fiscal deficit without facing the disgrace of the European Commission for exceeding the permitted threshold.

Evaluation of the Experts' Committee:

The bending of the rules of the Stability and Growth Pact, allowing the Member States to exceed the 3% threshold for fiscal deficit "temporarily" and "slightly" in case of defined economic situations and governmental expenditure, is a step in the wrong direction. According to the experts, exceptions from the rules are dangerous even if they are beneficial for the new EU countries including Slovakia. In the future, this precedent may lead to benevolence towards conditions of other Member States of the Union and requirements to other exceptions. Unclear definition of exceptions – the scope of factors allowing a country to exceed the 3% deficit threshold, may cause the entire Stability and Growth Pact to collapse. In the future, this measure may also endanger the project of the common European currency, cause problems with further adherence to any other agreements within the EU as well as sharing of higher interest rates by the disciplined countries of the monetary union. The measure liberalised the fiscal rules and thereby permitted fiscal expansion.

The experts disapproved the steps of the strongest EU countries (Germany and France) with largest fiscal deficit threshold problems, who pushed these conditions into the new Pact. All members of the Union should fulfil the conditions equally, especially because these conditions were set by them in the past on the basis of extensive analyses and negotiations. One of the experts on the committee considered this step to be an unofficial cancelling of the Pact. Another respondent marked the revised Stability and Growth Pact to be the farewell song of the followers of J.M. Keynes – a representative of economists specialising in quality justification of governmental measures ex-post. In the case of the Stability and Growth Pact, the rules should be based, above all, on economic principles and not on political thoughts.

According to the estimate of another expert, the problem of large economies is that they are located close to their potential and their slow growth is a question of slow potential growth. This means that a large part of their high fiscal deficit is formed by a structural deficit. The solution should be to solve the structural deficit, creating space for investments for programmes aimed at fulfilling the Lisbon Strategy and yet meeting the 3% deficit to GDP threshold. The decision on bending the rules thus de facto legalised a structural deficit of approximately 3%. In his opinion, the deficit limit has not been a decisive factor precluding reforms. However, the new, softer rules will decrease the motivation for strict reforms and open the area for dubious fiscal manoeuvres covered under the Lisbon Strategy, developmental aid, etc. Though not all countries have problems with fiscal sectors and the market reacts to undisciplined countries by charging a different interest rate on the debts of these countries depending on their financial standing, the question remains as to whether in a single monetary union states with different real interest rates, different inflation preferences and thus different exchange rates to third countries may exist for a long time. From this point of view, the decision to bend the rules of the Stability and Growth Pact represents a step against long-term stability of the monetary union.

According to consenting opinions, rules must be flexibly adjusted to changing situations in the world. A minority of the experts stated that bending the rules might be justified if it is coherent with building the EU as a competitive economy. This would be reached if a part of the excess deficits was directed to support of science and education. The risk is that in reality, such intention can be transformed to provision of other public consumption.

Ranking of All Evaluated Measures in 1Q 2004 – 1Q 2005

*Note: Measures, which are mentioned and described in this publication, are **bold**.*

