

# **1999 REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**SLOVAKIA'S**

**PROGRESS TOWARDS ACCESSION**

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## A. Introduction

### a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.” ..... “In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Slovakia follows the same structure as the Commission's 1997 Opinion. It

- describes the relations between Slovakia and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Slovakia's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Slovakia's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which

examines the extent to which Slovakia has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Slovakia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessments and comparison between countries in terms of concrete progress in preparation for accession.

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) were additional sources of information. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

## **b) Relations Between the European Union and Slovakia**

### *Developments under the EU-Slovakia Europe Agreement (including bilateral trade)*

Slovakia has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council met in April 1999 following the Association Committee meeting held in January 1999. These provided the occasion to discuss the Accession Partnership priorities. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Commission's Report the Joint Parliamentary Committee comprising representatives of the Slovak and European Parliament met in January 1999.

Slovakia's trade with the EU has continued to grow both in 1998 and in the first six months of 1999. The EU further increased its share of total Slovak trade, reflecting the continued integration of the Slovak economy into the EU. During the first six months of 1999 Slovak exports to the EU accounted for 60.8 percent of Slovak's total exports, which is a 23.7 percent increase if compared with the first half of 1998.

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<sup>1</sup> For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone

Imports from the EU during the first six months of the year amounted to 52 percent of Slovakia's total imports. In the first six months of 1999 Slovakia had a 0.76 percent share in EU exports and a 0.83 percent share in EU imports. Slovakia's trade deficit with the EU in 1998 amounted to €310 million, while in the first six months of 1999 it amounted to €320 million. In the first six months 1999 the main product groups in EU exports to Slovakia were machinery and electrical equipment, transport equipment and textiles. The most important EU imports from Slovakia were transport equipment, machinery and electrical and base metals and articles.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

Several trade issues have been resolved during the period. For example, the Slovak Government resumed the automatic licensing for coniferous wood on 1 January 1999 and confirmed it had no intention to reintroduce a quota system. Issues concerning phytosanitary requirements for the imports of potatoes have also been resolved. However, the re-introduction of the import surcharge and the safeguard measures on imports of pork meat constitute additional trade issues. The Commission has initiated an anti-dumping proceeding concerning imports of solutions of urea and ammonium nitrate originating, inter alia, in the Slovak Republic. Safeguard measures on the imports of pork meat were introduced on April 17 following the consultation procedure and an import surcharge was again introduced on June the 1<sup>st</sup> after informing the Community in line with the obligations and procedural requirements of the Europe Agreement.

In November 1998 the Commission proposed to the then new Government the creation of a joint High Level Working Group which, as a complement to the institutions under the Europe Agreement, would support Slovakia in its effort to regain momentum in the process of preparation for accession. The group has focused on key actions needed to promptly address the unfulfilled short-term priorities under the Accession Partnership. The work of the Group was welcomed by the Joint Parliamentary Committee at its 7<sup>th</sup> meeting. Five meetings took place in the period November 1998 to September 1999 in Brussels and Bratislava. In the concluding document the parties recognise that it made a substantial contribution to the process of political and economic reform, internal market developments and preparation for accession in general.

A Joint European Commission-Slovakia Working Group on Nuclear Energy, reporting to the High Level Group, with the mandate "to examine the nuclear strategy of Slovakia, to assess the impact and costs of alternative closure dates and the decommissioning of Bohunice V-1" has met three times.

#### *Accession Partnership/ NPAA*

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in section D of this Report.

In May 1999 Slovakia presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnership (see further part D).

*Pre-Accession Aid: Phare*

In 1999 Phare was the main instrument providing financial assistance to help Slovakia's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated approximately 415 M€ to Slovakia during the period 1990-1999.

The 1999 Phare Programme for Slovakia consists of a national allocation of 69.5 M€ concentrated on the following priorities:

- strengthening of civil society and policies and institutions protecting minorities rights (4.3 M€)
- export development and initiatives to attract foreign direct investments to Slovakia; promotion of SME development; further Phare's equity contribution to the Slovak Post-Privatisation fund (SPPF); continued support for the reform of the Slovak Cadastre (26.7 M€)
- enhanced "competitiveness", concerning standards and certification, state aids and public procurement (4.4 M€)
- further develop and strengthen JHA institutions; effective border management and migration control; effectively fight organised crime and corruption; improve capacity to handle asylum and legal and illegal migration questions, notably in view of the Schengen *acquis* (10 M€)
- alignment with and implementation of the agricultural *acquis* (4 M€)
- alignment of agricultural statistics (2 M€)
- development of environmental monitoring and implementation control structures and capacities, continuous planning and implementation of approximation programmes; (1.5 M€)
- support in the implementation of a comprehensive energy strategy in line with the *acquis* (1.2 M€)
- reinforcement of institutional and administrative capacity in the field of customs, indirect taxation, telecom, safety and health at work, development of a public administration strategy; support to the CFCU (10.4 M€)
- reconstruction of the Maria Valeria bridge between Šturovo and Esztergom (5 M€)

An additional 4 M€ are envisaged for a cross-border co-operation (CBC) programme with Austria, 2 M€ for the co-operation with the Czech Republic and 2 M€ for cooperation with Hungary. In the frame of the 1999 Catch-up Facility, Slovakia has

received an allocation of 2 M€ to support activities for the Roma minority and approximately 1.7 M€ have been committed for Slovakia's participation in Community programmes.

Slovakia also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAIEX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility (2.4 M€).

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, agriculture, land registration, etc. Phare support to SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare's support has been instrumental to Slovakia's transformation process to adjust to the characteristics of a market economy, a democratic society and the other requirements of EU-membership. Phare played for example a particularly important role in

- civic education during the 1998 national election campaign when NGO awareness raising activities among young voters and monitoring activities had a significant impact on the record voter turnout (84,6%) and helped to ensure free and fair elections
- development of the SME sector, by providing technical and financial support directly to SMEs and by helping to set up institutions (National Agency for SME Development, Regional Advisory and Information Centres and Business Innovation Centres) that provide services to SMEs; this support has helped create 3.184 SMEs (1994/98) and generate over 24.000 new jobs.

#### *Phare Management System*

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare and signed by the partner country, before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex-post control of contracting where the Financial Control exercised by the partner country is deemed by

the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the Candidate Countries.

Phare implementation structures have been rationalised in Slovakia to increase transparency and avoid dispersion of funds. This process increases the responsibility of the Candidate Countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since December 1998, a National Fund has been set-up at the Ministry of Finance. The National Fund has the overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. However, it remains understaffed and needs to be strengthened. The Central Finance and Contracting Unit, established in January 1998, has proved to be an effective unit in handling the financial administration, accounting and payments of Phare projects. As regards the investment side of Phare, Slovakia started to establish a limited number of Implementing Agencies which will be responsible for the implementation for specific projects.

The performance of Phare programme, in terms of contracting and disbursement rates, has steadily improved and to date, the 1997 and 1998 programmes have reached satisfactory contracting rates. However, the implementation of the Phare CBC programme in Slovakia is less satisfactory due to limited absorption and management capacity.

#### *Pre-Accession Aid 2000*

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000-2002 total financial assistance available will be € 49 million for Phare, €18.3 million for Sapard and between €35 and 55 million for Ispa, per year.

#### *Twinning*

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of **twinning** of administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term

secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For the Slovak Republic, 14 projects have so far been twinned under Phare. Germany is leading two projects in the agricultural area to prepare for the Common Agricultural Policy and strengthen the relevant institutions. The Netherlands, Germany and Austria have been selected to lead three environment projects, dealing with approximation of legislation, the harmonisation of sectorial policy and capacity to implement measures on air pollution. Two finance projects address the efficiency of financial control mechanisms and legal advice on banking, insurance, taxation and the stock exchange. France is leading a group of Member State administrations which will work with Slovak partners to prepare for the structural funds. Six Justice and Home affairs projects have been twinned, including a UK-led project to strengthen the Slovak police institutions, and a project to provide training for judges, led by Germany and assisted by Greece. Other areas of activity are training in asylum and immigration; legal advice on asylum, and on the judiciary, penal matters, bankruptcy and commercial law; and modernisation of the courts.

Twinning is foreseen for 18 projects under the 1999 programme and will be extended to cover fields including product standardisation and certification, the establishment of a public procurement agency, occupational safety and health, the establishment of a national regulatory authority for telecoms, public administration reform and legal advice on implementation of energy policy.

#### *The screening process*

The analytical examination of the *acquis* (screening) has been concluded for Slovakia except with regard to agriculture, and part of the Justice and home affairs which are foreseen in autumn 1999.

## **B. Criteria for membership**

### **1. Political criteria**

#### *Introduction*

In the 1998 Regular Report on Slovakia's progress towards accession to EU membership, the Commission concluded that :

"During the period July 1997 to end September 1998 there has been a lack of stability in the institutions guaranteeing democracy, the rule of law and protection of human rights, as reflected by the inability to elect a President, the controversial use of the transferred presidential powers, the unsatisfactory functioning of the parliamentary committees and the disregard for the Constitutional Court rulings. There have been problems in the treatment of minorities and a lack of progress concerning the adoption of legislation on minority languages".

The regular report indicated, however, that a window of opportunity had been opened by the parliamentary elections of September 1998, which, in spite of concerns about the newly adopted electoral law and the behaviour of the state television, had been positively evaluated by the OSCE and accepted by all parties.

In the 1998 Accession Partnership on Slovakia, the short-term political priorities were: "free and fair Presidential, national and local elections, effective opposition participation in parliamentary oversight committees and supervisory boards, and the adoption of legislative provisions on minority language use and related implementing measures". . The medium-term priorities included: "further steps to ensure respect for the Constitution and rights of the opposition, to guarantee the independence of the judiciary, and to foster and strengthen the functioning of the institutions of democracy, NGOs, independence of the media (in particular radio and television) and the policies and institutions protecting the rights of the minorities".

#### *Recent developments*

Following the Parliamentary elections of September 1998 the process of consolidation of democracy in Slovakia has regained momentum. Important developments have taken place, driven by the EU membership objective, that have positively changed the political landscape. Discussions in the Europe Agreement institutions and the High Level Working Group have supported in this process.

Municipal Elections took place in December 1998 following an amendment of the relevant electoral law in line with the Constitutional Court ruling of October 1998. Unlike the parliamentary elections, domestic observers were authorised. The electoral process took place without any significant problems and voter turn out was 54%.

Direct presidential elections took place for the first time in Slovakia in May. Mr. Schuster was elected in the second round for a 5-year mandate, with 57% of the vote and the support of the ruling coalition. Voter turn out was 75%.

A law on the use of minority languages in official communications entered into force on September 1<sup>st</sup>.

The Parliamentary Assembly of the Council of Europe decided in September to end the monitoring procedure on the fulfilment by Slovakia of its membership commitments.

## **1.1 Democracy and the Rule of Law**

### *The Presidency*

The Slovak Constitution was amended to allow for Presidential elections by universal suffrage. At the same time, some presidential powers were altered, mainly with a view to prevent the impasse which had prevented the election of the president in the 1998-99 period. The President now has the right to dissolve the Parliament if it has not decided within 3 months on a law on which the Government has called a vote of confidence. Some presidential powers were removed. For instance, the President will no longer be able to return constitutional amendments to Parliament. The President's powers have also been restricted with regard to the declaration of amnesties and the supreme command of the armed forces. Decisions in this regard have to be taken together with the Government.

The OSCE/ODIHR mission found the Presidential elections in line with Slovak electoral provisions, efficiently conducted and in accordance with OSCE commitments. The mission recognised positive developments in addressing some concerns raised by the May 1998 amendments to the election law. For example, the Constitutional Court ruling of March 1999 which had found restrictions on broadcasting election campaigns in the private electronic media unconstitutional. The observation mission welcomed the decision to accredit domestic observers and confirmed that public television provided balanced coverage. However, part of a television appearance by the Prime Minister and news items in some of the main newspapers could be interpreted as constituting a violation of the silence period at the end of the campaign. The Radio and TV Council imposed a fine on the STV and an obligation to broadcast a notice on the violation.

The new Head of State was officially inaugurated in June 1999, thus ending a vacuum of more than 15 months and providing a stabilising factor in the functioning of the political system. The President visited the Commission and NATO in July and confirmed Slovakia's orientation towards the EU and the priority of accession.

A petition was presented by 446.823 citizens to the new President requesting a referendum with two questions, one on the use of the Slovak language in official communications, the other on whether "strategic" companies should remain in state hands. Because the Slovak Constitution indicates that human rights matters can not be subject to a referendum and the same issue cannot be subject to a referendum twice in less than three years the President rejected the petition. The promoters of the referendum have lodged a complaint with the Constitutional Court.

### *The Parliament*

The main weaknesses identified in the Opinion and confirmed by the Regular Report have been addressed. The powers of the Slovak Parliament are respected and the opposition plays a full part in its activities. Membership in parliamentary oversight committees has been offered to and accepted by the opposition parties, following a proportional representation system. In addition, two posts of Deputy Speaker and the chairs of 6 committees out of 18 have been offered to the opposition. The Slovak National Party (SNS) took a Deputy Speaker position and the two chairs it was offered (Conflicts of Interest and Inspection of the Slovak Secret Services). However, the Movement for a Democratic Slovakia (HZDS) declined to participate.

The opposition has also been offered representation in the Supervisory Board of the National Property Fund, which it declined and in the newly created Councils for TV Broadcasting and Radio Broadcasting, where it is represented. Both the committees and the boards have met regularly and functioned normally. A report on the operation of the secret services (SIS) was presented to parliament in February 1999 and most of its content has been made available to the public. All parliamentary political parties are present in the commission preparing the reform of the constitution

In December the Parliament adopted a resolution expressing regret that a member of the former Parliament had been deprived of his mandate. This acknowledged the ruling of the Constitutional Court.

The 7<sup>th</sup> meeting of the Joint EU - Slovak Republic Parliamentary Committee, held in Bratislava in January, warmly welcomed the fact that the Slovak National Council had acted promptly to implement the recommendations adopted by the previous Joint Parliamentary Committee.

The Slovak Parliament decided to remove the parliamentary immunity of two of its members: one for misuse of public office in connection with the May 1997 referendum on NATO and direct Presidential elections, the other in connection with the abduction of the son of the former President. The Parliament subsequently voted for the detention of the latter on the grounds of witness intimidation and attempts to manipulate the media to influence public opinion. He was subsequently released from custody following a District Court ruling and is awaiting trial.

### *The Executive*

Despite internal tensions, the four-party coalition government has managed to stay together since the 1998 elections. In spite of diverging views on key issues, notably on economic policy and minority issues, the Government coalition has shown the capacity to reach compromise and move forward with its legislative agenda. There have been no changes in Government, except for the replacement of the Minister of Transport in August 1999 following his resignation.

The new Prime Minister, in exercising his interim presidential powers, cancelled the amnesty that his predecessor had granted to those who have been responsible for irregularities in the failed 1997 referendum as well as to those involved in the

unresolved case of the kidnapping of the former President's son in 1996. This allowed for the lifting of the parliamentary immunity in the two cases mentioned above. The main opposition party challenged the legality of cancelling an amnesty and the Constitutional Court ruled that it was unconstitutional. However, the court has clarified that its verdict is not retroactive and the decision remains valid.

A number of personnel changes took place in the Slovak public administration following the nomination of the new Government. The opposition and some independent media have criticised these changes as politically motivated. No evidence has been found to demonstrate that there was a violation of the law. This highlights, however, the need to reform and strengthen the public administration to ensure its professional character and independence.

The Charter on Local Self Government has been signed but is not yet ratified. The Government has committed itself to public administration reform and adopted a strategy for decentralisation and public administration reform. This needs to be developed. The civil service law is still pending. While the reform of the civil service has to be carefully planned in view of its financial and other implications, further delays could seriously jeopardise the key role of the public administration in supporting the accession process.

### *The Judiciary*

In the Opinion on Slovakia the Commission expressed major concern about the independence of the judiciary due to the procedures for nomination and removal of judges, the initial four-year probation period and excessive powers of the Ministry of Justice. The Regular Report observed that there had been no major changes since the Opinion and the 1998 Composite Paper confirmed that one of the main challenges in the field of democracy and the rule of law in Slovakia remained the independence of its judges.

The Slovak Government has taken steps to strengthen the independence of the judiciary. The Ministry of Justice has generally respected the recommendations of the judicial councils and the association of judges concerning the nomination of presidents and vice-presidents of courts. A new law on judges, assessors and judicial candidates will safeguard the independence of judges by laying down their rights, obligations and legal responsibilities. In addition, an act on courts, their organisation and administration will strengthen the powers of the judiciary committees, while reducing those of the Ministry of Justice. The Government has submitted to Parliament a constitutional amendment that will modify the nomination and removal procedure for judges (to be done by the President of the Republic on a proposal by the Council of Judges) and remove their probation period.

### *Anti-corruption measures*

In its Opinion on Slovakia, the Commission stated that the fight against corruption needed to be made more effective and the Regular Report did not identify major improvement in this area. Progress can be reported in terms of conventions signed,

policy decisions adopted and specific actions taken. Nevertheless, results have been modest.

Slovakia signed the Council of Europe's Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in September 1999 and approved the participation in the Group of States against corruption (GRECO) in March. The OECD Convention on Bribery of Foreign Public Officials in International Business Transactions was approved by Parliament, but is not yet ratified. The criminal code was amended to cover both active and passive bribery. The Council of Europe Criminal Law Convention on Corruption was signed by Slovakia in January but is not yet ratified.

The Government approved a crime prevention strategy which implements relevant Council of Europe and UN recommendations. Based on recommendations from the joint European Commission and Council of Europe project on corruption (Octopus) a specialised police unit was created in December 1998 for countering corruption.

The above unit has solved six criminal cases of passive bribery and misuse of authority by public officials. The Government has reviewed a number of privatisation transactions where suspicion existed that the law had been violated, but the results have been kept confidential. Lack of transparency and suspicion of corruption in connection with a tender have led to the resignation of a Minister and the dismissal of a high government official.

A considerable number of representatives of the previous Government have been deprived of their passports following the investigation of economic crimes. The number of offenders prosecuted has significantly increased. More than 100 police officers have been prosecuted for various crimes, of which 7 cases relate to corruption. The Slovak Financial Police reports 13-25 suspicious banking operations per month. In 1998 there were 14 registered cases of criminal proceedings against customs police officers.

In spite of the above, the effect of the measures taken has not yet been sufficiently demonstrated. Further sustained efforts are needed to ensure effectiveness in the fight against corruption both in economic and political life.

## **1.2 Human rights and the protection of minorities**

Slovakia has already ratified the major human rights conventions (see annex). The Second Optional Protocol to the International Covenant on Civil and Political Rights aiming at the abolition of the death penalty was ratified in June 1999.

### *Civil and political rights*

The respect for civil and political rights has improved in Slovakia. A Government Council for NGO's is being created to advise and co-ordinate Government support to civil society. However, the Government has not produced a policy document or

adopted any changes to legislation on foundations, non-investment funds and non-profit organisations as had been announced.

On taking office, the Government introduced swift changes in the composition of the boards controlling radio and television. These were criticised by the opposition and by an association of journalists as politically motivated. It is important that steps are taken to ensure the public service nature of state-owned electronic media. No cases of intimidation of journalists and media have been reported during the period. However, the treatment at work given to a group of journalists at STV is the subject of an investigation by the Labour Ministry.

Slovakia is increasingly being used as a transit country for trafficking in women. Slovakia is also becoming a country of destination in this respect.

The 24 hour rule applicable to asylum requests limits access to asylum (see Asylum in 3.7).

Foreign individuals are in principle not permitted to purchase property in Slovakia. Foreign enterprises can do so through Slovak subsidiaries and with the permission of the Ministry of Finance. The purchase of agricultural or forestry land by foreigners is not permitted. Branches of foreign banks can purchase the premises (not the ground) necessary for their business. Foreign insurance companies and securities houses still do not have this possibility.

### *Economic, social and cultural rights*

Social dialogue has improved during the period under consideration. The Tripartite Bill which regulates economic and social partnership and establishes the tripartite commission involving Government, Employers and Trade Unions entered into force in June. The commission has met regularly. The Government has also created a Consultative Committee on European Integration involving the social partners which has met regularly.

The Social Assistance Act was adopted in 1998 which guarantees the right to social assistance for Slovak citizens, foreigners, persons without citizenship, refugees and exiles, permanently residing in Slovak territory.

### *Minority rights and the protection of minorities*

The Slovak authorities made significant progress in this area. A Deputy Prime Minister for Human Rights, National Minorities and Regional Development who belongs to the Hungarian Coalition Party was appointed. Parliament established a Committee for Human Rights and National Minorities, including a commission for Roma issues. A Government Council for National and Ethnic Minorities, which has representatives of all the minorities, has been restructured as an advisory body to Government. Minorities units have also been created within the Ministries of Culture and Education and within the Office of Government.

The practice of issuing bilingual school certificates for students attending Hungarian or Ruthenian language schools, which was discontinued in 1997 after having been applied for 76 years, has been renewed and the relevant laws amended. Also the two headmasters who were dismissed in 1998 in this connection were reinstated in their functions.

The Law on the Use of Minority Languages in Official Communications was adopted in July 1999 and came into force on September 1st. The deputies of the Party of the Hungarian Coalition voted against it, mostly because they felt it was not sufficiently comprehensive. Their presence in Parliament, however, allowed the necessary quorum for the law to be adopted. The law provides that persons belonging to minorities are able to use their language in official communications with public administrative organs and organs of local self-administration in those municipalities where the minority constitutes at least twenty per cent of the population.

In this way Slovakia has not only restored a practice which was eliminated by the previous Government, but it brings national legislation on this issue back into conformity with the Slovak Constitution, applicable international standards and specific recommendations from the OSCE, the Council of Europe and the European Commission.

The Government has given a commitment that the law will be interpreted and applied so that its provisions prevail (as a matter of subsequent and specific law), over the provisions of the Law on the State Language. It may also need to be complemented in the future with other legislation on the use of minority languages in other areas, notably education and culture.

Concerning the Hungarian minority, the implementation of the Basic Treaty with Hungary started in November 1998 when an inter-ministerial protocol was signed setting up the Joint Committee for Minority Issues. This committee includes representatives of the Hungarian minority in Slovakia, as requested by Hungary. The inclusion of representatives of the Hungarian minority in the Slovak Government is also a positive development concerning inter-ethnic relations in Slovakia.

The large Roma minority (1.6% of the population according to the last census, but from 4.8% to 10% of the population according to estimates) continued to suffer disproportionately high levels of poverty and unemployment, discrimination, violence at the hands of thugs ('skinheads') and lack of protection from the police. The reconstruction of Roma dwellings affected by the July 1998 floods in eastern Slovakia is still not completed. Roma children are over represented in schools for retarded children and other forms of school segregation are reported. In June and early July more than 1000 Slovak immigrants of Roma origin arrived in Finland seeking asylum on the grounds of discrimination. This prompted the temporary imposition of visas on Slovaks travelling to Finland. The cases examined so far by the Finnish authorities have been rejected. Similar asylum requests, although less numerous, were received in Belgium, Canada, Denmark, Ireland, the United Kingdom and Norway. The latter also introduced a visa obligation for Slovak citizens.

The Government has taken significant steps on Roma issues and nominated a commissioner for this purpose in February 1999 who advises the Government on

policies and support programmes, including the Phare programme. Programmes have been launched to support the education of Roma and encourage school attendance and integration, including in co-operation with NGOs. Measures have been taken to improve monitoring and prevent racially motivated attacks. A strategy to tackle the problems of the Roma community was adopted in September. The strategy is general and lacks a precise timetable but is a step in the right direction. A budget allocation of € 1.4 million is called for in the 2000 budget, four times the 1999 allocation. In spite of these positive developments more attention, including at local administration level, needs to be paid to improve the living conditions of the Roma and to change discriminatory attitudes in society, the state administration and the police.

### **1.3 General evaluation**

Thanks to the changes introduced since September 1998 Slovakia now fulfils the Copenhagen political criteria. The independence of the judiciary has improved de facto but needs to be consolidated de jure, notably through an amendment to the constitution eliminating the probation period for judges and modifying the nomination and removal procedures.

Continued efforts are needed to sustain the stable functioning of the democratic institutions, step up the fight against crime and corruption and to protect minority rights. Particular attention should be paid to improving the situation of the Roma and to fight discriminatory attitudes in society.

## 2. Economic criteria

### 2.1 Introduction

In its 1997 Opinion on Slovakia's application for EU membership, the Commission concluded:

“Slovakia has introduced most of the reforms necessary to establish a market economy”; it “should be able to cope with competitive pressure and market forces within the Union in the medium term, but this would require more transparent and market-based policies”.

This finding was confirmed in the 1998 Regular Report, in which the Commission concluded that:

“Slovakia has implemented most of the reforms necessary to establish a functioning market economy, but there is still a lack of transparency due to government interference. Nevertheless, Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the market economy is allowed to function.”

In examining the economic developments in Slovakia since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

### 2.2 Economic developments

The current Slovak government inherited very difficult economic conditions from its predecessor. Excessively high levels of public investment, foreign borrowing and bank credits granted under non-market conditions artificially stimulated economic growth, while sound microeconomic foundations were lacking. This resulted in unsustainable fiscal and external deficits, and in rising losses of enterprises and state-owned banks. The economic policies of the present government constitute a clear break from the past and the reform effort is considerable. To restore macroeconomic stability and establish a basis for sound long-term growth, the government is now cutting back the government deficit and (re)launching the restructuring and privatisation of banks, enterprises and public utilities. Slovakia is currently experiencing a slowdown in economic growth as a result of these austerity measures.

### *Macroeconomic developments*

Real GDP growth declined to 4.4% in 1998, after three consecutive years of close to 7% growth. The fourth quarter was particularly weak with 0.5% growth year-on-year. This was followed by a larger increase of 2.4% in the first half of 1999, when growth was supported by strong exports. The economic slowdown mainly results from the efforts of the government to decelerate investment and consumption, in order to lower imports and reduce the trade and current account deficits. The increased reluctance of international financial markets to fund emerging markets with poor reform records after the Russian crisis has made it more difficult for Slovakia to finance the domestic savings gap by attracting foreign financing. The ability of Slovak companies to raise foreign loans and refinance existing foreign currency debt has been particularly affected. As a consequence of the current growth deceleration, the unemployment rate jumped up from 12.5% in the fourth quarter of 1998 to 15.3% in the first quarter of 1999 and 15.8% in the second quarter.

In 1998, Slovakia recorded trade and current account deficits of more than 10% of GDP. Foreign loans, expensive public investment programmes, and a rapidly increasing general government deficit fuelled domestic demand. The resulting high import growth rates maintained the considerable trade gap, despite reasonable export performance. In 1999, the government introduced several packages of austerity measures, which are slowing down domestic demand growth and have successfully reduced nominal import growth to less than 1% in the first eight months. Because exports continued to grow by almost 10%, the trade deficit decreased to about 6% of GDP in the same period. The introduction of a new 7% import surcharge on 1 June 1999 is also dampening import growth. The first signs of an improvement of the services balance have also appeared, leading to a reduction of the current account deficit. Although foreign direct investment in 1998 was substantially higher than in the previous years, at about 2.5 % of GDP, the amounts were far from sufficient to cover the current account deficit. In the first months of 1999, foreign direct investment weakened. It is expected to pick up significantly with the planned sales to foreign investors of (parts of) some of the bigger enterprises and banks.

The inflation rate gradually declined from more than 7% in the first half of 1998 to 5.6% in December 1998. It increased to 14.4% in August 1999, after considerable increases in administered prices (mainly in the energy sector) and the introduction of an import surcharge. Additional adjustments of administered prices during the rest of 1999 will continue to push up inflation. The National Bank of Slovakia now expects that headline inflation would be between 13.5% and 15.5% at the end of 1999, but considers that this does not threaten medium-term price stability because core inflation (excluding administrative price changes) should remain at last year's level of 6-7%.

Until 1 October 1998, Slovakia had a fixed exchange rate against a basket of 60% DEM and 40% USD, with a fluctuation margin of +/-7%. On 1 October 1998, the National Bank of Slovakia decided to let the koruna float, because it was no longer able to defend the currency against mounting domestic devaluation pressures. After renewed pressure in May 1999, the total depreciation of the Slovak koruna since its floating came close to 14% against the euro. Confidence in the currency was restored after the government started to introduce additional fiscal and structural reforms.

Consequently, the exchange rate strengthened again and by end September, the total depreciation against the euro had declined to around 6 %. The central bank is no longer supporting the exchange rate of the koruna, but only intervenes against what it considers to be temporary fluctuations from the trend.

Confronted with the lax fiscal policy of the previous government, the National Bank of Slovakia was forced to restrict monetary policy in order to contain inflation and limit the external imbalance. As a result, interest rates had to be maintained at levels that were harmful to the development of the enterprise and banking sectors. In the early months of 1999, the central bank was able to loosen monetary policy somewhat, in line with a more strict fiscal policy. However, in May 1999, monetary policy had to be temporarily tightened again to defend the currency against speculative attacks, resulting from both uncertainty on the outcome of the presidential elections and lack of progress on economic reforms. The rapid announcement by the government of additional budgetary and structural measures helped to ease the tensions.

Slovakia does not yet publish consolidated general government account data. Therefore, all general government figures are estimates, based on data from the various government sub-sectors. According to available statistics, in 1998 the general government deficit was around 5% of GDP and contingent liabilities appear to be rather high. This was mainly the result of problems with tax collection and of a significant expansion in extra-budgetary investment in the pre-election period. Because the deficit was primarily financed domestically, net credit to the government absorbed about two thirds of domestic credit expansion in 1998. The government intended to reduce the deficit to 2% of GDP in 1999, in order to cut excess domestic demand. However, the approved 1999 budgets for the various sub-sectors of government (state, extra-budgetary funds, social security, local government) indicate that the deficit might be closer to 3% of GDP. Nevertheless, even a reduction of the general government deficit to 3% is already having beneficial effects on the current account. Initially, the government introduced mainly short-term stabilisation measures to reduce the public deficit, such as a freeze on public sector wages, a substantial increase of regulated prices, cuts in public investment, increases of VAT and excise duties, the introduction of a new import surcharge, and measures to stabilise the financial situation in the health sector. However, in recent months, these have been complemented by measures that will have a more structural medium-term beneficial impact on the budget, such as cuts in public employment and in the level and duration of social security expenditure. Government estimates put the general government deficit for the first half of 1999 at 2.4% of GDP.



Main Economic Trends							
Slovak Republic		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	6.9	6.6	6.5	4.4	2.4	Jan-Jun
Inflation rate							
- annual average	per cent	9.9	5.8	6.1	6.7	8.7	Jan-Aug
- December-on-December	per cent	7.2	5.4	6.4	5.6	14.4	Aug
Unemployment rate, end-year							
- ILO definition	per cent	13.1	11.3	11.8	12.5	15.8	Jun
General government budget balance	per cent of GDP	:	:	:	-4.8 <sup>2</sup>	:	
Current account balance	per cent of GDP	2.3	-11.2	-10.0	-10.1	-6.5	Jan-Jun
	million ECU/€	299	-1652	-1722	-1839	-672	Jan-Jun
Foreign debt <sup>3</sup>							
- debt export ratio	per cent	53	72	84	91	80	Jun
	per cent	:	:	44	47	:	
- gross foreign debt	billion ECU/€	4.4	6.2	9.0	10.1	9.7	Jun
	billion ECU/€	:	:	4.9	6.0	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	1.2	1.4	0.9	2.5	:	
- balance of payments data	million ECU/€	148	157	74	384	80	Jan-Jun

*Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.*

### Structural reforms

<sup>2</sup> Provisional.

<sup>3</sup> The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

The Slovak government is currently working on an extensive programme of structural reforms. It includes bank restructuring and privatisation, a workout scheme for non-performing loans, an overhaul of the legal and regulatory framework, the abolition of the concept of strategic enterprises, and the design of a regulatory framework for public utilities, followed by their commercialisation and private sector participation.

The government is now checking the legality of a number of non-transparent and unfair privatisation deals from the past. It has announced that any shares that are returned to the state as a result of this will be privatised again through transparent and open procedures. The government has also abolished the Act on Strategic Enterprises, which prevented the privatisation of enterprises that were considered to be strategic. Besides the usual state owned enterprises, such as public utilities, post and railways, this group also comprised enterprises in the armaments and machinery sectors, the financial sector, telecommunications, pharmaceuticals, and agro-industry. With the recent approval of the Law on large-scale privatisation, these can now be privatised, while up to 49% of the energy utilities can be sold. No major privatisations have been finalised by the new government. However it has launched the privatisation of part of the Slovak Telecommunications Company and of the state's share in one of the GSM operators.

In contrast to previous years, the bank sector recorded a small net profit in 1998, despite increasing losses in the three largest banks, which are still state owned. These banks represent 46% of total assets in the banking sector, down from 51% in 1997 and 72% in 1993. Their capital adequacy ratio decreased further to 2.6% and classified claims represented 38% of their total claims, compared to 30% in 1997. State-owned banks hold close to 70% of classified claims. In August 1999, the government has agreed on the principles and steps for restructuring and privatising state-owned banks before the end of 2000. The process for one of these, IRB, which has been under direct administration by the National Bank of Slovakia since December 1997, has already started and should be finalised by the end of 1999. Through the replacement of the top management of the state-owned banks, the government is succeeding in changing the policy of these banks. They are reducing their operational costs to prepare for privatisation. After an improvement of their credit risk analysis and management capacities, they no longer give credits to enterprises without repayment capacity and try more actively to recuperate outstanding bad loans. Nevertheless, they will not be able to play their intermediation role between savings and investment without being recapitalised and privatised and before the necessary changes to the legal framework are made. The budgetary cost of recapitalising the banks might run up to 1.2% of GDP annually. The government recently approved a revision of the Banking Act to increase the powers of the supervisory authority and to improve early response to problems in individual banks.

Partial information on the largest 100 companies indicates that the financial situation of enterprises deteriorated further in 1998. While these enterprises earned a small profit in 1997, they recorded a small loss (0.2% of GDP) in 1998. This was partly caused by the depreciation of the koruna, which made foreign debt servicing more expensive. Enterprises also did not face sufficient financial discipline in the form of "hard budget constraints" (i.e. enterprise managers expected that the government or the banks would bail them out when they incurred losses), resulting in high tax arrears (10% of GDP) and inter-enterprise arrears (20% of GDP). In 1999, budget constraints

are becoming firmer as a result of the scarcity of foreign loans to Slovak enterprises, the changed behaviour of state-owned banks, and the increased reluctance of the government to guarantee credits to enterprises.