***All Evaluated Measures** ranked by Rating Values (i.e. Contribution to the Economic and Social Development)*		**RATING** *[-300; 300]*	Quality *[-3; 3]*	Impor-tance(%)	Evaluated *(Q/Year)*	Passed *(Q/Year)*
1.	**Health Care Reform - Act on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services Related to the Provision of Health Care (reducing basic package of the health care - priority diagnoses; non-priority diagnoses - patients' co-payment to be set by the Government; categorisation of drugs; enlarging the area of people exempted from flat payments for health care related services), Health Care Act (catalogisation of medical services)**	**150,1**	1,80	83,3	3/2004	4/2004
2.	**2005 State Budget (state budget deficit of SKK 61.5bn, fiscal deficit - 3.4% of GDP)**	**142,7**	1,76	81,3	4/2004	4/2004
3.	Act on the Budgetary Rules for Local and Regional Self-Governments (multi-annual budget introduced; hard budget constraints; stricter budgetary rules and management supervision)	**140,2**	2,18	64,3	3/2004	3/2004
4.	**Act on Budgetary Rules for Public Administration (introduction of hard budget constraints for the whole public administration; restriction of guarantees and taking out a bank loan; programme and multi-annual budgeting; construction of the public administration budget according to the ESA 95 methodology; dissolution of certain budgetary chapters; stricter control; moderate sanctions; provisional budget to be based on the budget from the previous year, not on the budget proposed by the Government)**	**137,1**	2,09	65,5	3/2004	3/2004
5.	**Act on Budgetary Determination of Income Tax Revenues for Local and Regional Self-Government (municipalities - 70.3%, higher territorial units - 23.5%; criteria for reallocation of tax revenue to be set by the Government; at least SKK 33.4bn for the year 2005 stipulated by the law)**	**130,9**	1,92	68,2	3/2004	3/2004
6.	**Convergence Programme of the Slovak Republic for the 2004-2010 Period (medium- to long-term economic policy objectives)**	**127,1**	1,92	66,2	2/2004	2/2004
7.	**Liberating Investment Rules of Pension Fund Management Companies within Fully-funded Pension Scheme (lowering obligatory limit for investment on domestic capital market from 50% to 30%, lowering minimum obligatory rate of return of pension funds, Amendment to the Act on Old-Age Pension Savings)**	**110,2**	1,77	62,3	2/2004	2/2004
8.	**Competitiveness Strategy for the Slovak Republic until 2010 (National Lisbon Strategy)**	**109,4**	1,77	61,7	1/2005	1/2005
9.	Amendment to the Act on Trade Licensing (cutting time limits for trade license registration, for the income tax registration and for the value added tax registration)	**108,6**	2,23	48,7	2/2004	2/2004
10.	**Health Care Reform - Act on Health Care Providers, Medical Professionals and Professional Chambers (transformation of medical facilities into joint-stock companies; allowing licensed providers to enter the health care market; minimum public health care providers network; evaluating quality system of providers according to governmental regulation; voluntary membership in professional chambers established by the law; dissolution of 4 chambers, one new established; strengthening decisions taking power of chambers - license issuing), Act on Emergency Health Service (defining minimal number of ambulances, placement; tenders; coordination - Ministry of Health)**	**106,1**	1,41	75,4	3/2004	4/2004
11.	**Health Care Reform - Act on Health Insurance (division of health insurance into public and individual; increasing payroll tax burden; increasing assessment base; annual balancing of premium payments; 85.5% redistribution of prescribed premium between health insurance companies; penalties; rights and duties of health insurance companies and policyholders)**	**105,9**	1,35	78,5	3/2004	4/2004

12.	**Decisions of the Slovak Telecommunications Office on Determination of the Slovak Telecom as a Company with Significant Market Power in Wholesale Markets (obligation to fulfil the network interconnection request; obligation to rent its local loops ("last mile") to other operators; obligation to release reference offers)**	**104,4**	2,02	51,7	1/2005	1/2005
13.	**Slovak Parliament Resolution Requiring the Slovak Government to Disclose Investment Agreements with Hyundai/KIA Motors and PSA Peugeot Citroën, as well as other Investment and Privatisation Contracts since 2001 pursuant to the Act on Free Access to Information**	**103,0**	2,03	50,7	2/2004	2/2004
14.	**New Act on Bankruptcy and Restructuring, Act on Bankruptcy Trustees (specifying partial terms for individual operations within bankruptcy proceedings; strengthening the position of creditors; setting up the role of trustees; random selection of trustees)**	**102,1**	2,00	51,1	4/2004	4/2004
15.	Real Estate Register on the Internet (authorised access, paid services)	**101,5**	2,06	49,3	1/2004	1/2004
16.	**Health Care Reform - Health Insurance Companies and Surveillance Authority Act (transformation of health insurance companies into joint-stock companies; introduction of hard budget constraints; patient management system; waiting lists; quality indicators of health care providers issued by the Government; regulated competition of insurance companies on the part of purchasing health services; licensed insurance companies allowed to enter the health care market; establishing the Health Care Surveillance Authority; control; penalties)**	**101,4**	1,29	78,5	3/2004	4/2004
17.	Amendment to the Act on Municipalities (adjustment of internal inspection within municipalities and higher territorial units, allowing entrance of public into legislative process of local governments)	**100,2**	1,87	53,7	2/2004	2/2004
18.	**Act on Local Taxes and Municipal Charges for Municipal Waste and Minor Construction Waste (facultative local taxes; discretionary assessment of rates by municipalities and higher territorial units; compulsory municipal charge for municipal waste and minor construction waste)**	**99,8**	1,57	63,6	3/2004	3/2004
19.	Amendment to the Civil Code (two-year warranty period, consumer contracts introduced)	**99,2**	1,76	56,5	1/2004	1/2004
20.	Amendment to the Act on Administration of Taxes (e-communication with tax administrators even without guaranteed electronic signature; allowing reliefs and remission of penalties; making the list of tax debtors and list of subjects registered for VAT and excise duties open to public)	**93,3**	1,92	48,6	4/2004	4/2004
21.	**Draft Act on Student Loans (payment of tuition planned to introduce; state-regulated student loans; more social scholarship recipients; abolishing salary grades for the remuneration of teachers and raising their salaries; equal rights for public and private universities)**	**93,2**	1,39	67,2	2/2004	-
22.	Reduction of Interest Rates of the National Bank of Slovakia (by 0.5 percentage points)	**92,2**	1,73	53,2	1/2004	1/2004
23.	**Reform of the 3rd Pillar of Pension Scheme - Act on Supplementary Pension Savings (Supplementary Pension Insurance Companies transformed into standard asset management joint-stock companies; Company's property separated from citizens' deposits; supervision of the Financial Market Authority), Amendment to the Income Tax Act (extending tax allowances to other savings, insurance and capital products of the financial market; decreasing the ceiling amount, which is deductible from the tax base, to SKK 12,000 yearly)**	**90,6**	1,64	55,1	4/2004	4/2004
24.	Act on Energy Management (implementing EU directives; full opening of the electricity and gas market to competition; specifying conditions for all subjects to enter the market; rights and obligations of participants exactly specified; selection of supplier allowed for all customers, for households from 1st July 2007; unbundling of transit from distribution obligatory)	**90,1**	1,68	53,7	4/2004	4/2004
25.	Number of Employees' Work Positions at the Ministry of Finance Reduced by 250 (30%), Dissolution of 44 Organisational Divisions (Procedural and Organisational Audit Project conducted at the Ministry of Finance)	**89,0**	2,36	37,7	1/2004	1/2004