Numerous legal obstacles and conflicts between different pieces of legislation hinder restructuring in Slovakia. For example, losses cannot be easily written off against capital; tax rules are punitive and do not encourage the build-up of bank provisions or voluntary debt forgiveness by creditors; creditor rights in bankruptcy remain limited (in particular their capacity to change management and ownership); the bankruptcy rules allow no flexibility, and; discrimination against foreigners remains. The required changes to the legal framework to promote enterprise restructuring have been identified by the government and are now under preparation. The government has announced that all legal amendments will be approved by Parliament before the end of 1999.

<b>Main Indicators of Economic Structure in 1998</b>		
Population (average)	thousand	5391
GDP per head	PPS-ECU	9300
	per cent of EU average	47
Share of agriculture <sup>4</sup> in:		
- gross value added	per cent	4.6
- employment	per cent	8.2
Investment-to-GDP ratio	per cent	40.8
Gross foreign debt/GDP	per cent	33.0
Exports of goods & services/GDP	per cent	63.7
Stock of foreign direct investment, according to EBRD	billion ECU	1.5
	ECU per head	280

<sup>4</sup> Agriculture, hunting, forestry and fishing.

*Source: National sources, OECD external Debt Statistics, IMF, EBRD.*

## 2.3 Assessment in terms of the Copenhagen criteria

### *The existence of a functioning market economy*

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

In contrast to its predecessor, the new government has reached a broad consensus about the need for macroeconomic and structural reforms. Nevertheless, due to the heterogeneous composition of the government coalition, the adoption and implementation is taking more time than necessary. The co-ordination of macroeconomic policies between the government and the National Bank of Slovakia has been significantly improved, and resulted in a more equilibrated macroeconomic policy mix. The government has recently approved a medium-term economic strategy that will serve as a basis for the establishment of a Joint Assessment of Slovakia's medium-term economic priorities, which is expected to be finalised before the end of 1999.

The government is tackling the macroeconomic disequilibria. The budget deficit is being cut, which should help to bring back the current account deficit to a more sustainable level. The first results of the measures are encouraging: as a result of the observed slowdown in domestic demand, imports are clearly growing slower than exports, leading to lower trade and current account deficits. Initially, the government deficit has mainly been cut by increasing revenues. However, more recently, they are being complemented by more structural measures to reduce expenditures. Because of the heavy future financial burden of bank restructuring and outstanding government guarantees on enterprise loans, sustained control of the budget deficit will require continued austerity measures and the introduction of a medium-term fiscal consolidation programme. Monitoring and control of the budget needs to be enhanced through the introduction of a system of consolidated general government accounts. The stabilisation measures, in particular the increase in administered prices, have generated some increase in headline inflation. However, this does not threaten medium-term price stability because core inflation is kept under control.

The non-transparent intervention of the previous government in market allocation decisions has ended, but it will take some time to correct the negative impact of that government's legacy. Regulated prices represent 17.8% of the consumer price index (mainly energy, some public services and rents). In contrast to its predecessor and in order to compensate for a lack of adjustment in the past, the current Government has taken necessary decisions to increase administered prices.

The vast majority of enterprises in Slovakia are private. The share of GDP generated by the private sector has increased to about 85%. Under the previous government, many privatisation deals were neither transparent nor fair. The current government has stopped privatisation under those conditions, is rectifying some of the most blatant cases of distorted privatisation, and has abolished the interventionist measures of the previous government, including the Enterprise Revitalisation Act and the concept of strategic enterprises.

In principle, market entry is free in Slovakia. However, the bankruptcy framework is not functioning properly. Bankruptcy proceedings are very lengthy and possibilities for financial restructuring of potentially viable enterprises are lacking. The revamping of the bankruptcy process which has been set in motion by the government will be a key element in a decentralised approach towards enterprise restructuring. The necessary legal framework needs to be adopted and the reform implemented as soon as possible.

Although a market economy oriented legal system is largely in place, some fiscal and regulatory impediments for enterprise restructuring need to be removed. Moreover, the courts will need reinforcement in order to improve commercial law enforcement. The government has already put into place some of the necessary changes to the present legislation that will greatly improve the business environment and intends to complete this programme before the end of 1999.

The banking sector in Slovakia is characterised by a dichotomy between state-owned banks and private banks, which each represent about half of the sector. The private sector consists mainly of smaller banks, with sizeable foreign capital participation. They continue to gain market share from the big state banks and are generally profitable. The state still owns a majority of the shares in the largest banks in Slovakia. They require deep restructuring and re-capitalisation and their precarious situation hampers the proper functioning of the financial system. The burden of bad debts keeps interest rate spreads high and limits credits for enterprise restructuring. This shortage of credit presents particular problems for the further development of SMEs. The financial sector is not yet able to play its normal intermediation role, which is an essential feature of a functioning market economy. Nevertheless, the process of restructuring and privatising the state-owned banks has recently been started and as a result of the replacement of the management of these banks their behaviour is becoming more market oriented. Current government plans are to finalise the banking reform by the end of the year 2000.

Capital markets remain illiquid and fragmented and progress is still needed in their regulation. Although the banking supervision framework is largely in place, it needs to be strengthened. The recently revised Banking Act takes steps in this direction.

Slovakia is currently adopting and implementing the remaining legal and structural reforms that are needed to make it a functioning market economy. Price distortions have been reduced through increases of administered prices and the new government is abstaining from direct intervention in price formation and resource allocation. The government has taken measures to reduce the fiscal and external deficits to more sustainable levels, but continued medium-term fiscal reform will be needed. The

government is also working to reinforce and improve the overall legal environment for enterprises, and to restructure and privatise ailing state-owned banks.

*The capacity to cope with competitive pressure and market forces within the Union*

As set out in Agenda 2000, Slovakia's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Slovakia's medium-term competitiveness is being steadily improved by the steps taken to consolidate the functioning of the market economy. The predictability of the economic environment is also increased by higher macroeconomic stability, greater transparency, the introduction of a consistent medium-term macroeconomic framework and by better policy co-ordination.

In line with the slower growth of domestic demand, growth of investment has fallen in early 1999. The investment ratio receded from 40.8% of GDP in 1998 to 32.0% in the first half of 1999. This reduction is mainly explained by lower public investment and by decreased possibilities for Slovak enterprises to obtain foreign credits to finance their investment programmes. Because of budgetary limitations, the ambitious infrastructure programme had to be delayed and spread over a longer period. 1998 was the best year ever for foreign direct investment in Slovakia, although at 2.5 % of GDP the amounts remain unspectacular. The more welcoming attitude of the new government and a new tax incentive scheme will support foreign direct investment. However, inflows will probably only start rising significantly with the privatisation of some of the important remaining state-owned enterprises (telecoms, banks, energy sector).

Slovakia's labour force is well-qualified and wage costs remain relatively low. However, the lack of regional mobility, partly due to housing problems, is creating labour scarcity in some regions, while unemployment is very high in other regions.

On 1 June 1999, Slovakia has reintroduced for balance of payments and budgetary reasons an import surcharge, for the third time since 1994. The protective measures are mainly the legacy of the previous government's inability to introduce the required structural reforms to increase the competitiveness of Slovak enterprises.

Slovakia has re-oriented its exports towards west European markets, after the loss of its traditional export markets resulting from the break-up of the Soviet trade bloc and the dissolution of the federation with the Czech Republic. In 1998, Germany became

its most important trade partner, replacing the Czech Republic. This is mainly due to the rapid expansion of Volkswagen, which is now Slovakia's biggest exporter. In the first eight months of 1999, exports to the EU continued to grow by as much as 22.9%, leading to a further increase of the share of EU exports to 60.5% of total exports. The high growth rates of trade with the Union in recent years are an indication that Slovak enterprises are penetrating EU markets, while ongoing reforms are helping to increase their competitiveness.

Production and exports are concentrated in a few big enterprises, such as VSZ steelworks, Slovnaft, and Volkswagen. As the current problems in VSZ show, this makes the Slovak economy vulnerable to business and management failures in these enterprises. Nevertheless, the SME sector is growing and already accounts for almost 70% of enterprises. They contribute 50% of GDP and represent close to 60% of employment and about one third of all exports.

Export competitiveness recently improved as a result of the depreciation of the koruna. As a result of the slowdown of real wage growth since the middle of 1997, labour productivity is now growing significantly faster than real wages, which seem to be responding to labour market conditions.

Progress on enterprise restructuring has been limited. About half of the enterprises that have to submit financial statements reported losses in 1997. Total losses amounted to 9.7% of GDP and were higher than gross profits. There are indications that losses continued to increase in 1998. Under the previous government, the speed of enterprise restructuring was hampered by state interference, the weakness of the banking sector, and insufficient foreign direct investment. The lack of tax compliance by enterprises and the accumulation of tax arrears constitute hidden state subsidies, which counter the restructuring effort. The new government's restructuring plans are tackling all of these problems. However, it is too early to judge the effectiveness of the measures, which have not all been adopted and implemented.

There are relatively few small-scale family-owned farms in Slovakia (5% of the total). Farm restructuring has primarily been done through the transformation of co-operatives' property certificates into tradable equity shares. While co-operatives are still the dominant farm organisations, their number is declining and commercial companies are growing in importance. Government support to agriculture increased substantially in 1998 through increased market interventions in the face of falling world prices.

Many of the conditions necessary for the acceleration of restructuring in Slovakia, which would lead to sustained increases in competitiveness, are now being put into place. Much has been done to achieve macroeconomic stability and to complete the reforms needed for the functioning of the market economy. Continued progress towards sustainable macroeconomic stability, continued implementation of the legal and structural reform programme for the financial and enterprise sectors, and the permanent elimination of the import surcharge should enable Slovakia to cope with competitive pressure and market forces within the Union in the medium term.

## **2.4 General evaluation**

Slovakia is close to being a functioning market economy thanks to the courageous policy decisions and the impressive reform agenda of the new government. The implementation of these decisions in the coming year should take the process forward and complete the legal and economic conditions of a functioning market economy. Continued progress towards sustainable macroeconomic stability and the implementation of the structural reform programme should enable Slovakia to cope with competitive pressure and market forces within the Union in the medium term.

In the course of 1999 Slovakia has adopted measures to reduce internal and external imbalances and the first results are encouraging. Plans for privatisation of the remaining state-owned enterprises and banks have been adopted and measures aimed at accelerating banks and enterprises restructuring are being implemented.

Slovakia needs to ensure the sustainability of these structural and legal reforms, particularly by developing the capacity of the banking sector to perform its financial intermediary function, by completing privatisation in a transparent and market-based manner, and by amending and effectively applying bankruptcy legislation. Priority should also be given to consolidating macroeconomic stability, in particular through deeper fiscal reform in a medium-term setting.

### 3. Ability to assume the obligations of membership

This section provides an update on Slovakia's ability to assume the obligations of membership - that is to say the legal and institutional framework, known as the *acquis* through which the Union implements its objectives

In the 1998 Regular Report on Slovakia's progress towards accession, the Commission concluded that :

"The overall pace of Slovak approximation has slowed, progress in strengthening implementation and enforcement structures is limited and there is a noticeable lack of momentum in certain sectors where a concerted effort needs to be maintained (e.g. the internal market, environment).

Apart from the adoption of intellectual and industrial property legislation, the short-term priorities of the Accession Partnership in the internal market, administrative capacity and environment areas did not receive sufficient attention.

Attention needs to be paid to putting the legislative framework and administrative capacities in place in the area of justice and home affairs".

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

#### 3.1. Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

Until September 1999, Slovak legislation did not contain all of the fundamental principles of the EC *public procurement* system. This was reflected by excessive recourse to direct purchasing. In 1998 two third of the procurement cases at the state and municipal level were completed through direct agreements. Foreign companies

earned contracts worth 0.5 % of the total contracting amount. The legislative framework has changed with the adoption of the new law on public procurement in September which will enter into force in January 2000. This law aligns Slovak legislation with the *acquis* and provides for the creation of an independent authority managing the public procurement process.

As regards *intellectual property* rights the legislative alignment in the field of copyright is satisfactory. No further specific developments have taken place since 1998. Some progress is still needed to achieve full implementation of the principle of equitable remuneration, on the legal protection of computer programmes and on the legal protection of data bases. Further steps need to be taken in the fight against piracy particularly measures to prohibit the release for free circulation, export, re-export or entry for a suspending procedure of counterfeit and pirated goods.

In the field of *industrial property* rights, Slovakia is not in line with the *acquis*. Slovakia is invited to join the European Patent Convention from 1 July 2001. The Patent Law still needs some further amendments before it is fully in line with the *acquis*. Enforcement of Industrial Property rights remains a matter of concern. No further developments can be reported on trade marks.

As regards company and accounting law, the Commercial Code has been amended to incorporate elements of the *acquis*. Concerning company law, the Commercial Code as it stands incorporates some but not all elements of the 2<sup>nd</sup>, 3<sup>rd</sup>, 6<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> Directive on company law. Further alignment in this area is necessary.

The Slovak *bankruptcy* law does not seem to provide appropriate incentives for financial restructuring or speedy liquidation. The law needs to be amended to respond to these weaknesses and to be further aligned with relevant EC-directives.

The law on the *Protection of Personal Data* in Information Systems is broadly in line with the *acquis*. A Commissioner for Data Protection has been appointed to implement this law. His responsibilities include: monitoring the processing of personal data and the current status of their protection in information systems, dealing with complaints about breach of the right of protection of personal data and submitting to government and parliament an annual report on the protection of personal data.

Further legislative fine-tuning is needed. The Council of Europe Convention on personal data protection has not yet been signed .

### *The four freedoms*

In its Opinion, the Commission indicated that "Slovakia has already adopted significant elements of the *acquis* relating to the single market. However, the Commission is not yet able to take a position on every measure whose transposition has been reported. Further progress will be needed with regard to, in particular, standards and certification.

The assessment in the Regular Report recognised that: “regarding the ‘New approach’ legislation, although there has been progress in a number of specific sectors since last year, overall progress has been hampered by the failure to adopt framework legislation and to establish the corresponding institutional infrastructure. In the field of financial services, some legislative progress has been achieved in the banking sector. There is a continued need to establish a supervisory authorities in the securities field and strengthen existing supervisory authorities in the banking and insurance sectors, as well as to ensure their independence”.

### **Free movement of goods**

Until recently practice in the area of standards had been unsatisfactory and an obstacle to the free flow of goods. Most standards were binding and used as a regulatory instrument. However, in the past year the use of mandatory standards has been limited and the adoption of EN standards has started in some areas.

Most importantly a framework law on technical requirements and conformity assessment was adopted by parliament in September 1999. It incorporates many of the basic principles of the Community ‘New and Global Approach’ legislation. The entry into force of this law on 1 January 2000 should enable the effective implementation of several specific New Approach directives. Concerning product specific legislation, in the field of foodstuff there has been progress in the implementation of certain vertical directives with the adoption of new chapters of the Food Code. As yet overall alignment of existing legislation is missing. Further attention is needed to alignment in this area.

In the field of pharmaceuticals, ministerial decrees, which implement EC directives on good manufacturing practice, good distribution practice and testing have been adopted. The EC directive on pricing has been partially transposed by amending existing legislation on rules of treatment.

In the field of textiles, a decree entered into force in 1999 which transposes the EC directive on textiles names.

No progress has been made in the fields of footwear, crystal glass, wood, motor vehicles, cosmetics, chemicals and legal metrology.

The recent adoption of the framework legislation on standards and certification is a very positive step in the process of the overall alignment in the area of the free movement of goods. The Slovak government should now pursue the transposition of the specific directives as planned.

### **Free movement of capital**

Slovakia is still behind in the process of aligning to the acquis in capital movement. Significant steps remain to be taken to adapt to the Community acquis, even in areas where the impact would have positive effects on Slovakia's external position.

Since the last report foreign participation in Slovak airlines has become permitted up to a limit of 50%. Furthermore, the Securities' Act was amended so that physical bearer shares are registered.

Measures taken by the Government to address serious macroeconomic disequilibria and to simplify bankruptcy proceedings should enable a progressive acceleration of the liberalisation process of the numerous outward transactions that are still subject to authorisation requirements.

### **Free movement of services**

Slovakia has so far only achieved partial alignment with the *acquis* related to financial services. An amendment to the Act on Protection of Deposits went into force in July 1999 aiming at securing fast and smooth payment of compensation for uncollectable deposits made by physical persons into insolvent banks and branches of foreign banks. Although not yet in line with the *acquis* it constitutes a step in the right direction.

Slovakia has made limited progress in legislative alignment in the *banking* sector. An amendment to the Banking Act was adopted by Parliament in September. It includes, inter alia, the prohibition of banking activities for non-bank entities, the increase of the powers of banking supervision by extending the authority to impose sanctions and the regulation of mortgage transactions, including the licensing of foreign entities for that purpose. The post-BCCI, the Bank Accounts and consolidated supervision directives, however, have not yet been transposed. The current Anti-Money Laundering law partially transposes the relevant Council Directive on prevention of the use of the financial system for the purpose of money laundering. A financial intelligence unit is established. There are, however, still some inconsistencies, particularly the existence of anonymous bank accounts.

In August 1999 the government approved a programme of restructuring selected banks and financial restructuring of the enterprise sector. Other legislative steps have facilitated the process of bank restructuring; i.e. an amendment to the Commercial Code, which enables the National Bank of Slovakia to decrease shareholders' equity in specific banks to absorb losses.

The amendments to the *Insurance* Act enabling, for example, the establishment of branches of foreign insurance companies, have not yet been adopted. Further efforts are also needed, for example, an act on compulsory motor vehicle third party liability insurance.

An amendment to the Act on *Securities* entered into force specifying the conditions for the operation of foreign traders. In order to improve the protection of minority shareholders, stricter and more precise requirements have been placed on issuers of publicly traded securities to provide information.

The National Bank of Slovakia has started preparations to improve the *payment* infrastructure, but further efforts should be made to convert the present large value transfer system into a real-time gross settlement (RTGS) system. The implementation

of such an infrastructure will be essential in order to align the Slovak payment system to those existing in the Member States of the European Union.

### **Free movement of persons**

The Slovak legislation on mutual recognition of professional qualifications is partially in line with the *acquis*. Full approximation has been achieved only in the case of nurses and midwives.

A general framework for a new system for the recognition of foreign professional qualifications is still lacking. A high amount of legislative work needs to be done to reach alignment with the General Systems Directives and some of the sectoral directives. A centre for recognition of diplomas has been created, which will only be fully operational once the *acquis* is transposed.

The procedures for students from EU-Member States to obtain temporary residence have been greatly improved. The right of residence Directives need to be further transposed. In order to reach alignment in the area of co-ordination of social security schemes Slovakia needs to set up work accident insurance as part of the social insurance system.

### *Competition*

Current legislation on *anti-trust* is already largely aligned with the *acquis*. Some improvements and further adaptation are still needed for block exemptions, agreements restricting competition, the exemption of the agricultural sector, the de minimis rule and negative clearance. In 1998 the antimonopoly office dealt with 332 cases. 217 of those cases related to agreements restricting competition, 38 to the abuse of a dominant position and 77 to concentration, of which the office prohibited the merger in one case. Most cases concerned the chemical, agriculture and food as well as metallurgy industries. In 1999 the Antimonopoly Office reviewed 181 cases, of which 107 involved agreements restricting competition, 28 the abuse of dominant positions and 46 concentrations. In 1999 all concentrations so far were permitted.

Although state aid policy remains an issue, there has been substantial improvement. The State no longer extends financial guarantees to private firms and a committee supervises the issuing of guarantees to the public sector (infrastructure and energy). By adopting a comprehensive state aid law in August 1999, Slovakia established a solid framework for ensuring compliance of its state aid system with the *acquis*. This law will enter into force in January 2000. The contentious Enterprise Revitalisation Act was abolished in November 1998.

Slovakia has made some progress in the collection of complete regional statistical data. Concerning its annual state aid reports, Slovakia should work on further improvements of their coverage and presentation. Slovakia should also work on further improving the state aid inventory in order to exhaustively cover all aid measures.

### **Conclusion**

With the adoption of the Public Procurement law in September Slovakia has taken a positive step in this area and met a short-term priority of the Accession Partnership. Now attention must turn towards establishing the independent procurement agency, provided for in this legislation.

Significant efforts still need to be made in the area of free movement of goods. However with the adoption of the framework law on technical requirements and conformity assessment, Slovakia has fulfilled an important short-term priority of the Accession Partnership and opened the way for further progress.

There has been little progress in the area of free movement of capital. As regards free movement of services there is limited but steady process in transposing the *acquis*. In the area of free movement of persons Slovakia needs to increase its efforts regarding mutual recognition of professional qualifications.

The adoption of the law on State Aids constitutes a significant step forward and addresses a short-term Accession Partnership priority. Now attention needs to turn to its correct implementation, and to making the State Aids monitoring authority fully operational.

### **3.2. Innovation**

#### *Information society*

The general accessibility of computer and Internet information services in Slovakia continued to increase. By the end of 1998, 20 % of Slovak adults had access to a PC.

Slovakia participates actively in the joint high-level committee on information society. However, no sound information society policy has been adopted yet. This will be the task of the recently established Government's Council for Information Technology.

#### *Education, training and youth*

The education act was amended in January 1999 to reintroduce bilingual school certificates in areas with large national minorities.

Slovakia participates in the Community Programmes Socrates, Leonardo da Vinci and Youth for Europe III, which have been opened for Slovakia's participation since April 1998. In the field of mutual recognition of academic diplomas no major progress can be reported. Several bilateral recognition agreements with Member States have been concluded. A national observatory on vocational education has been established.

In 1998-99, 533 students have benefited from Erasmus mobility grants to study in EU countries and 3.875 young Slovaks have taken part in the Youth for Europe

programme. In 1998, 326 Slovaks participated in exchanges within the framework of the Leonardo programme (vocational training).

### *Research and technological development*

The present Community acquis does not require transposition into the national legislation. However, legislation to improve the framework for research and technology institutions is still pending. The state budget allocated 0.5% of the GDP in 1999 for science and research.

Since September 1999 Slovakia has been fully associated with the 5<sup>th</sup> Framework Programme and with the Euratom Framework Programme. Several information dissemination structures have recently been created or consolidated. The real implementation capacity will be tested during the association with the 5<sup>th</sup> Framework Programme. Slovakia has also decided to open its corresponding research activities to enterprises, researchers and universities from the Member States.

### *Telecommunications*

Slovakia had already achieved a certain degree of liberalisation of the telecommunications sector. Efforts now have to be devoted to complete liberalisation, and to ensure fair competition and proper functioning of the market.

There has been no legislative progress nor further liberalisation of the sector since November 1998. The subsequent slow rate of commercialisation of the sector can be seen in the relatively low growth in the number of lines (nearly 30 per 100 inhabitants at the end of 1998), in the length of the waiting list, in the relatively low productivity of the public operator (Slovak Telecom) and in the scope that remains for price re-balancing. The mobile sector, however, has grown quickly to reach 9 per 100.

Slovakia has not found a strategic partner for its public operator even though this was foreseen for 1998. Nonetheless, in December 1998 Slovak Telecom was converted into a 100% state-owned joint-stock company in preparation for its future privatisation, which is expected to be achieved by selling a large minority stake to a foreign strategic partner through a tender. The amendment to the law on large scale privatisation passed in September opens the way for the privatisation of the company. The remaining State share will be fixed by a cabinet decision. A foreign consortium has been selected through a tender procedure to advise on the transaction, which should be completed in the first quarter of 2000. The Government has not yet been able to progress in its previously announced intention to license a third mobile operating company.

The public telecommunications operator announced revisions in prices as from 1 July that continued the process of price re-balancing.

A liberalised market in telecommunications services requires access to capital and an effective regulatory regime to safeguard competition, to secure re-balancing and to prevent distortion of the market by dominant suppliers. Progress in this respect is

becoming urgent and a properly separated regulatory function should be established quickly so the coming privatisation can go forward on a sound basis and that other players in the Slovak market can make plans.

Slovakia has signed the WTO agreement on basic telecommunications services, keeping the Slovak Telecom monopoly on voice telephony until 2003.

The current legislation on Posts is not in line with the *acquis*. The adoption of the new postal act, which should ensure alignment on the *acquis* and set out the new status of the Slovak postal services, should be accelerated.

### *Audiovisual*

No significant progress has been made with respect to the adoption of the audiovisual *acquis* (Television without frontier directive). Existing broadcasting legislation, in particular concerning the production and distribution of television programmes of European origin, is not in conformity with Community legislation. Slovakia needs to amend the legislation to bring it in line with the *acquis*.

### **Conclusion**

Progress has been achieved in the field of research and technological development with the full association to the 5<sup>th</sup> Framework Programme. Slovakia has shown an active interest in participating in the EU-educational programmes. Slovakia has, however, not made progress in either the audiovisual or telecommunication fields (apart from some preparatory steps for privatisation of the public operator). Further alignment and market liberalisation are necessary. A law for the sector is urgently needed to create conditions for effective liberalisation and competition.

## **3.3. Economic and financial affairs**

### *Economic and Monetary Union*

Slovakia has indicated that it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Slovakia has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Otherwise, Slovakia has made little progress in its preparation for participation in Economic and Monetary Union. In particular, for the *acquis* that has to be implemented before accession, existing legislation which still allows limited direct financing of the government by the Central Bank needs to be amended. The way repurchase agreements are currently conducted is not yet in line with the prohibition of direct financing. Public authorities still have privileged access to the state-owned financial institutions, which lack independence from government. In the area of Central Bank independence, the basic provisions of the Central Bank Act largely comply with the requirements of the Treaty. Nevertheless, further adjustment will be

needed to assure full compatibility, especially in the area of personal independence of the members of the Board.

Compliance with the EMU *acquis* is conditional on completion of the process of liberalisation of capital movements, which is examined under the section on free movement of capital.

### *Taxation*

Since the introduction of VAT Slovakia has gradually established a system which comes relatively close to the general provisions of the Community VAT system. Gradual alignment of excise duties has also taken place in the past, although this is an area where significant discrepancies still exist. Since the Commission's Opinion of 1997 little priority has been given to further legislative alignment in the field of either VAT or excise duties.

Recent changes to Slovakia's VAT legislation have, as of April 1999, resulted in: the introduction of taxation of international non-regular bus transport carried out within the country by foreign carriers; reclassification of olive oil from the standard VAT rate to the reduced rate and; the exclusion of interest earned on debt securities from taxable payments. In addition, although outside the scope of Community required alignment, Slovakia has increased the reduced VAT rate from 6% to 10%.

Alignment in the field of *excise* duties has concentrated on getting closer to the Community minimum levels by increasing duty on petrol, diesel oil and cigarettes as of April 1999 and again as of July 1999. Also the duty rate on cigars was increased in July 1999.

### **Conclusion**

Slovakia has made efforts to iron out some of the discrepancies between its indirect tax legislation and the *acquis*. Further targeted efforts are still required.

### *Statistics*

Slovakia is continuing to make progress in harmonising its statistical system with EU requirements in key areas such as annual national accounts, methodology for external trade, agriculture, business and social statistics. However, the statistical law will have to be modified to fully align with the *acquis* - for example to allow for transmission of certain data outside the country and wider access to data. The administrative structures to implement and enforce the *acquis* in this area are largely in place.

In a number of areas considerable work still lies ahead. In particular, special attention needs to be paid to regional statistics, small business units, government finance and agricultural census.

### 3.4. Sectoral policies

#### *Industry*

The Enterprise Revitalisation Act, which was singled out as contrary to sound industrial policy, was abolished at the end of 1998.

In January 1999, the new government adopted a package of economic measures, aimed at both re-establishing the macroeconomic balance and improving the business environment and competitiveness. A programme for foreign investment support was approved in March. The programme sets up a blanket incentive scheme and calls for a stabilisation of the legal framework, the simplification of court case proceedings, the alignment of depreciation policies with OECD practice and the adoption of a law regulating certain monopoly situations.

The flow of foreign direct investment into Slovakia has not changed much from previous low levels, in spite of the government's more positive attitude reflected in the adoption of a programme of investment support (see chapter on economic criteria). Progress has been made to improve the business environment by legislative simplification, enhanced transparency, and reforms of the tax system (levels for industry have been reduced). These reforms, along with funds to help SMEs, are intended to stimulate alternative employment and growth.

In September 1999 Slovakia has revised its approach to privatisation by amending the law on large-scale privatisation. The revision cancels out the law on strategic companies and enables the privatisation of stakes in natural monopolies in banking, postal services, telecommunications, the gas industry and the energy sector. The law sets minimal stakes for the state or the National Property Fund (NPF) in selected companies and excludes some specific companies from privatisation.(e.g. railroads, forests, ground and surface water, postal services). A minimum 51-percent stake of the state or the NPF is set in the gas utility SPP, the crude oil transport company Transpetrol, in power distribution companies and in the power producer Slovenske Elektrarne. The law solves the problem of the pay-off of bonds issued by the National Property Fund in the second privatisation wave.

The financial system is still not functioning effectively. Assets are not being effectively transferred through properly organised markets. The domestic banking system continues to be unable to satisfactorily play its function in the provision of finance for industry. State-owned banks continue to be burdened with bad-debts and a high ratio of non-performing loans, and appear to be in a weak position to provide the necessary financing for expanding Slovak companies and to guide the restructuring of industry. A restructuring and privatisation programme for state owned banks was adopted by government in August 1999.

An important industrial policy challenge is posed by the situation of VSZ (the major steel producer). The government has been trying to solve the issue in compliance with market principles. A foreign strategic investor is being sought.

An important dimension of industrial policy is the control of state aids (see competition above).

## *Agriculture*

### **Agricultural situation**

The share of agriculture in the GDP (4.4% in 1997 and 4% in 1998) continued its downward trend. Agricultural employment accounts for almost 5% of the population. The food industry represents 4% of GDP. On average, agriculture prices fell by 5.6%. Demand for agricultural products declined slightly and the consumption of food commodities showed little change during the period.

Slovak exports of agricultural and food products to the EU fell to €84 million in 1998 compared to €94 million in 1997 reversing the previously stable trend of increasing exports. The contribution of agriculture to overall exports fell to less than 2%. Only exports of milk, eggs, oil seeds and meat preparations still show a positive trend. The most important markets for Slovak exports are the candidate countries and the EU (60% and 20% of exports respectively in 1998)

EU exports of agricultural and food products into the Slovak Republic continued to increase to €284 million in 1998 which represents 5% of total EU exports to the Slovak Republic. The Community's trade surplus in agriculture amounted to €200 million.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance the progressive and orderly liberalisation of bilateral trade.

### **Agricultural policy**

New subsidies have been introduced in Slovakia with the entry into force of a Regulation in May 1999 on support for the foundation of production and sales associations, the production and consumption of milk for children, the production of evaporated milk for animal feed purposes and extension services.

Most market support was concentrated on the dairy sector. Subsidies for milk production are not granted according to milk quality but per dairy cow producing milk for the market. Subsidies are not provided for specific crops but in relation to the price of one hectare of agriculture land. The basic mechanisms of support for other sectors remained unchanged, and consist mainly of intervention purchases by the State Market Regulation Fund.

Export subsidies have increased, in particular for malt and dairy products. A new grain storage and trading regime was established.

Direct budgetary outlays were reduced by 2% mainly affecting less favoured areas, input subsidies and investment in agricultural plants and machinery. Only payments for irrigation, environmental services and animal health increased.

Restructuring of the farm sector has involved the liquidation of a number of state farms. The co-operative farms continue to be dominant, both in terms of output and acreage. The privatisation of state enterprises in the agro-food sector is almost completed.

In the area of *veterinary and phytosanitary* legislation, several basic laws have been adopted (those on veterinary care, organic farming, breeding of farm animals and plant nutrition) however, the upgrading of laboratories, the veterinary and phytosanitary informatic systems, animal welfare and agri-food industry require further efforts. Rules on the registration and identification of animals still need to be adopted.

Border inspection posts do not meet EU requirements. An inter-ministerial steering committee has been established to co-ordinate actions, however, no progress has been made in upgrading the posts.

A special department of the Ministry of Agriculture has been designated as the Paying Agency for managing pre-accession funds (SAPARD). A concept of *rural development* was approved by the government at the end of 1998 as a basis for preparing a rural development plan. A rural development fund has been set up.

## **Conclusion**

There has been progress in implementing the short-term priority of continuing legislative alignment in the veterinary and phytosanitary fields. However, the reinforcement of the institutional and administrative capacity has not been sufficiently addressed over the last year.

## *Fisheries*

Fisheries has a marginal importance in the Slovak Economy. No legislative changes are reported. This area should present no particular problems for Slovakia provided a law on fisheries is adopted in a timely manner and the institutions are strengthened.

## *Energy*

### **Energy policy**

The 1998 Regular Report indicated that Slovak legislation was insufficiently aligned to the *acquis* in the field of energy. Although some steps were made to fulfil the requirements of the energy internal market, further alignment was deemed necessary regarding both legislation and market liberalisation. A realistic plan for the closure of the Bohunice V1 nuclear power plant has also to be adopted.

Concerning non-nuclear aspects of energy, gradual alignment of prices (cost recovery) is being implemented, but prices remain distorted, particularly for households. A comprehensive energy strategy is still pending and important efforts are still needed to ensure alignment of Slovak legislation to key areas of the *acquis*.

The Slovak Republic's legislation is not in line with the directive on security stocks. The electricity and gas sectors need to be restructured in order to prepare for the gas and electricity directives. Attention should also be paid to the establishment of an appropriate and efficient mechanism for regulation to carry out the functions as defined in the internal energy market directives. Furthermore, energy efficiency remains low and needs to be improved.

In September, the government opened, through an amendment to the privatisation act, the possibility for the part privatisation of certain energy companies. The State will retain in future a majority stake (at least 51%) in the key companies (Slovak Electricity, Slovak Gas Company, Transpetrol and three electricity distributors of Slovak Electricity).

### **Nuclear energy**

As far as the nuclear aspects of energy are concerned, the Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed its importance in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries.

Slovakia has two nuclear power plants, located at Bohunice and Mochovce. In 1998, the share of nuclear power in electricity production was 44%.

At Bohunice there are four units in operation: two non-upgradable VVER 440/230 reactors (units 1 and 2 at Bohunice V1) and two upgradable VVER 440/213 reactors (units 3 and 4 at Bohunice V2). At Mochovce, unit 1, a reactor of the upgradable VVER 440/213 type, reached its first criticality in June 1998 according to schedule. Unit 2, a reactor of the same type, was expected to be critical in March 1999, but this date has been postponed until January 2000.