26.	Act on Financial Market Supervision (creating integrated supervision over whole financial market at the hand of the National Bank of Slovakia)	**86,1**	1,67	51,5	4/2004	4/2004
27.	**Constitutional Act on Conflict of Interests (notification duty, including property returns, so-called after-employment restrictions, stricter sanctions, enforcing law on self-government as well)**	**86,1**	1,55	55,7	2/2004	2/2004
28.	Amendment to the Act on Prices (deregulation of rental prices; price regulation in tax consultancy abolished; competencies in price regulation of the public transport moved from higher territorial units onto municipalities; competencies of Antimonopoly Office of the SR extended by the possibility to adjudicate and sanction companies for abusing their dominant position by the terms of setting unreasonable prices)	**85,2**	1,72	49,4	1/2005	1/2005
29.	Draft Amendment to the Act on Notaries and Notarial Activities (proposal to abolish regulation of number of notary offices)	**79,6**	2,22	35,8	1/2004	-
30.	Optimising Judicial System of the Slovak Republic (new three-grade framework, 10 county courts abolished, 8 regional courts kept, paperwork moved to courts of the first-degree, specialised courts established; Act on Seats and Districts of Courts)	**77,7**	1,57	49,5	2/2004	2/2004
31.	**Act on Illicit Work and Illicit Employment (definition of illicit work and illicit employment; straitening the scope for illicit employment; widening the obligations of evidence and registration towards the Social Insurance Agency; extension of inspections; stricter sanctions)**	**73,6**	1,46	50,5	1/2005	1/2005
32.	**Dissolution of the Tripartite Social Partnership Act (Government's advisory body - Board of Economic Partnership and Social Partnership of the SR established; voluntary social dialogue; Amendment to the Devolution Act)**	**70,9**	1,48	48,0	3/2004	4/2004
33.	Amendment to the Act on Remuneration of Certain Employees for Work in the Public Interest (introduction of new salary tariffs for pedagogical employees; increase in salaries for teachers of primary and secondary schools by SKK 2,000 per month at average; in case of teaching practice up to 16 years - tariff increase by 1% per each year of teaching, and by 0.5% in case of practice from 17 to 32 years; possibility to grant personal premium for systematic self-education up to 100% of salary tariff increased by 24%)	**70,1**	1,50	46,7	1/2005	1/2005
34.	**Slovak Parliament's Resolution to Application of Transition Periods on Free Movement of Labour in EU Member States Starting from May 1st, 2004 (disagreement of the Slovak Parliament with old EU member states' protective measures on labour market against new EU members)**	**69,3**	1,93	35,9	1/2004	1/2004
35.	Amendment to the Act on Public Procurement (obligation to inform Office for Public Procurement about choosing method of negotiation without publication, 14 days before contract closing; penalty of SKK 500,000 for not giving information; removing the possibility of negotiation without publication in case of so-called "bargain price" offer; straitening definition of "time pressure")	**66,9**	1,58	42,5	1/2005	-
36.	Amendment to the Act on the Subsidy for Establishment of Industrial Zones (simplified establishment of industrial zone; zone establishment for only one strategic investor enabled; lower minimum financial participation of the municipality; positive discrimination favouring regions with higher unemployment rate)	**64,5**	1,43	45,1	3/2004	3/2004
37.	Amendment to the Act on Land Adjustments (shortening the preparation process of land adjustments - faster consolidation and separation of the plots; land adjustments inside, as well as outside the simple cadastral area; settlement of state seized lands; financial reimbursement within land adjustments restricted to small plots)	**64,1**	1,49	43,1	3/2004	3/2004
38.	Strategy for the Informatisation of Society in Slovakia	**62,0**	1,16	53,5	1/2004	1/2004
39.	Amendment to the Act on Parental Allowance (parental allowance in flat pay amounting SKK 4,110 - for employed parents as well, to provide custody of children by natural or legal person; evening up maternity benefit up to parental allowance, in case the maternity benefit is lower)	**61,6**	1,50	41,1	1/2005	2/2005
40.	Transformation of the State Enterprise Slovak Post into State Owned Joint-Stock Company (untying rules for property handling, creation of new business activities enabled, definition of so-called priority capital property - always state-owned property)	**60,6**	1,60	37,9	2/2004	2/2004