A gradual safety upgrading of Units 1 & 2 of Bohunice will be finished at the end of 1999 with a view to getting a license for operation until closure date. An extensive upgrading of Units 3 & 4 is expected to be launched and implemented between 2000 and 2006.

In Agenda 2000 (July 1997), the Commission called upon the candidate countries operating non upgradable reactors to close them at the earliest practical date. For Slovakia it stated that in spite of the fact that no international commitments had been taken concerning the closure of the two reactors concerned at Bohunice, the Government adopted a resolution in 1994 whereby these reactors would be closed down by the year 2000 at the latest. This Government resolution of May 1994 "bound" the Ministry of Economy to arrange the shutdown of Bohunice V1 after the start of reliable commercial operation of the two first reactors under construction in Mochovce and "no later than 2000". However, this resolution was substantially amended by the current Government in April 1999 stipulating that these units should be closed if internationally accepted safety levels were not reached.

The 1998 Accession Partnership for Slovakia stated that, in the medium term, "the objective is to implement a comprehensive energy strategy based on efficiency and

diversification which foresees the alignment to the implementation of EC legislation, the completion of the Mochovce power station according to internationally agreed safety principles, and implementation of a realistic programme for closure of the Bohunice V1 plant”.

In December 1998 the Council emphasised that, for the countries which operate reactors which cannot be upgraded to internationally acceptable levels of safety at a reasonable cost, the energy sector strategies must provide for the earliest practicable closure, including an agreed timetable for closure consistent with Accession Partnership priorities.

A Joint European Commission-Slovakia Working Group on Nuclear Energy was created in June 1999 with the mandate "to examine the nuclear strategy of Slovakia, to assess the impact and costs of alternative closure dates and the decommissioning of Bohunice V1, to establish a plan for creating the conditions for closure and to develop appropriate financing schemes". This group has met on three occasions and, in September 1999, presented its conclusions to the EC-Slovakia High Level Working Group. It was recognised that the way had been paved for the adoption by the Slovak Government for a credible timetable for the closure of the two Bohunice V1 reactors.

In September 1999, the Slovak Government decided that the two Bohunice V1 reactors will be shut down in 2006 and 2008 respectively. The Commission considers that these dates are in line with Agenda 2000 and with the Accession Partnership.

The closure plan for Bohunice V1 needs to be implemented and the upgrading plan for Bohunice V2 needs to be actively pursued. Due to the interval of time between the preparatory work for the decommissioning and the first physical works to be performed, the first phase of the decommissioning of Bohunice V1 – overall planning and licensing work – should be started soon. In addition, decommissioning of Bohunice A1 reactor needs to be closely monitored. Completion of Mochovce nuclear power plant unit 2 has to be implemented according to internationally agreed safety principles.

The Slovak Nuclear Authority, although credible and technically competent, needs to be further strengthened in order to be in a better position to fulfil its tasks, mainly in the field of developing the independent capacity to perform safety analyses (codes and calculation tools).

With regard to safeguards of nuclear materials, Slovakia needs to give attention to the reporting mechanism as required by acquis. Slovakia has ratified the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management.

The attention of Slovakia is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, Slovakia, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

## Conclusion

Important efforts still have to be made by Slovakia in the field of energy, particularly in the following areas: preparing the internal energy market (electricity and gas directives) including the adjustment of monopolies, access to networks, energy pricing, the establishment of an appropriate and efficient mechanism for regulation, emergency preparedness including the building up of mandatory oil stocks, restructuring programmes and state interventions in the solid fuels sector, and improvement of energy efficiency.

As regards nuclear safety, the Commission welcomes the decision taken by the Slovak authorities on Bohunice V1 in response to the short and medium-term priorities of the Accession Partnership. The European Commission can already propose its Euratom Loan financing facility and additional major grant funding from the PHARE Programme over and above the annual allocations under the Pre-Accession Policy. The Commission will seek to involve other donors in the mobilisation of additional funding.

The nuclear safety authority should be further strengthened. Modifications to upgrade the VVER440/213 reactors need to be implemented. Longer term solutions for spent fuel and nuclear waste also need attention.

The attention of the Slovak Republic is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the determination of the EU to keep under close review throughout the accession process the issues covered therein. In this context, the Slovak Republic, its nuclear regulatory authorities and nuclear operators are invited to provide regular and comprehensive information in response to requests from the Commission.

## *Transport*

Slovak legislation on transport was only partially aligned to the *acquis* and substantial efforts were to be made to complete alignment, notably as regards rail, air, road and combined transport. Despite its central location at the heart of Europe, transport infrastructure remains insufficiently developed and considerable improvements need to be made.

Little progress has been achieved regarding *road* transport and much remains to be done. In the field of technology, safety and environment, it is estimated that the Slovak Republic will only be in line with the *acquis* in the medium term while in some areas like the maximum weights of vehicles, full alignment may take even longer. On fiscal treatment of vehicles, social legislation and market access, further efforts are definitely needed to comply with and enforce the *acquis*.

The current critical situation of Slovak *Railways* has a negative impact on the alignment to the *acquis* on railway transport, especially regarding access rights, licensing, allocation of capacity and infrastructure charges. Currently, Slovakia's efforts are being concentrated on measures aimed at gradually restructuring Slovak

Railways. In May 1999, a decree on the attribution of resources of the railway operator and the rail transport operator entered into force.

As a landlocked country, the maritime sector is of less importance. However, work is continuing on introducing the maritime *acquis*, in particular as regards maritime safety.

With regard to *air* transport, limited progress has been achieved. In December 1998, Methodical Instructions were issued governing sale of air transport services, insurance, allocation of slots, types of air transport activities, granting of licenses, financial standing, air traffic code, tariffs, transport conditions, leasing of aeroplanes, uniform numbering of routes, passenger transport and haulage and use of computer reservation systems. These will need to be replaced by an amendment to the Civil Aviation Act.

Slovakia participated in the TINA (Transport Infrastructure Needs Assessment) process which aims at the preparation of the extension of the *Trans-European* Transport Network to all acceding countries of Central Europe. Due to financial constraints, the Slovak Government has decided to concentrate on the completion of motorways already under construction and to postpone new works. In order to improve the financial situation, the level of motorway tolls was doubled as of January 1999.

## **Conclusion**

Few new formal measures in view of alignment and implementation of the *acquis* in the field of transport have been adopted by the Slovak Republic. Substantial efforts are still necessary in most of the transport areas, particularly as regards the road and rail transport, but also in air transport, land transport safety and combined transport.

### *Small and medium-sized enterprises*

Around 70 % of Slovak enterprises are SMEs. These represent 60 % of employment and contribute 50 % of GDP. With the adoption of the new act on state aid in August 1999, the Slovak Republic complies with the EU definition of SMEs. Since 1 December 1998 the Slovak Republic participates in the Community's Third Multi-annual Programme for SMEs.

The priorities for SME development in Slovakia were set in the Medium-term SME Support Policy from 1997. The National Agency for SME development was set up five years ago and acts as the implementing body for SME policy. The government has created a council for SMEs in view of improving the conditions in which the sector operates.

An improved legal and administrative environment and better access to finance, through the privatisation of the financial sector, are key elements for the future development of the sector in Slovakia.

## **3.5. Economic and Social Cohesion**

## *Employment and social affairs*

Unemployment has increased over the period from 12% at the end of the first quarter of 1998 to nearly 16 % (ILO-definition) at the end of the second quarter of 1999. The number of employed was 3 % lower than in the first quarter of 1998. There are also important disparities in the unemployment rate across regions. In June 1999 the Ministry of Labour prepared an Employment Policy Concept for the period until 2002. It includes the National Employment Plan, which was prepared taking into account the European employment guidelines.

Slovakia is still far from achieving full alignment with the *acquis*, but has reached a momentum that is resulting in an acceleration of transposition of EC-law. Its implementation is, however, weak.

Transposition of the *Labour Law acquis* is only partially achieved by existing Slovak legislation. Further alignment will be necessary as will reinforcement of implementation and enforcement structures, in particular, those related to the relevant directives on: collective redundancies, transfer of undertakings, insolvency of the employer, conditions applicable to the work contract, European Works Councils, posting of workers, part time work, safety of workers with a fixed-duration or temporary contract, working time and protection of young people. There is a need to establish an independent guarantee fund for employees in the case of employer's insolvency. The necessary structures for information and consultation of workers in non-unionised enterprises are not in place yet, because the trade unions alone are legally entitled to represent workers.

*Social Dialogue* has substantially improved (see chapter on political criteria). A tripartite act on economic and social partnership entered into force in June 1999. The law institutionalises the dialogue between government, trade unions and employers.

Regarding *equal opportunities* Slovakia has achieved a relatively high level of alignment. Some adjustments still needs to be made. In August 1999 an amendment to the Act on Child Allowances came into force eliminating the allocation of child allowance payments only to the mother. An equal opportunities department was set up at the Ministry of Labour, Social Affairs and the Family.

In the field of occupational *health and safety* only one directive is fully transposed into Slovak legislation. The need for further legislative progress in this field is pressing. There is still insufficient co-ordination and co-operation between the different enforcement bodies of this area of the *acquis*. The Labour Inspection Act streamlining the relevant competences has still not been adopted, preventing adequate enforcement of the *acquis*.

In the field of *social protection* stricter criteria have been introduced for the assessment of material need and reasons for unemployment, the amount of unemployment benefits, the length of the period for the provision and maximum amount of unemployment benefits. The level of social assistance and sickness insurance benefit has been reduced. There are ongoing efforts to achieve better targeting. There remains a pressing need to bring forward reforms in the financially

very unstable health insurance system. The pension system also needs to be made more sustainable.

## **Conclusion**

The re-launching of the social dialogue and the creation of an institutional tripartite framework are positive developments. Further efforts are required to secure transposition of the *acquis*, with particular reference to health and safety at work, insolvency, and workers' representation. The institutional set-up and the lack of co-ordination between the bodies responsible for enforcing health and safety provisions is a cause for concern.

### *Regional policy and cohesion*

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Slovakia will have to implement these instruments effectively whilst respecting the principles, objectives and procedures that must be in place at the time of its accession.

Slovakia is still at an early stage of preparation for the implementation of structural funds and no real progress either in legislation or institutional framework have been made.

The national GDP per capita in 1997 amounted to 47% of the EU average with regional GDP per capita varying from 105% of the EU average in Bratislava to 36% in Eastern Slovakia (in purchasing power parity terms).

The regional development law as well as the national regional development agency and fund foreseen in the "Plan on State Regional Policy" of 1997 have still not been adopted.

At present, Slovakia is divided into 8 regions designed in accordance to EU-methodology (similar to NUTS 3), which are grouped into 4 macro regions (corresponding to NUTS 2).

In December 1998 the Slovak Government adopted a resolution on the restructuring of the Office for the Strategy of Development of Society, Science and Technology, currently responsible for regional policy. The competences in this field are to be shifted to the Ministry of Construction and Public Works. However, the relevant Competence Law has not been amended accordingly yet. A ministerial council under the chairmanship of a Deputy Prime Minister, has been established with responsibility for the co-ordination of regional development.

In its preparation for structural funds Slovakia must pay particular attention to the legal framework, co-ordination amongst ministries and decision making in the lead-ministry, to a clear separation of administrative and political functions, to the management capacity and partnership with regional and local partners, social partners, SMEs and the business community.

The Slovak Republic has only limited experience in appraisal and evaluation procedures.

## **Conclusion**

No concrete progress has been made in adopting legislation and setting up appropriate structures, despite the fact that this constituted one of the short term priorities under the Accession Partnership. Slovakia needs urgently to make major efforts in preparing for structural funds implementation.

### **3.6. Quality of life and environment**

#### *Environment*

In the field of environment, progress made by Slovakia was rather limited. Measures had to be taken to ensure transposition and implementation of the *acquis* and due attention had to be paid to the financial requirements necessary for the implementation of the *acquis*.

Despite the ambitious legislative programme prepared by the Slovak Government to accelerate alignment in the environmental field, limited progress has been made and major tasks still lie ahead. Little progress has been achieved in the adoption of legislation and Slovakia has not yet developed a comprehensive strategic approach including implementation plans and financial strategies necessary to ensure implementation of those directives having important financial implications.

Slovakia has not yet implemented the principle of integration of environmental aspects in all policy areas.

In the context of *horizontal legislation*, the Act on Access to Environmental information has entered into force. However, work regarding the implementation of EU legislation on environmental impact assessment has to be speeded up. This is particularly important as the relevant legal provisions will be applied for all projects financed by the Community.

As regards the water sector, no progress has been made in terms of legal alignment and basically all legislation still requires transposition. Beside legal transposition the most important areas for future work are to start using the population equivalent concept to define agglomeration sizes, to identify sensitive areas and to develop an implementation program as required under the framework legislation. The implications of the drinking water directive also need to be analysed in detail.

The waste management framework legislation is already harmonised to a certain degree. General principles, including the priority for waste prevention, recycling and the reduction of landfills are transposed. However there is no reference to product policy or producer responsibility. So far, no specific legislation on landfilling of waste and no legislation on waste streams, such as batteries or packaging are in place yet. In practice there appears to be a functioning system of waste management authorities and waste management planning.

Limited progress has been achieved through the ratification of the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management.

Important progress has been achieved in the air quality sector. Slovakia has amended two laws to adopt EC legislation on reducing the emission of certain pollutants from large installations. These laws entered into force at the beginning of 1999. An act on charges for polluting the environment has also been adopted. In May Slovakia ratified the latest amendment to the Montreal Protocol and a decree implementing the Act for the protection of the ozone layer has come into force.

No progress has been made in the fields of noise, industrial pollution control and risk management, chemicals and Genetically Modified Organisms, and radiation protection, where a considerable alignment effort is necessary.

Some progress has been made in the field of nature protection, with the adoption of two decrees. However, taking into account the very ambitious timetable for the implementation of legislation, there is an urgent need to start with the scientific work which is needed for the implementation of the Habitat and Birds directive.

The issue of nuclear safety is dealt with in the energy section.

## **Conclusion**

Alignment in the environmental field does not appear to have been a priority in Slovakia. Even if some limited progress has been made as regards transposition, Slovakia has not yet established the financial plans necessary to ensure the implementation of the *acquis*.

Slovakia has recently developed a very ambitious legislative programme to accelerate the accession process. In order to be able to fulfil that timetable, the considerable lack of qualified personnel has to be dealt with. Particular efforts are needed to develop a comprehensive and realistic approximation strategy, to continue transposition of framework legislation in the fields of water, air, waste and radiation protection, to develop an environmental investment strategy based on directive specific implementation programmes, and to strengthen institutions to properly and efficiently transpose and implement the legislation. Future environmental policies should focus on integration of environment into other policy areas. Longer term solutions for nuclear waste also need attention.

### *Consumer protection*

The new law on product liability, an act on doorstep sale and distance selling as well as an amendment to the Act on consumer protection integrating the provisions of the General Product Safety Directive have not yet been adopted. Future alignment should focus on the directives on comparative advertising, timeshare and consumer credit.

From July 1999 an information system for consumers ("Infoteka") is available to consumers at regional branches of the Association of Slovak consumers.

### **3.7 Justice and home affairs**

In its 1998 Regular Report, the Commission stressed the need for the implementation of new asylum and migration legislation, enforcement of border control, effort in combating organised crime, particularly money laundering and an improvement of police services. The Commission also stated that Slovakia has to demonstrate clear political will to carry through a genuine implementation of the *acquis* in justice and home affairs.

#### *Immigration / Border control*

There was no progress concerning the alignment of the Slovak visa legislation to EU - requirements particular with regard to Belarus, Russia and Ukraine. The visa sticker has still not been introduced. Even though the detection rate for illegal border crossings was on the rise (8.320 persons in 1998; 5000 in 1999 up to the end of September) the Slovak *border* guards still lack training and the equipment needed in order to guarantee an efficient control of the borders. Slovakia should continue progressive alignment of visa legislation and practice with that of the EU.

As concerns admission of third country nationals, further alignment will be necessary. The legislation on family reunification will have to be adjusted in order to meet the *acquis*. The granting and extension of work permits should in the medium-term take into account the labour market at national level. Adequate staffing and training will have to be provided for in the future.

#### *Asylum*

There was no progress in alignment of asylum legislation, but a joint EU-Slovak working group made recommendations on how the legislation should be improved. The "24 hour rule" for lodging an asylum claim which limits access to the asylum procedure, is still in place. This leads to bone-fide asylum seekers being treated as illegal aliens, and subjects them to detention rather than proper consideration in the refugee status determination procedure. The appeal procedure does not comply with EU requirements. Slovakia will have to introduce an independent body as the second instance in the asylum procedure. Attention needs to be paid to the practical application of provisions relating to the concept of "safe third country" under the Dublin Convention including the preparation of the respective national legislation.

#### *Police*

There has been progress on the legislative side, but no visible success in the fight against organised and mob crime which continues to be a major problem. Extortion-related crimes and racketeering are particularly serious. The Penal Code was amended in January 1999 in order to introduce the concept of witness protection in the fight against international organised crime. A second amendment was adopted in July. It introduces, *inter alia*, new categories of crimes, namely the production, dissemination

and possession of child pornography and foresees heavier penalties for the production, procurement or possession of tools aiming at producing narcotic, poisonous, nuclear or similar radioactive substances.