41.	New Act on Value Added Tax (harmonisation with EU law, range of VAT payers enlarged)	**57,9**	1,05	54,9	2/2004	2/2004
42.	Amendment to the Act on Waste (introducing an obligation for electro-devices producers to take care of delivered electric waste at their own costs)	**57,2**	1,59	36,0	4/2004	4/2004
43.	Amendment to the Act on Regulation in Network Industries (harmonisation with the EU law; setting up rules for electricity, gas and heat energy market; extending competence and responsibility of the Regulatory Office for Network Industries (Office of Utilities Regulation) (ÚRSO); obligation of Regulatory Office to give reasons for its decisions; appealing toward ÚRSO decisions in the price proceeding impossible, but the legitimacy of procedure can be examined by the court; competencies in factual regulation of entrepreneurship in the hands of ÚRSO, not of Ministry of Economy)	**53,0**	1,11	47,8	4/2004	4/2004
44.	Act on Mediation (performance of mediation formalised)	**52,6**	1,55	33,9	2/2004	2/2004
45.	Amendment to the Act on Municipal Charges (abolishing municipal charges for alcohol and tobacco products, admission, advertising, accommodation capacity)	**52,0**	1,29	40,3	2/2004	2/2004
46.	Block of 12 Measures Adopted in Connection with Looting of Roma Community (allowances for public jobs and graduate practice increased by SKK 500 to SKK 1,500; repressive and preventive fight against usury - possibility of allowances payout more frequently in the month and allowances paid in kind; bonus to organisers of major public job projects increased; grant for education of the long-term unemployed person with individual disadvantage, amounting up to SKK 10,000)	**51,6**	1,13	45,9	1/2004	1/2004
47.	Airport Companies Act (transformation of the Slovak Airports Administration Authority into six individual joint stock companies operating airports; partial privatisation of airport companies allowed)	**51,4**	1,52	33,7	1/2004	1/2004
48.	**Concept for Further Steps in Privatisation and Final Privatisation of Strategic Enterprises and Other State-owned Companies (final privatisation of 51% of shares in 3 electricity distribution companies, Slovak Airlines and 2 airports; privatisation of 51% of shares in heating companies, 66% of shares in Slovenské Elektrárne (Slovak Electricity Company), privatisation of newly-established Railway Company Cargo (carrying goods); state-owned shares in other companies will not be privatised in the meantime)**	**49,9**	0,89	56,3	3/2004	3/2004
49.	Amendment to the Act on Railroads (setting up rules for access to railroad traffic route, distribution of capacity, regulation of railway transport, its prices and security, rights and obligations of regulated subjects; establishing Regulatory Office for Railway Transport)	**48,4**	1,36	35,5	1/2005	1/2005
50.	Amendment to the Social Insurance Act (abolishing possibility of forgiving penalty for unpaid social contributions to the Social Insurance Agency; allowing immediate assignment of claims to a third person; allowing cross subsidies between funds of the Social Insurance Agency also in 2005 and 2006)	**47,7**	1,12	42,4	4/2004	4/2004
51.	Amendment to the Act on Construction Saving Schemes (specifying formula to calculate the state premium (bonus) in construction saving schemes; extending trading possibilities of construction saving banks on the financial market and providing construction loans)	**46,9**	1,24	37,7	4/2004	4/2004
52.	Proposal on Appointment of Heads and Directors of Local State Administration Offices by Departmental Minister on the Basis of Selection Procedure Results	**44,3**	1,23	36,2	1/2004	-
53.	Act on Pain Compensation and Compensation of Social Consequences of Disability (higher compensation and its automatic valorisation; max compensation of SKK 3.1m introduced; compensation raising by court restricted to at most 50% above legal limit)	**44,2**	1,49	29,7	2/2004	2/2004
54.	**Governmental Support to Hyundai/KIA Motors for the Construction of a Car Plant near the City of Žilina Amounting to SKK 8.83bn (Contract between Hyundai and the Slovak Government)**	**44,2**	0,80	55,2	1/2004	1/2004
55.	New Act on Elections to the National Council of Slovak Republic (Parliament) (increasing the weight of preferential votes; voting from abroad allowed; election deposit of SKK 500,000 introduced; state subsidy for political parties according to the poll increased to 1% of average monthly wage; election campaigns in private electronic media allowed; pre-election moratorium abolished; one day elections; single electoral	**42,6**	0,73	58,8	1/2004	2/2004

	district; no quotas for women in parliament)					
56.	**Amendment to the Act on Medicaments and Medical Aids (ownership of pharmacies by legal entities and non-pharmacists allowed; selling drugs in supermarkets not approved; setting up the use of drug books; more obligations for pharmacists)**	**41,8**	1,00	41,8	4/2004	4/2004
57.	Splitting the Joint Stock Company Železničná spoločnosť, a.s. (Railway Company) (Creating 2 new joint stock companies fully owned by the state - Railway Company Slovakia for the passenger traffic and Railway Company Cargo Slovakia for the freight transport; privatisation of freight railway transport planned in 2005)	**41,7**	0,99	42,3	4/2004	4/2004
58.	Foreign Trade Support Fund Abolished (transfering property and employees onto SARIO (Slovak Investment and Trade Development Agency))	**39,5**	1,74	22,7	1/2005	1/2005
59.	Amendment to the Act on Retail Chains (extent of regulation reduced; exact definitions of economic power and abuse of this power by retail chains replaced with broad definitions)	**39,4**	1,13	35,0	3/2004	3/2004
60.	Act on Emission Allowance Trading (trading within European Union; registry and allocation of allowances for 5 years - Ministry of the Environment of the Slovak Republic; obligation to buy free quotas in case of exceeded allowances, else sanctions will be applied)	**38,6**	1,02	37,7	3/2004	4/2004
61.	Constitutional Act on the Co-operation between National Council of the Slovak Republic (Parliament) and Government of the Slovak Republic in European Union Affairs (restricted mandate of Government members at the meetings of Council of the EU; binding position of the Parliament)	**37,8**	0,81	46,6	2/2004	2/2004
62.	Act on Heating Energy Production (setting up rules for entrepreneurship in heating energy production on the basis of official license; warm water meters and heating meters compulsory in households from 1st January 2007 - at their own cost; calculating the usage of heat according to specified meters; competencies in regulation not moved from the Ministry of Economy and Regulatory Office for Network Industries onto higher territorial units and municipalities)	**36,7**	0,78	46,9	4/2004	4/2004
63.	Increase in Regulated Prices (gas, electricity, heating, water and sewerage, postal fees)	**36,0**	0,69	52,1	4/2004	4/2004
64.	**Imposing SKK 1.353bn Penalty on the Slovnaft (oil) Company Due to Inclusion of Unjustified Costs and Undue Profit into Fuel Prices and Due to False Information Provided, on the basis of Price Inspection of the Ministry of Finance of the SR; Returning Unjustly Gained Amount of Money to the State Budget)**	**35,7**	0,84	42,3	4/2004	4/2004
65.	Reduction of Interest Rates by the National Bank of Slovakia by 0.5 Percentage Points	**32,7**	0,69	47,6	4/2004	4/2004
66.	Proposal to Abolish the Rule Allowing Privatisation Incomes to be Used to Finance so-called Significant-Investments (Draft Amendment to the so-called Large-Scale Privatisation Act)	**30,7**	0,73	41,9	1/2004	2/2004
67.	Agreement between the Slovak Government and the European Commission on Excess Steel Production Limits in U.S.Steel Košice (tax breaks cut by USD 70m; extra tax payment to the state budget amounting USD 32m)	**30,6**	0,91	33,5	1/2004	1/2004
68.	Draft Amendment to the Act on Old-Age Pension Savings (voluntary entrance into the 2nd - fully-funded pillar of pension scheme for labour market newcomers as well; 100% state guarantee for paid old-age pension savings contribution)	**22,4**	0,41	54,3	1/2005	-
69.	Proposal to Take Over the Balance of Cancelled Bearer Saving Books from Commercial Banks to the State from the year 2007, Forfeiture of Saving Books in favour of State from the 2012 instead of their Forfeiture in favour of Banks from the 2007	**20,1**	0,80	25,3	2/2004	4/2004
70.	**Privatisation of Slovenské Elektrárne, a.s. (Slovak Electricity Company) (66% share for SKK 33.6bn (EUR 840m) to the Italian Energy Holding Company Enel)**	**18,0**	0,31	57,2	3/2004	4/2004
71.	Act on Political Parties (making the rules for political parties management stricter; publishing the larger extent of information on their finance; increasing of state benefits for political parties; abolishing the expense limit for elections)	**17,8**	0,44	40,9	1/2005	1/2005
72.	Uniform Cigarette Prices Introduced (New Act on Excise Duties on Tobacco Products)	**16,5**	0,51	32,1	1/2004	1/2004
73.	Reduction of Interest Rates by the National Bank of Slovakia (two times by 0.5 percentage points) and Direct Interventions against SKK Exchange Rate Appreciation	**14,4**	0,26	54,6	2/2004	2/2004