Further adjustments to the Penal Code are necessary. In particular "membership in organised crime groups", "trafficking in human beings" and "sexual exploitation of children" should be included as specifically identified crimes. The notion of "criminal liability of legal persons" will have to be introduced into the Penal Code. As regards the fight against fraud, Slovak legislation will have to be amended to introduce provisions on "subsidy fraud" and "evasion of customs duties".

In September 1999, the Slovak government signed the European Convention on Money Laundering, Tracing, Freezing, Seizing and Confiscation of the Proceeds of Crime which now needs to be ratified. Anonymous saving accounts are still in place and should be abolished prior to accession.

The co-operation between the police force, customs authorities and border guards needs improvement. International police co-operation is provided for in different bilateral agreements. Additional agreements were signed with Spain in March and with Latvia in May 1999. Liaison officers are being seconded to the liaison office with Interpol in Slovakia. Additional liaison officers will have to be provided for closer co-operation with Europol.

### *Drugs*

An amendment to the Penal Code was adopted in July introducing the crime of instigating drug addiction and raising the penalty for the production of narcotic substances. Slovakia established a national anti-drugs unit, which worked out a programme on the fight against drugs and drugs abuse. The respective programme was amended in April 1999. Drugs legislation should be improved to include drug tourism. The co-operation between police forces, customs authorities and border guards needs to be improved.

### *Judicial co-operation*

The Convention on the Civil Aspect of International Child Abduction has not yet been ratified. An implementing act is needed after ratification.

The Civil Code will have to be amended in order to introduce the notion of "habitual residence", a precondition for compliance with the Convention on Jurisdiction, Recognition and Enforcement of Judgements in Matrimonial Matters.

The Council of Europe Criminal Law Convention on Corruption was signed by Slovakia in January and needs to be ratified. The OECD Convention on combating bribery of Foreign Public Officials in international business transactions was approved by Slovak Parliament in February. The instruments of ratification, however, have not yet been deposited. An amendment to the Penal Code adopted in June implements both conventions into Slovak law making passive corruption a crime and enlarging the notion of bribe to any other value advantage.

## Conclusion

Slovakia has gained momentum and accelerated the transposition of the *acquis* in particular by introducing new types of crime into the Penal Code. There has been substantial progress with regard to the transposition of two international conventions aiming at the fight against corruption. Slovakia did not make progress, however, in aligning its Aliens Act and its asylum legislation with the requirements of the EU. There are few results in the fight against organised crime and corruption.

Justice and home affairs is considered a priority and efforts are being made in this area. However, additional work needs to be done, in particular as regards amendments to the Aliens' Act and asylum legislation. The judicial system as a whole needs strengthening in part by increasing staff and their training. Attention needs to be paid to improve border facilities and management at the future external border. The fight against organised crime needs to be sustained.

## 3.8. External Policies

### *Trade and international economic relations*

Slovakia is a member of the WTO and in view of the new round is working with the Commission to ensure alignment of policies and positions. Slovakia is also a signatory to the General Agreement on Trade in Services (GATS).

Slovakia has expressed its willingness to work closely with the EC in the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible.

Slovakia should not have any problem in adopting the EC's common commercial policy. During the observation period Slovakia entered into new trade agreements and scientific co-operation agreements with Malta and Cyprus.

While not pursuing a FTA with Russia, Slovakia has maintained close commercial relations with this country. The existing treaties with Russia in various fields have been maintained, being considered compatible with the new policy orientations. However a defence contract has been cancelled.

Slovakia has supported the expansion of the Central European Free Trade Area (CEFTA). The accession of Bulgaria into the group entered into force on 1 January 1999.

### *Development*

Slovakia grants 100% of customs preferences in their General Scheme of Preferences to the least developed countries.

### *Customs*

Under the Europe Agreement the Slovak Republic has concentrated its efforts in the area of customs on legislative alignment. The existing Slovak legal framework is based on the Customs Act No. 180/1996 and its implementing provisions. Although there is a high level of compatibility with the acquis, there are still some discrepancies and most of the implementing provisions are still missing. There are still some differences concerning the administrative structure of the customs organisation. The 1983 basic regulation on duty reliefs will have to be reviewed.

No legislative acts in the field of customs have entered into force since the publication of the last regular report.

The Slovak Republic fully participates in the Pan-European system of Cumulation of origin, which has been applied since January 1999.

The Pre-accession Strategy of the Slovak Republic endorsed by the Minister of Finance on 27 October 1998 supports the modernisation of the Customs Administration. A customs information system is being developed. A pilot operation to introduce the customs declaration module as a part of the computerised custom information and control system (ASYCUDA) was launched in December 1998.

### **Conclusion**

The Slovak Republic should speed up the process of alignment in this area and further develop the computerisation of the customs administration. Co-operation in border management with the EU and neighbouring countries need to be pursued and expanded.

### *Common foreign and security policy*

The Slovak Republic has reinforced the orientation of its foreign policy towards EU and NATO. It participates actively in the multilateral dialogue between the EU and the associated countries within the framework of the Common Foreign and Security Policy, including the regular meetings at Political Directors', European correspondents' and Working Group level. It has regularly aligned its positions with those of the EU and, whenever invited, joined the Union's statements, declarations and démarches including in the context of the UN and OSCE. Thus it aligned itself with the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia. Slovakia is the only associated country participating in the European Community Monitoring Mission (ECMM) under EU mandate in the Western Balkans.

In the Kosovo crisis, in spite of deeply divided public opinion, the Slovak Government, with approval of Parliament, supported the NATO operations and opened up its air space and territory to NATO forces. Slovakia further agreed to take at least 500 refugees and to participate in KFOR. It has also joined the SFOR operations in Bosnia Herzegovina. The Slovak Minister of Foreign Affairs, Mr Kukan, was appointed special envoy to the Balkans by the UN Secretary General in May 1999.

Slovakia strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, i.a. in the framework of the relaunched Visegrad-4 dialogue (involving Slovakia, the Czech Republic, Poland and Hungary). The implementation of the Basic Treaty with Hungary has been unblocked during the reported period (see 1.2 above). Although the Gabčíkovo dam issue is still awaiting a solution, it is being treated at a technical level without standing in the way of renewed bilateral relations. The agreement for the reconstruction of the Maria Valeria bridge (Sturovo-Eztergom) between Slovakia and Hungary was signed in September 1999. The Phare programme will make a major financial contribution to the reconstruction. In September 1999 Czech President Havel paid an official visit to Slovakia for the first time since the split of former Czechoslovakia in 1993.

In June 1999 a Slovak diplomat was appointed to the post of OSCE General Secretary. Slovakia participates in a number of UN operations.

### **3.9 Financial questions**

#### *Financial control*

Limited progress has been achieved. The Supreme Audit Office is the external financial control institution, whose mandate covers state budget and state property. It should be broadened to cover also the National Property Fund and public funds in general. This will require however an amendment to the Slovak Constitution. The financial independence of the Office needs also to be strengthened. The Supreme Audit Office does not have the authority as yet to audit Community funds.

An amendment to the Law on administration of public assets puts financial control under the responsibility of the Ministry of Finance and foresees measures to strengthen financial control. However, a comprehensive concept of functionally independent internal audit units (IAU) in line-ministries and other government spending centres together with one co-ordinating centralised government control body, responsible for harmonising the control/audit procedures in these IAUs, still has to be developed. The issue of functional independence for auditors needs to be given proper attention. The relevant administrative structures for effective financial control are not yet fully in place

The establishment of the National Fund at the Ministry of Finance is a step toward fulfilling some basic pre-requisites for the management and control of pre-accession funds.

The relevant departments of the Ministry of Finance remain understaffed and need to be strengthened. An audit trail relating to the pre-accession funds has to be developed urgently. Systems both for fighting irregularities, fraud and corruption and for recouping lost amounts need to be developed.

A treasury system is foreseen but it is not yet in place.

## Conclusion

Some preparatory steps have been taken to improve financial control. However, effective financial control is not yet exercised.. Priority should be given to setting-up the financial control structures particularly in view of managing pre-accession funds.

### 3.10 General evaluation

Slovakia has made important progress in legislative alignment in the internal market. A public procurement law was adopted which is aligned with the acquis and foresees the establishment of an independent procurement authority. Framework legislation was adopted in the areas of standards and certification which incorporates the principles of the 'New and Global Approach' and should pave the way for further alignment in this sector. Important progress was made in the competition area with the abolition of the controversial law on enterprise revitalization and the adoption of state aid law. The latter will facilitate improved monitoring of state aids. Some progress has been made in the banking and financial services area to improve transparency and protect minority shareholders. In the social sector, progress has been made in enhancing social dialogue.

Important progress was made in alignment in the energy sector with the commitment to closure dates for the Bohunice V-1 nuclear reactors.

In other sectors of the acquis, although the momentum has picked up and policy decisions are moving the alignment process in the right direction, there has been little concrete progress in terms of adopted legislation. For example, while the process of transposition in the environment field was re-launched with the adoption of some regulations in the area of air and nature protection, the bulk of transposition of the environment acquis remains to be done. Likewise in justice and home affairs, although some progress was made by introducing new types of crime into the penal code and ratifying some important international conventions, much work remains to be done in making amendments to the aliens and asylum laws and to consolidate efforts in fighting organised crime and corruption. Alignment in transport legislation is lagging behind. The Government's intentions in the regional development field need to be translated into concrete actions. Little progress has been made in the agriculture, veterinary and plant health fields. The same applies to health and safety at work. It is important that the same effort which went into ensuring that key internal market laws were adopted now be applied to the other areas of the acquis to make up for the past couple of years of legislative inertia.

With regard to administrative capacity, co-ordination of EU policy matters has improved, first steps have been to separate the legislative, standardisation and accreditation tasks in the field of standardisation, the laws which have been adopted recently adopted provide for the establishment of key internal market structures and increased attention has been paid to improving capacities in the environmental field. However, the civil service reform law that is needed to lay the foundation for further improvement of administrative capacities in specific sectors of the acquis has not been adopted. In other key areas such as regional development, financial control and justice and home affairs, the establishment of relevant institutions has been delayed.

There is a general need to ensure independence of regulatory and supervisory bodies. Given the delays that Slovakia has experienced in its preparations for membership, it is important that the preparation of legislation be closely accompanied by planning for the strengthening of related administrative capacities. Slovakia will need to substantially step up its efforts in the preparation of laws and implementation and enforcement capacities .

Slovakia has adequately addressed the political, state aid and internal market short term Accession Partnership priorities. However the administrative capacity and environment areas did not receive sufficient attention.

## 4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively and, even more importantly, of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“Slovakia had made little progress in developing the necessary administrative and legislative capacity to adopt the *acquis*. Civil service legislation has been delayed, progress in judicial reform has been limited and recommendations in the Opinion to reform, strengthen and establish new institutions in the internal market area have not been followed up.”

### 4.1. Administrative structures

The civil service law, a short-term priority under the Accession Partnership, has not been adopted. The current legal framework does not provide the basis for a stable, politically neutral and highly professional civil service. Furthermore incompatibilities

between the work as a civil servant and involvement in additional economic activities are not adequately covered by the existing legal provisions.

The current regulation on conflict of interests does not sufficiently prevent corruption. There is a lack of transparency on salaries in the State administration, in particular concerning "voluntary increases". An overall training system has not been developed yet, even though several conceptual documents exist. European integration training is still provided on a fragmented and *ad hoc* basis. These issues need to be urgently tackled in adopting comprehensive legislation which goes far beyond a mere labour law approach.

A positive signal was, however, the adoption of a strategy for the reform of the public administration and decentralisation. This needs to be translated into specific actions with a binding timetable. It constitutes a serious effort to develop a comprehensive approach to reform, aimed at rationalising the public administration and refers to decentralisation of powers (also in financial terms), from the state administration bodies to local and – yet to be created - higher self-government territorial units. The reform intends to mobilise and integrate territorial self-government into the development of regional policy, which so far is solely decided by the State administration (at central or district level). The implementation of the strategy throughout a period of eight years will be linked to a reduction of civil servants in the regional and district state administration, which has been inflated in the last few years. The decision has been taken, to reduce till the end of 1999 the number of public employees (including health and education) by 18,000, half of which have already received their termination notices. In 1999 the total number of staff in the public state administration amounted to 24,897 of which 7,416 at the central level, 2,397 at regional and 15,084 at district level. In addition 17,600 were employed at municipal offices in the local self-administrations. The Government has undertaken to reduce further the number of civil servants, particularly at district level.

In the context of the revitalisation programme adopted in May, the Government decided to reduce state administration expenses over a two-year period by 10% a year in regional state administration and by 6-10% a year in district state administration.

The organisational structures for EU integration within the Slovak administration have not been fundamentally changed. However they have been strengthened in number of staff and their functioning has improved. There are 29 sectoral working groups and 15 European Integration Departments and legal departments in the ministries and key Offices. The European Integration Department at the Office of the Government employs 10 staff, whereas 157 are working at European Integration Departments at the line ministries and other state bodies. Staff in the Ministry of Foreign Affairs dealing directly with EU-issues has been more than doubled (from 10 to 26). The Institute for Approximation of Law has a staff of 16.

Although administrative weaknesses persist, co-ordination has improved at all levels. The co-ordination of European affairs at a political level is, since the reorganisation in late 1998, provided by the Ministerial Council for European Integration, chaired by the competent Deputy Prime Minister. It has fewer (7) and higher (Minister level) representatives than its predecessor organisation. European Integration Units within the Ministries and other Central Government bodies are co-ordinated through a

Working Committee that meets regularly and legal departments are also co-ordinated. The main administrative support is given by the Department of European Integration in the Office of the Government reporting to the Deputy Prime Minister for European Integration. All line ministries have prepared in the framework of the National Programme for the Adoption of the *Acquis* (NPAA), a legislative programme for their respective sector in the field of legal approximation.

The Institute for Approximation of Law is responsible for screening legislation for compatibility with the *acquis* and submitting it to the Legislative Council of the Government. The institute now reports to the Deputy Prime Minister for European Integration though it is still under the functional supervision of the Deputy Prime Minister for legislation. A central translation unit is attached to the Institute. Efforts are needed to achieve sustainability for this unit by substantially increasing the level of funding provided by the state budget.

Closely linked with the work of the Institute is the Legislative Council chaired by the Deputy Prime Minister for Legislation. The work of this council is thorough, but has caused certain delays in the adoption of important pieces of legislation in the approximation process and its functioning may need to be reviewed.

The EU-Slovak High Level Working Group (see chapter on political criteria) has contributed to the acceleration of Slovakia's European Integration process by imposing deadlines and ensuring regular monitoring. The momentum reached should be sustained in the future through reinforced inter-ministerial co-ordination.

The Parliament has co-operated with the Government in EU-approximation issues allowing important pieces of legislation to be adopted in a fast track procedure. The parliamentary procedures act and the internal rules for debates have been modified to enhance the functioning of the institution. The period of parliamentary sessions has been extended into the summer to allow for the adoption of pieces of legislation which are accession priorities. Given the number of *acquis*-related legislation, however, a certain bottleneck has developed in particular when Government sends major pieces of legislation to Parliament with short deadlines. The approximation section within the legislative department of the office of the National Council therefore needs reinforcement.

#### **4.2. Administrative and judicial capacity : key areas for the implementation of the *acquis***

**The uniform application of EC Law :** The total number of judges has slightly increased to 1270. The number of judges at district and regional courts increased by 48 to 1172, while the number of judges at military courts (21) and at the Supreme Court (77) remained constant. There are 38 vacancies. In view of a substantial backlog at the courts, the courts system needs more and better qualified judges and thorough modernisation. Current preparations to introduce a system of high court clerks taking over some of the judges' administrative tasks are moving in the right direction. Budgetary funds for the Judiciary have been increased from €35 million in 1998 to €37million in 1999.

Further progress has been made regarding the training of judges in European Community Law by the Ministry of Justice and the Slovak Association of Judges. The training programme included internships at courts in EU Member States as well as at the European Court of Justice. Modernisation of the Courts and improvements in training of judges are addressed in three twinning projects with the Ministry of Justice which were launched in June 1999. Continued attention needs to be paid to training in bankruptcy legislation.

After years of poor co-operation between the Ministry of Justice and the Association of Judges the climate has improved and joint actions are being carried out. The ongoing process of strengthening the independence and self government of the judiciary (see chapter on political criteria) has had a positive impact on the judiciary. The relevant laws to legally secure this level of self-government are, however, not yet adopted.

**Single market :** Since the last Regular Report the new law on *public procurement* passed in September has provided for the establishment of an independent Public Procurement Office. The new office will be an independent authority funded directly from the budget and controlled by the Supreme Audit Office and the Office of the Government. It will start its operation in January 2000, assist contracting parties in various fields and, be responsible for the administration of complaints and the review of procedures. It will have more than 100 employees. At present only 12 persons are in charge of public procurement in the Ministry of Construction and Public Works. There are also 39 people in charge of surveillance and investigation of complaints in 8 regional authorities. In 1998, 55,911 cases of public procurement were completed at municipal level, with 50,382 cases of single source procurement. Only one third was done through open or restricted tenders. At the level of entities financed by the State budget 102,768 procurement cases were completed, of which 95,451 were of single source procurement. Only 31% of the cases were tendered. These figures show that two third of the procurement cases are still being completed through direct agreements. At the municipal level foreign companies were not contracted at all. At the level of entities funded by the state budget foreign companies earned contracts worth 0.66% of the total amount. This makes an overall figure of 0.5% involvement of foreign companies in public procurement.