74.	**Prolonging the Execution Protection of Medical Facilities and Health Insurance Companies until the end of 2005 and Allowing the Transformation of State-owned Hospitals into Non-Profit Organisations**	**12,0**	0,26	46,2	4/2004	4/2004
75.	Act on Driving Schools (unifying legislative framework for driving schools into one act; stricter conditions for driving schools activity; regulated trade license needed; publishing driving schools' successfulness on the internet)	**11,6**	0,50	23,2	1/2005	1/2005
76.	Act on the Pay of European Parliament Members (setting-up salary at SKK 86,200 - twice the salary of the member of the Slovak Parliament)	**11,5**	0,66	17,4	2/2004	2/2004
77.	Act on the Company for Motorways and Dual Carriageways (creating National Motorway Company with 100% state ownership participation)	**10,6**	0,26	41,6	4/2004	4/2004
78.	Merging 6 State-Owned Hospitals in Bratislava and 2 in Košice	**10,5**	0,32	33,2	4/2004	4/2004
79.	**Measures of the National Bank of Slovakia against Excessive Appreciation of the Slovak Koruna Exchange Rate (basic interest rate decrease by 1 percentage point; direct interventions on currency market; rejecting the option to deposit the excess liquidity of commercial banks)**	**5,3**	0,11	47,4	1/2005	1/2005
80.	Minimum wage increase to SKK 6,500 (by 6,9 per cent, SKK 420)	**4,7**	0,14	34,3	3/2004	3/2004
81.	Proposal to Freeze Salaries of the Certain Constitutional Officials (at the same level as in the years 2002 and 2003)	**3,7**	0,14	25,9	2/2004	-
82.	Twelve MiG-29 Supersonic Fighter Jets Upgrade	**2,6**	0,09	28,9	1/2004	1/2004
83.	Privatisation of State-owned Steam-Gas Energy Producer Paroplynový Cyklus Bratislava, a.s. (90% share for SKK 2bn)	**-1,9**	-0,06	29,8	1/2004	1/2004
84.	Social Insurance Agency's General Pardon (extraordinary use of the so-called institute of forgiving penalty from unpaid social insurance contributions - possible after debt principal repayment)	**-4,0**	-0,12	33,3	4/2004	4/2004
85.	Act on Substitute Alimony (reinstatement of state paid substitute alimony)	**-4,4**	-0,15	30,0	2/2004	2/2004
86.	**Decision to Acquire Remaining Unpurchased Land Intended for the Hyundai/KIA Car Plant Construction by Means of Expropriation Proceedings**	**-9,1**	-0,22	42,3	3/2004	3/2004
87.	Acquiring of 62% Majority Stake in Slovak Airlines by Austrian Airlines by Means of Equity Raising	**-13,3**	-0,47	28,4	1/2005	1/2005
88.	Proposal to Pay out the Lump Sum Grant of SKK 1,000 to Pensioners in order to Compensate Impact of the Reforms from the start of 2004	**-16,7**	-0,44	38,0	1/2004	2/2004
89.	The Centre for Securities of the Slovak Republic Transformed into Central Securities Depository of the SR (membership principle; two-level recordkeeping of book-entry securities; stock market collapse for several days)	**-23,7**	-0,63	37,9	1/2004	1/2004
90.	Memorandum of Understanding between the Government of the Slovak Republic and the Truthheim Invest LLC (proposing the accession of private investor into the new Slovak National Theatre (Slovenské národné divadlo (SND)) building; private investor´s capital of EUR 20m to complete the building in 2 years; completed building operation in hands of the company; original purpose of the building for culture partially preserved; renting of rooms to cultural entities at preferential prices for 20 years at least; investor´s participation in profits - 90 per cent until the capital redemption; veto privilege on decisions in handling with property; the investor bears all financial and non-financial risks)	**-25,2**	-1,00	25,2	4/2004	4/2004
91.	Additional Subsidy to the Slovak Radio in order to Redeem a Debt, amounting SKK 183m	**-26,7**	-1,13	23,7	4/2004	4/2004
92.	So-called Parliamentary Indemnity Extended (disallowing civil law protection against members of the Slovak Parliament for their statements presented in Parliament; Amendment to the Constitution of the Slovak Republic)	**-39,2**	-1,20	32,7	1/2004	1/2004
93.	Act on Environmental Fund (Environmental Fund established; not financed through the state budget)	**-45,3**	-1,29	35,0	3/2004	4/2004
94.	Contracts on Consultation Services for Gas Distributor SPP (Slovenský plynárenský priemysel (Slovak Gas Industry)), amounting to SKK 1.2bn	**-47,3**	-1,63	29,1	1/2004	1/2004