*The new public procurement office to be established by the recently adopted public procurement law will have to work hard to turn around the current practice of direct purchasing at all levels. A change in this area can not be expected overnight but decisive efforts need to be undertaken to increase transparency and to bring public procurement practice in line with the EU.*

The Office for *Intellectual Property* is responsible for the implementation of copyright. The copyright expertise of the personnel is satisfactory, although training of the staff of the copyright division would be desirable.

*The Implementation and enforcement of the copyright legislation needs to be improved especially with regard to judicial competence, enforcement of foreign judgements and the protection of intellectual property rights. It is necessary to adapt*

*the judicial system, to strengthen the courts and to provide for speedy procedures and to provide for adequate training of judges, prosecutors, lawyers etc.*

The *Industrial Property Office* is responsible for protection of *industrial property* rights.

In the field of *accounting* and *auditing*, there are 200 statutory auditors brought together through the Slovak Chamber of Auditors.

Concerning *company law* there are 8 commercial registers held by district Courts. The computerisation of the register is underway.

A Commissioner for the protection of *personal data* in information systems has been appointed.

In the past the lack of a functional separation between legislation, standardisation, certification and accreditation functions hampered the correct implementation of the principles of the New Approach. With the adoption of the law on technical requirements of products and conformity assessment, the Slovak authorities have taken the first step in restructuring the existing capacities in this area so that both the functional and legal separation between the different activities will be effective. Further steps need to follow, in particular with the setting up of certain structures and the reinforcing of the existing ones. The main implementing authority in the field of the *free movement of goods*, is the Slovak Office of Standards, Metrology and Testing which employs 50 staff (55 are planned, 5 persons will deal with the transformation of certification system due to the law on technical requirements and on conformity assessments).

As of 1 January 1999 the operation of the National *Accreditation Service* has been separated from the infrastructure of the Office for *Standardisation, Metrology and Testing*. The legal separation will take effect with the entry into force of the recently adopted law on technical requirements and conformity assessment in January 2000. In order to expedite the setting up of conformity assessment structures in line with the *acquis*, the Ministry of Construction and Public Works has been enlarged by a conformity verification unit, securing state oversight and with the power to authorise legal and physical persons for activities in this area.

*After the entry into force of the legal separation of the National Accreditation Service and the Office for Standardisation, Metrology and Testing, Slovakia will have taken the first steps to restructure the existing capacities in this area so that they resemble the structures underpinning the free movement of goods in the EU. Further steps need to follow.*

The supervision of the financial sector is split between various institutions. The *Banking Supervision Division* of the National Bank of Slovakia is responsible for the commercial banks. Its staff of 56 is divided into an on-site supervision department with a staff of 18, an off-site supervision department with 24 persons and a licensing department employing 14. These departments have limited resources for effectively conducting their functions and need to be strengthened. In the Ministry of Finance a total of 60 employees are working at the division of capital market supervision. The

department of insurance supervision in the Ministry of Finance is in charge of the insurance markets and consists of 6 employees. The competence for the capital market supervision has been transferred to a separate Institute of State Supervision whose legal competences to execute its control functions has been subject to a court decision which remains as yet unresolved. The various supervisory bodies are not sufficiently co-ordinated. There are potential conflicts of interest with the Ministry of Finance being at the same time shareholder and supervisor of certain companies. The realisation of the Government's plan to create a joint body for banking, capital markets and insurance supervision could improve the present situation substantially.

*Supervisory bodies need to be strengthened and co-ordinated to support a developing financial sector in line with EU obligations.*

The Ministry of Interior and its regional and district authorities employ 100 persons to deal with the authorisation to practice a profession. In the Ministry of Labour and Social Affairs 18 persons are dealing with employment policies and 14 with social insurance. There is a Centre for Equivalence of Documents which has a staff of 5 employees to handle requests of recognition. A Bar Association and a chamber of architects are in place granting licences to exercise these professions. The staff of the above-mentioned organisations need training as the transposition of the *acquis* proceeds.

**Competition:** The Antimonopoly Office of the Slovak Republic has the competence to investigate and prosecute competition-related violations, to issue decisions, to demand corrective measures and to impose sanctions. The regular number of staff in the Antimonopoly Office is 71, but currently only 65 persons are employed. Although the existing personnel appears well-trained, there is a clear shortage of qualified lawyers.

*Provided that the Antimonopoly Office is able to attract further qualified legal staff it will be able to play an effective role in the implementation of competition policy in the near future.*

*State Aids* fall under the competence of the Ministry of Finance. The new law on state aids, adopted August 1999, provides for the creation of a state aid monitoring authority responsible for ex-ante control and ex-post monitoring of state aid. This authority is expected to have 30 people.

*This authority needs to be established and sufficiently staffed in terms of numbers and qualification to implement and enforce the new law.*

**Audiovisual Services:** Administrative and implementation structures (Radio- and TV broadcasting council) are in place and work effectively. The independence of the Council needs to be further strengthened.

**Taxation:** There are 5383 employees in the tax administration and 98 at the Tax and Customs section at the Ministry of Finance. There are currently 108 tax offices in the country, but only one in Bratislava. It is envisaged to reduce their number to 78 (one per district) in the year 2000 plus additional offices in the capital.

*The tax administration and its tax collection capacities need to be further strengthened.*

**Agriculture:** An amendment to the Organisational Rules of the Ministry of Agriculture has provided the basis for a new structure of the Ministry based on the commodity regime with corresponding responsibilities and competencies for individual working groups within the Section of Agriculture, Food and Industry. A new Section on Structural Policy and Rural Development has also been established. The structure of the International Co-operation and Integration Section has been modified to comprise three departments: European Integration, International Relations and International Trade. An office for approximation of legislation has also been set up. The overall co-ordination of EU issues within the Ministry is ensured by the Steering Committee for EU integration.

The Government approved the proposal to establish the Paying Agency in the Ministry of Agriculture in September 1999.

The Ministry of Agriculture has 414 employees. The Regional Offices of the Ministry employed 307 people.

The necessary units of the Ministry and their respective tasks have been defined, however, they need to be adequately staffed and trained. The co-ordination among the different units, in particular programming and implementation needs to be reinforced.

As regards the veterinary and phytosanitary administrations, separate offices for legislation have been set up at the inspection units of the Ministry of Agriculture: State Veterinary Administration and Central Agricultural Inspection and Testing Institute.

From January 1999, the financial control of the veterinary departments of the Regional and Districts Offices is carried out by the State Veterinary Administration.

The division of responsibilities between the Zootechnical and Veterinary Services as far as the identification and registration of animals is concerned needs to be decided.

*The organisational design needs to be completed, staffing levels, training and co-ordination need to be improved.*

**Fisheries:** Control is done by the State veterinary agency and by the Ministry of Environment in regard to controls of imported species. There are 10-15 fishery officers in charge of controlling size and transit. There is only one employee responsible for fisheries at the Ministry of Agriculture. In the area of sanitary controls there are staffing problems due to lack of funding.

*Staffing needs to be strengthened.*

**Energy:** The Ministry of Economy employs 34 persons competent for issuing licences and construction authorisation. The Ministry of Finance regulates the prices of the electricity and gas market. There is no independent regulatory body. The

Nuclear Regulatory Office (UJD SR) is responsible for nuclear safety and the licensing for fuel purchase with a staff of 80 employees.

*Overall administrative strengthening is still necessary in the field of energy, in particular by developing an adequate regulatory mechanism to ensure the implementation of the energy internal market. The nuclear safety authority, UJD SR has established itself as credible and technically competent. However, it is still under-resourced and salaries do not allow the retention of highly qualified staff.*

**Transport and telecommunications :** Following the introduction of a new organisational structure, the Slovak Ministry of Transport, Post and Telecommunication has a total of 313 employees. It has established a horizontal unit (15 staff) in charge of the general co-ordination of legal harmonisation in the fields transport, post and telecommunications.

Eighty-six employees are in charge of road transport. The State Transport Office carries out technical oversight of conditions of traffic for land communications, under the authority of the Ministry of Transport. Licenses for regular bus transport in municipalities are issued to carriers by municipal authorities, in regions by regional State administration Offices (8 regional Offices in Slovakia) and for international bus lines, by the Ministry (road and municipal transport Section). Permits for road haulage and occasional bus transport are issued by district State administration Offices who check professional qualification and good repute, while conditions of financial standing apply only to international transport. In addition, the Ministry of Interior regulates road users and issues driving licenses

In railway transport, the State Railroads Office, with an staff of 49 carries out technical oversight and serves as a special construction authority. It also awards transport licenses to operators on the basis of professional, health and psychological qualifications. At the same time, the State Railway Administration Department was set up at the railway transport Section of the Ministry of Transport, Posts and Telecommunications. It is also responsible for establishing methodologies and standards for technical inspections.

In inland waterway transport, the State Navigation Administration carries out oversight and maintains the Central Vessel Register. State technical oversight is carried out by the Slovak Lloyd classification organisation, in co-operation with the State Navigation Administration. The Ministry of Transport, Posts and Telecommunications awards and revokes permits for the participation of foreign carriers in inland waterway transport operations.

In maritime transport, the Maritime Navigation Office at the Ministry of Transport, Posts and Telecommunications serves as the Slovak maritime authority, carrying out technical oversight on the basis of the Convention on the Law of the Sea, international conventions SOLAS, STCW, etc., and maintaining the Maritime Register of the Slovak Republic.

The State Navigation Administration and the Maritime Navigation Office have a staff of 78.

In 1998, the Aviation Office, which carries out State expert supervision and serves as a special construction office for civil aviation, was established for air transport. It also issues Aircraft Certificates. The aviation office has a staff of 59.

The telecommunication department at the Ministry employs 14 people. The Slovak Telecommunication Office has a staff of 258.

*These institutions need to be further strengthened in order to respect the acquis in this field. In the field of telecoms, an independent regulatory authority should be established.*

**Employment and social policy:** The key institutions in the context of implementation and enforcement of the *labour law acquis* are the Ministry of Labour, Social Affairs and Family with a staff of 384 employees and the National Labour Office with its regional (8) and local/district offices (79). The entire labour office network employs 5,930 persons and includes tripartite organs. It implements employment and labour market policies focusing on job placement, counselling, training and job-creating measures and unemployment benefits. The Ministry of Labour, Social Affairs and Family improved its structure by integrating the European integration and approximation department and the Phare/foreign assistance department into one single section.

In the field of *health and safety* there are a large number of actors including the Ministry of Labour, Social Affairs and Family, the Ministry of Health (221 employees), the State Institutes for Public Health (3,187 persons) and the Occupational Safety Office, composed of 8 Occupational Safety Inspectorates, with 352 employees and 163 inspectors. There is a shortage of professionally trained staff in the field of safety and health at work. There is a lack of co-operation and co-ordination amongst the many bodies involved in this field, as well as of clear delineation of their respective competencies.

An *equal opportunities* department was set up in the Ministry of Labour, Social Affairs and Family on 1 February 1999 to monitor the implementation of the principle of equal opportunity for men and women.

*The institutions involved in the implementation of the acquis, in particular in the field of occupational health and safety, need streamlining and strengthening.*

**Regional policy and cohesion:** Under the present territorial and administrative organisation, Slovakia has a three-tier administrative structure, constituted of regions, districts and municipalities.

The regions and districts constitute integral parts of the state administration. As regards administrative organisation and mode of operation, Slovakia's regions (8) and districts (79) are similar. They are headed by a principal appointed by the Government. Regions and districts follow the guidelines of the Ministry of the Interior while their budgets are made up exclusively of state transfers. Slovakia's 2,850 municipalities enjoy the right of self-government.

A ministerial council under the chairmanship of a Deputy Prime Minister, has been established with responsibility for the co-ordination of regional development. However, no other actions foreseen in a 1997 plan have been undertaken. The amendment to the Competence Law regarding the transfer of competence from the above mentioned Office of Strategy to the Ministry of Construction and Public Works has not been adopted yet. The National Agency for Regional Development, as co-ordinating body for the integrated network of regional development agencies, is not yet operational.

*Little progress has been made to create an appropriate institutional, administrative and budgetary framework to implement the acquis in the field of regional policy. The Slovak Republic still has to decide on an independent co-ordination structure with the capacity to implement, and monitor regional policy.*

**Environment:** The Ministry of Environment has engaged in a renewed process of institutional strengthening, with the establishment of a new policy and management Committee, which will be responsible for overseeing the EU integration process. In addition, the Ministry has enlarged and upgraded the recently established European integration department and given this unit the authority to administer all EU related programmes and projects. The existing EU legal approximation unit, under the department of environmental law, will ensure legal alignment in close co-operation with the European integration department.

*The Ministry of Environment is mainly focussing on legal transposition but implementation aspects are lagging behind. Further institutional strengthening is urgently needed at national, regional, district and local level for monitoring and enforcement purposes, in particular for enlarging and training the environmental inspectorate. There are currently only 90 environmental inspectors working in the Slovak Republic.*

**Consumer protection:** The institutional structures to ensure the application of legislation are still not sufficiently effective. The Department of Consumer protection of the Ministry of Economy employs 9 people and has the responsibility for defining, co-ordinating and implementing the consumer policy. The Slovak Trade Inspection consists of 8 local inspectorates and 1 central inspectorate with a total of 330 employees.

*The consumer organisations need further strengthening.*

**Justice and home affairs:** The Ministry of Justice has 284 staff members. It is composed of 5 departments and an additional division in charge of representing Slovakia before the European Court on Human Rights in Strasbourg. In 1998 the Ministry dealt with 574 requests for legal assistance in civil matters, 559 requests for assistance in criminal matters and 250 extradition requests. As already reported the number of *judges* in district and regional courts has increased from 1136 to 1172 since 1998 which can be regarded as a minimum level given the excessive case load. The process of modernisation of courts (including the application of IT-technologies) and of reinforcing the self-government within the judiciary needs to be driven forward.

The Ministry of Interior (1,338 employees) is composed of some 15 departments, among them the department of investigation and criminal expertise, the Police Academy and the presidium of the Police force, the Migration Office, the civil protection and fire protection offices as well a public administration department. The police oriented tasks prevail. There is a Foreign relations and European Integration department, where 11 staff are working on EU-integration issues including Phare.

The *police* force numbers about 20,000 persons, 40% of which have officer and 60% warrant officer functions. Of the entire force, 275 have a university education. The high turn over of staff continues: many experienced police are retiring or entering the private sector, especially over the last one and a half years, necessitating younger recruits and requisite training. There is little horizontal communication and inconsistent co-ordination among divisions. In general the police force is still incapable of effectively combating organised crime due to deficiencies in guidance, training and equipment. An office for the fight against corruption (under the Police corps) was established by law in December 1998.

The infrastructure at the border points, particularly at the eastern border, is far from complying with standards in EU Member States. The staff figures for the border protection services (Border Police: 1.100; Border Guards: 1.600) seems sufficient, but more training and modern equipment are needed. In the long run on-line connections are indispensable at border points.

The Migration Office of the Ministry of Interior (89 staff including all services) is dealing with asylum cases in the first instance. The second instance is a special commission at the Minister of Interior which confirms the first instance decision in most cases. The Judiciary (Supreme Court) is only involved as an appeal court against the second instance (Minister's) decisions. In 1998 there were 506 applications filed compared with 645 the year before and 422 until the end of September 1999. More than 50% of the asylum applications are not decided upon because the asylum seekers are travelling on to a EU country which means interrupting the procedure. For this reason only around 1000 asylum application procedures have been finalised from 1993 to 1998 with 455 persons recognised as refugees. Migration and asylum services are only beginning to improve their capacity to deal with refugees and asylum seekers. The process of institutional alignment in this field needs to be continued. In particular the second instance needs to be changed (see 3.7).

*Implementation capacities need to be strengthened through training and equipment in particular with regard to the border police and the police fighting against organised crime and corruption. The Judiciary needs further modernisation and reinforced independence and self-government.*

**Customs:** The Slovak customs administration (SCA) has been reorganised and operates at three levels: the Customs Directorate (CD) at a national level, 14 customs offices at a regional level, and 102 inland branch offices, 85 border posts and 36 border guard stations at a local level. The SCA employs a total staff of 5,385, of which 258 at the Customs Directorate and 5097 at the customs offices. The anti-drug units had been created (1996) at a regional level.

The Control Department of the Ministry of Finance also has the overall

responsibility for the control of the revenue collection (amounting in 1998 to 54% of the state budget). The administration of taxes comprises local or regional tax offices and the Central Tax Directorate. The Control Department has separate control units for customs and taxes. These units are small and each comprise three people.

There has been a strengthening of the customs administration in particular as concerns the installation of a customs information system. The strategy endorsed by the Ministry of Finance in October 1998 supports the modernisation of the Customs administration. Progress has been made in the introduction of information systems and the ASYCUDA system launched in pilot sites in December 1998. It is planned to extend this system to all regional customs offices as well as all inland branch offices. Completion of this task will depend on sufficient financial sources from the state budget.