MEASURES OF EU BODIES *(3Q 2003 – 1Q 2005)*

1.	*New EU Directive on Investment Services (allowing providing services EU-wide on the basis of approval in home country; minimum qualification standards for national financial market supervisory authorities; stricter rules to provide investment services; allowing securities trading outside the stock exchange)*	**89,9**	1,81	49,7	2/2004
2.	***Proposal for a Directive on Services on the Internal Market (reduction of obstacles for undertaking in the area of services; exemption from directive in case of services such as public administration, education, financial services, public transportation, electronic communication services; domestic country principle when not settling down in another EU member state – providing services in the entire EU after fulfilling legal requirements of the home country, but also with obligation to respect minimum wage, health and safety regulations and standards in the host country)***	**77,0**	1,40	55,1	1/2005
3.	*Proposal on European Union Guidelines for the Development of the Trans-European Transport Network (enlargement of the Trans-European Transport Network by the year 2020)*	**72,7**	1,28	57,0	4/2003
4.	*Proposal for Liberalisation of the Market with Car Spare Parts (allowing exterior visible spare parts to be produced by independent producers, not only by car factories and their suppliers)*	**67,5**	1,87	36,2	3/2004
5.	*EU Directive on the Enforcement of Industrial and Intellectual Property Rights (bolstering fight against those breaking copyright law and against pirate and counterfeit goods and services)*	**61,9**	1,44	43,1	2/2004
6.	*European Commission´s Complaint on Germany for Protection of the Volkswagen Car Factory by the So-Called "Volkswagen Law", which Gives Voting Rights to Federal Government Regardless of Their Property Participation, Veto Privilege and which Makes Effective Takeover of the Company Impossible*	**56,5**	1,73	32,8	4/2004
7.	***Relaunch of the Lisbon Strategy from the Year 2000 (new strategy to support economic growth and employment in the EU; focusing on fewer objectives and removing time intention – year 2010 – to achieve the most competitive economy in the world; accent on the so-called knowledge-based economy – backing education, science, research, innovation and improving the quality of human capital; creating more and better job opportunities; responsibility of each member state for Strategy implementation – elaborating own national Lisbon strategies and action plans; creating national co-ordinators)***	**51,0**	1,01	50,5	1/2005
8.	***Proposal to Reform the European Union's Subsidies on Sugar Production and Export (cutting the subsidised quota on sugar production; cutting guaranteed price of sugar; reducing spending on export subsidies; sale of production quota within European Union possible; compensations to farmers and sugar producers)***	**47,7**	1,50	31,8	3/2004
9.	*New Regional Policy Proposal for the Period 2007 - 2013 (redefinition of objectives; raising spending for regional aid by more than a third - to EUR 48bn annually, new member states will receive nearly a half)*	**46,3**	0,92	50,5	3/2004
10.	*Turkey Invited to European Union Accession Talks (opening of negotiations in the autumn 2005; open end accession negotiations - the result does not have to be the EU membership; conditions - closing of the so-called Cyprus issue, follow-through with reforms on the field of democracy and human rights protection, implementing criminal legislature of the EU)*	**43,7**	0,95	46,0	4/2004
11.	*Proposal for a Directive on Cross-Border Mergers of Companies with Share Capital (setting-up legislative framework for merging small and medium-sized businesses between two European Union member states; making mergers simpler and eliminating expensive methods (branch-establishing); approving the clause, which preserves employees' influence on business management, whereas national model with higher level of employees' participation will be used)*	**43,7**	1,16	37,7	4/2004
12.	*Possibility of CO2 Emissions Trading (new Directive for the Greenhouse Gas Emission Trading)*	**39,6**	0,80	49,5	3/2003
13.	*Proposal for a Directive on the Patentability of Computer-Implemented Inventions (simplified patenting, 20 years validity period)*	**26,2**	0,71	36,9	2/2004

14.	*Draft Constitution for Europe (Proposal of the European Convention)*	**24,8**	0,32	78,0	3/2003
15.	*Higher Compensation and Assistance to Passengers in the Event of Denied Boarding and of Cancellation or Long Delay of Flights*	**19,4**	0,84	23,0	3/2003
16.	*Keeping Salaries for Members of the European Parliament at the Current Level (proposal for a single salary for MPs from all EU countries; salaries funded from the EU budget)*	**18,2**	0,93	19,5	1/2004
17.	*European Commission Measures to Match Supply and Demand for Translation Services (extent of translated texts restricted; making translation services more efficient)*	**15,9**	0,88	18,1	2/2004
18.	*Authorisation of European Commission for Import of Genetically Modified Maize*	**13,0**	0,36	36,4	2/2004
19.	*Proposal for an EU Directive on Takeover Bids (watered down original proposal to disable protection against takeovers)*	**8,0**	0,18	43,2	4/2003
20.	*EU Council Directive on Taxation of Energy Products and Electricity (introduction of so-called ecological tax)*	**4,7**	0,09	53,5	4/2003
21.	*Decision of Eurostat on not Recording Contributions Made to the Fully-funded Pillar of the Pension Scheme as Government Revenues (increase of public finance deficit as the reason for transition costs of the pension reform)*	**3,5**	0,08	44,6	1/2004
22.	*Proposal of a Directive on Insurance against Civil Liability in Respect of the Use of Motor Vehicles (minimum insurance coverage - EUR 1m per casualty or EUR 5m for whole insurade accident - members states can choose; transitional period of 5 years; reimbursement from obligatory contractual insurance to non-motorised traffic participants; domestic liability insurance sufficient when travelling abroad within EU; central register on accident information)*	**2,5**	0,07	37,1	1/2005
23.	*Fine on Microsoft Corporation for Alleged Abuse of its Dominant Position on the European Unions' Operating Systems Market Amounting EUR 497m (Microsoft required to un-tie Windows Media Player from operating system Windows; obligation to publish the part of the Windows source code)*	**-4,5**	-0,15	30,0	1/2004
24.	*EC Proposal for Implementing the Principle of Equal Treatment Between both Genders in the Access to Goods and Services (e.g. insurance services)*	**-17,9**	-0,44	40,3	2/2004
25.	***2005 Budget of the European Union (budget deficit of EUR 10.2bn; expenditures amounting to EUR 116.5bn; revenues of EUR 106.3bn; 42.7% of expenses for agriculture; 36.4% for structural actions)***	**-20,5**	-0,40	51,3	4/2004
26.	***Draft Amendment to the EU Directive on Working Time (restricted possibilities of working overtime; strengthening the influence of collective bargaining)***	**-43,9**	-0,81	54,0	3/2004
27.	***Relieving the EU's Stability and Growth Pact Rules (allowing "temporary" and "soft" exceeding of the 3% of GDP threshold for fiscal deficit; defining the sphere of factors for which exceeding is allowed)***	**-45,8**	-0,80	56,9	1/2005
28.	*Disciplinary Action against France and Germany for Breaking Stability and Growth Pact Suspended by EU Finance Ministers (Germany and France failed to reign fiscal deficits within the 3% of GDP threshold)*	**-124,1**	-1,99	62,4	4/2003

Average Foreign Exchange Rates of the National Bank of Slovakia

Currency	*Amount*	*2003*	*2004*	*1Q 2005*
EUR	1	41,49	40,05	38,28
USD	1	36,77	32,26	29,16
CZK	1	1,30	1,26	1,28

Source: NBS