*There has been some strengthening of the customs administration. However this needs to be intensified in order to bring operational standards in line with those defined in the Customs Blueprint.*

**Financial control:** There are three *internal audit* institutions in place in Slovakia, the Control Department of the Ministry of Finance, the Office of the Government and the control bodies of the line ministries. The Control Department of the Ministry of Finance and the Office of the Government both seem to have an appropriate functional independence, which is not the case for the control bodies in the line ministries. As there is no civil service law in place, the auditors in the line ministries are poorly protected against inappropriate pressure from the auditee. The three institutions seem to have an appropriate audit scope, covering both relevant state bodies and funds as well as municipalities when funds from the state budget are concerned. However, the type of audit performed by the three institutions is not comprehensive. A defined audit trail that can meet EU requirements has not yet been established. However, steps have been taken in order for Slovakia to meet the EU requirements on financial control of pre-accession or structural funds. Human resources seem to have been very limited up until now. The involvement of the line ministries in preparing EU accession in the area of financial control has been limited so far.

The Supreme Audit Office is the *external audit* institution of the Slovak administration and is headed by a chairman and two vice-chairmen elected by the National Council. It has a staff of 220 people of which 150 are auditors. In addition to the headquarters in Bratislava there are regional offices in Kosice and Banska Bystrica. The Supreme Audit Office's final budget for 1998 was approximately 300mn SKK (€6.7 million). The audit mandate covers state budget and state property. It should be broadened to cover also the National Property Fund and public funds in general. This would however first require an amendment to the Slovak Constitution. Financial independence of the Office also needs to be strengthened. The Audit Office Reports, which so far are only submitted to the National Council, should, as a matter of principle, be made public.

*The Administrative structures for an effective financial control are not yet fully in place. Priority should be given to implementing a coherent plan on how to meet EU financial control requirements for pre-accession funds. Well-defined solutions for a*

*clear delimitation of responsibilities in particular through the setting-up of one coordinating control body.*

## C. Conclusion

Thanks to the changes introduced since September 1998 Slovakia now fulfils the Copenhagen political criteria. The independence of the judiciary has improved de facto but needs to be consolidated de jure, notably through an amendment to the constitution eliminating the probation period for judges and modifying the nomination and removal procedures.

Continued efforts are needed to sustain the stable functioning of the democratic institutions, step up the fight against crime and corruption and to protect minority rights. Particular attention should be paid to improving the situation of the Roma and to fight discriminatory attitudes in society.

Slovakia is close to being a functioning market economy thanks to the courageous policy decisions and the impressive reform agenda of the new government. The implementation of these decisions in the coming year should take the process forward and complete the legal and economic conditions of a functioning market economy. Continued progress towards sustainable macroeconomic stability and the implementation of the structural reform programme should enable Slovakia to cope with competitive pressure and market forces within the Union in the medium term.

In the course of 1999 Slovakia has adopted measures to reduce internal and external imbalances and the first results are encouraging. Plans for privatisation of the remaining state-owned enterprises and banks have been adopted and measures aimed at accelerating banks and enterprises restructuring are being implemented.

Slovakia needs to ensure the sustainability of these structural and legal reforms, particularly by developing the capacity of the banking sector to perform its financial intermediary function, by completing privatisation in a transparent and market-based manner, and by amending and effectively applying bankruptcy legislation. Priority should also be given to consolidating macroeconomic stability, in particular through deeper fiscal reform in a medium-term setting.

Slovakia has made important progress in legislative alignment in the internal market. A public procurement law was adopted which is aligned with the *acquis* and foresees the establishment of an independent procurement authority. Framework legislation was adopted in the areas of standards and certification which incorporates the principles of the 'New and Global Approach' and should pave the way for further alignment in this sector. Important progress was made in the competition area with the abolition of the controversial law on enterprise revitalization and the adoption of state aid law. The latter will facilitate improved monitoring of state aids. Important progress was made in alignment in the energy sector with the commitment to closure dates for the Bohuncie nuclear reactors. Some progress has been made in the banking and financial services area to improve transparency and protect minority shareholders. In the social sector, progress has been made in enhancing social dialogue.

In other sectors of the *acquis*, although the momentum has picked up and policy decisions are moving the alignment process in the right direction, there has been little

concrete progress in terms of adopted legislation. For example, while the process of transposition in the environment field was re-launched with the adoption of some regulations in the area of air and nature protection, the bulk of transposition of the environment acquis remains to be done. Likewise in justice and home affairs, although some progress was made by introducing new types of crime into the penal code and ratifying some important international conventions, much work remains to be done in making amendments to the aliens and asylum laws and to consolidate efforts in fighting organised crime and corruption. Alignment in transport legislation is lagging behind. The Government's intentions in the regional development field need to be translated into concrete actions. Little progress has been made in the agriculture, veterinary and plant health fields. The same applies to health and safety at work. It is important that the same effort which went into ensuring that key internal market laws were adopted now be applied to the other areas of the acquis to make up for the past couple of years of legislative inertia.

With regard to administrative capacity, co-ordination of EU policy matters has improved, first steps have been to separate the legislative, standardisation and accreditation tasks in the field of standardisation, the laws which have been adopted recently adopted provide for the establishment of key internal market structures and increased attention has been paid to improving capacities in the environmental field. However, the civil service reform law that is needed to lay the foundation for further improvement of administrative capacities in specific sectors of the acquis has not been adopted. In other key areas such as regional development, financial control and justice and home affairs, the establishment of relevant institutions has been delayed. There is a general need to ensure independence of regulatory and supervisory bodies. Given the delays that Slovakia has experienced in its preparations for membership, it is important that the preparation of legislation be closely accompanied by planning for the strengthening of related administrative capacities. Slovakia will need to substantially step up its efforts in the preparation of laws and implementation and enforcement capacities.

Slovakia has adequately addressed the political, state aid and internal market short term Accession Partnership priorities. However the administrative capacity and environment areas did not receive sufficient attention.

## **D. Accession Partnership and National Programme for the Adoption of the *Acquis* - global assessment of implementation**

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

### **1. Accession Partnership: Assessment of short and medium-term priorities**

#### *Short-term priorities*

The short-term priorities of the Accession Partnership<sup>5</sup> and an assessment of the progress made concerning their fulfilment are indicated below.

- **Political criteria** : *free and fair Presidential, national and local elections in 1998; ensuring effective opposition participation in parliamentary oversight committees and supervisory boards; the adoption of legislative provisions on minority language use and related implementing measures.*

**Assessment** : Municipal elections took place in December 1998, following an amendment of the electoral law in line with the Constitutional Court ruling. Direct presidential elections took place in May 1999 for the first time in Slovakia and in accordance with OSCE commitments. The opposition parties have taken proportional representation in the parliamentary oversight and supervisory committees, although the main opposition party has refused to chair any of them. Minority Language Legislation has been adopted. Therefore, this priority has been met.

- **Economic reform** : *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; implementation of policies aimed at tackling internal and external imbalances and sustaining macroeconomic stability; progress on structural reforms, and on market-driven*

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<sup>5</sup> Council Regulation 622/98, OJ L85 of 20 March 1998

*enterprise, finance and banking restructuring, and to continue the process of conversion of energy intensive heavy industries.*

**Assessment :** Measures were adopted to tackle external and internal imbalances through cost cutting and revenue raising measures, a medium-term economic policy and joint assessment framework was established. Progress on structural reform, financial sector and bank restructuring and conversion of energy intensive industries is at its early stages. Therefore, this priority has been partially met.

- **Reinforcement of institutional and administrative capacity :** *including the adoption of a civil service law and development of public administration reform strategy with emphasis on the strengthening of administration dealing with EU accession, institutional strengthening in the area of environment, veterinary and phytosanitary administrations, particularly as regards facilities at the external borders, begin to set up structures needed for regional and structural policy.*

**Assessment :** Preliminary steps have been taken in preparation for the civil service legislation through the adoption of a reform strategy but the law has not yet been adopted. There has been little institutional strengthening in the environment area and in setting up structures for regional and structural policy. No progress was made in strengthening veterinary and phytosanitary structures. Therefore this priority has not been met.

- **Internal Market :** *including continued legislative alignment in the fields of standards and certification, state aids (progress towards adoption of a law), intellectual property (alignment of legislation), public procurement and agriculture (veterinary and phytosanitary fields), establishment of standardisation and conformity assessment structures.*

**Assessment :** Progress was made in alignment in the areas of standards and certification, state aids, public procurement and agriculture (veterinary and phytosanitary fields). Therefore, this priority has been met to a considerable extent.

- **Environment :** *continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

**Assessment :** Little progress has been achieved in this area apart from the adoption of sector-related measures. Comprehensive implementation plans and financial strategies have not been adopted. Therefore this priority has been partially met.

Slovakia has clearly made efforts towards meeting the short-term Accession Partnership priorities, with a clear emphasis on political priorities. The latter are now fulfilled. The economic reform priorities were partially addressed with serious efforts made to regain macroeconomic stability, but limited progress in structural reforms.

Concerning the internal market priorities there has been significant progress. The environment priority has been partially met.

### *Medium-term priorities*

Slovakia has not systematically addressed the medium-term priorities of the Accession Partnership. However, the decision on the closure of the Bohunice V1 nuclear power plant is a positive first step towards meeting the energy priority.

- **Energy:** *implementing a comprehensive long term energy strategy based on efficiency and diversification which foresees the alignment to and implementation of EC energy legislation, the completion of Mochovce nuclear power station according to internationally agreed safety principles, and implementation of a realistic programme for the closure of Bohunice V1.*

**Assessment:** The decision on the closure of Bohunice V1 is a key step towards the fulfilment of this priority

## **2. National Programme for the Adoption of the *Acquis*-Assessment**

A second version of the National Programme for the Adoption of the *Acquis* (NPAA), adopted by the Slovak Government, was presented in May 1999. The document follows the guidelines provided by the Commission in that its structure mirrors the Regular Report as regards the three Copenhagen criteria as well as the Madrid criteria on Administrative capacity. It also contains a chapter on financial needs which summarises the anticipated requirements to cover both the short and the medium term priorities and the expected sources of funds. An annex contains tables on each of the chapters showing planned legislation and implementation arrangements, related time-schedules as well as financing provisions. The document constitutes a serious effort to integrate the various elements of the pre-accession strategy and is generally consistent with past commitments of the Slovak Republic.

The National Programme for the Adoption of the *Acquis* covers the Accession Partnership priorities as well as the main parts of the *acquis*. It is generally consistent with past commitments of the Slovak Republic. The overall quality of the document has significantly improved and is more homogeneous across chapters, although differences persist in the depth of analysis and the extent and quality of presentation. In the area of Research and Development the NPAA merely lists several measures without detailing their content or expected impact sufficiently. In the field of environment (nuclear safety), the plans for the closure of Bohunice V1 and the safety upgrading of Bohunice V2 are missing. There are still references to national legislation without a sufficient link to the *acquis*, which sometimes makes the NPAA difficult to understand (i.e. as regards some areas in the fields of transport and environment). While short-term priorities are often dealt with in sufficient detail, medium-term priorities are described only in a very general way (e.g. alignment in the area of taxation, Small- and Medium-Sized Enterprises). Priority setting is weak in

certain chapters (environment). There are also some inconsistencies between the described actions under the medium-term priorities with commitments made during the screening.

More attention is being paid than in the past to the implementation and enforcement of the *acquis* and to the necessary reinforcement of administrative capacity. However, the formulations are often vague in this respect and often do not involve a detailed time schedule (e.g. consumer and health protection, environment). There is no reference to regional and local levels. In some cases institution building needs are not mentioned. There is a better assessment of training and staffing needs than in the past but they need to be further refined. Budgetary needs also appear to be generally better estimated and more realistically, in particular for the short term priorities, although a more detailed break-down would be desirable in most cases (e.g. in the area of Research and Development). More precision is also necessary if the NPAA is to become an efficient co-ordinating instrument to ensure the implementation of directives which require heavy investments (i.e. in the field of environment). The time schedule for both adopting and implementing the *acquis* is still optimistic (for instance regarding the environment *acquis*).

The 1999 Slovak National Programme for the Adoption of the *Acquis* constitutes, in spite of the shortcomings indicated, a valid instrument provided that it is now translated into more detailed budgets and properly integrated into the government's budgetary plans for the years 2000 and beyond.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,  
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LIT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SV</b>	<b>T</b>
<b>ECHR</b> (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	O	O	X	O	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	O	X	O	X	X	X	O
<b>ICCPR</b> (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
<b>ICESCR</b> (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT</b> (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CRC</b> (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

## **Annex**

### STATISTICAL DATA

## STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
Population (average)	5 347	5 364	5 374	5 383	5 391
Total area	Km <sup>2</sup>				
	49 040	49 040	49 030	49 030	49 030
National accounts	1000 Mio Slovak Koruna				
Gross Domestic Product at current prices	440.5	516.8	575.7	653.9	717.4
	1000 Mio EURO				
Gross Domestic Product at current prices	11.6	13.3	14.8	17.2	18.1
	EURO				
Gross Domestic Product per capita <sup>6</sup> at current prices	2200	2500	2700	3200	3400
	% change over the previous year				
Gross Domestic Product at constant prices (nat. currency)	4.9	6.9	6.6	6.5	4.4
	in Purchasing Power Standards				
Gross Domestic Product per capita <sup>1</sup> at current prices	6700	7300	8100	8800	9300
Structure of production	% of Total Gross Value Added <sup>7</sup>				
- Agriculture	5.3	6.4	5.5	5.1	4.6
- Industry (excluding construction)	34.7	29.5	32.0	29.6	28.1
- Construction	7.5	4.9	5.0	5.5	5.2
- Services <sup>8</sup>	52.5	59.2	57.4	59.8	62.1
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	71.7	69.8	72.6	71.6	71.8
- household and NPISH	50.8	49.6	50.1	49.7	50.6
- general government	20.8	20.3	22.5	21.9	21.2
- Gross fixed capital formation	29.4	27.4	36.9	38.6	40.8
- Stock variation <sup>9</sup>	-6.3	1.0	2.4	0.0	-1.4
- Exports of goods and services	65.1	63.0	58.0	60.7	63.7
- Imports of goods and services	59.9	61.2	70.0	71.0	74.8
Inflation rate	% change over the previous year				
Consumer price	13.4	9.9	5.8	6.1	6.7

<sup>6</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>7</sup> Including FISIM.

<sup>8</sup> For 1995, 1996 and 1997 the item "Services" includes statistical discrepancies.

<sup>9</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

	Mio EURO				
Balance of payments					
-Current account	559	299	-1652	-1722	-1839
<b>-Trade balance</b>	49	-174	-1805	-1836	-2097
<i>Exports of goods</i>	5624	6564	6953	8503	9555
<i>Imports of goods</i>	5575	6738	8758	10339	11652
-Services, net	552	413	29	66	17
-Income, net	-100	-11	-37	-110	-140
-Net current transfers	58	71	159	154	327
<i>-of which government transfers</i>	5	13	7	8	0

	1994	1995	1996	1997	1998
<b>Public finance</b>	<b>% of Gross Domestic Product</b>				
<b>General government deficit/surplus</b>	-1.3	0.2	-1.3	-4.4	:
<b>Financial indicators</b>	<b>% of Gross Domestic Product</b>				
<b>Gross foreign debt of the whole economy</b>	18.5	19.7	23.2	28.6	33.0
<b>Monetary aggregates</b>	<b>1000 Mio EURO</b>				
- M1	3.2	3.8	4.4	4.3	3.4
- M2	7.7	9.2	10.4	11.8	10.9
- Total credit	8.9	9.5	10.8	12.2	12.3
<b>Average short-term interest rates</b>	<b>% per annum</b>				
- Lending rate	14.6	16.9	13.9	18.7	21.2
- Deposit rate	9.3	9.0	9.3	13.4	16.3
<b>EURO exchange rates</b>	<b>(1EURO=...National currency)</b>				
- Average of period	38.12	38.86	38.92	38.11	39.54
- End of period	38.47	38.97	39.95	38.43	43.21
	1990=100				
- Effective exchange rate index	75.3	75.8	76.3	80.2	78.5
<b>Reserve assets</b>	<b>Mio EURO</b>				
-Reserve assets (including gold)	1419	2593	2773	2974	2497
-Reserve assets (excluding gold)	1305	2509	2716	2898	2449
<b>External trade</b> <sup>10</sup>	<b>Mio EURO</b>				
<b>Imports</b>	5557.7	6704.8	8760.8	9049.9	11559.3
<b>Exports</b>	5625.0	6558.8	6954.9	7277.5	9514.8
<b>Balance</b>	67.3	-146.8	-1805.9	-1772.4	-2045.3
	corresponding period of the previous year = 100				
<b>Terms of trade</b>	:	:	:	:	:
	<b>as % of total</b>				
<b>Imports with EU-15 (EU-12 in 1994)</b>	26.2	34.8	37.3	39.6	50.4
<b>Exports with EU-15 (EU-12 in 1994)</b>	28.4	37.8	41.3	41.7	55.8
<b>Demography</b>	<b>per 1000 of population</b>				
<b>Natural growth rate</b>	2.8	1.6	1.7	1.3	0.8
<b>Net migration rate</b>	0.9	0.5	0.4	0.3	0.2
	<b>per 1000 live-births</b>				
<b>Infant mortality rate</b>	11.2	11.0	10.2	8.7	8.8
	<b>at birth</b>				
<b>Life expectancy :</b> <b>Males</b>	68.3	68.4	68.9	68.9	68.6
<b>Females</b>	76.5	76.3	76.8	76.7	76.7

<sup>10</sup> Data reported for the year 1997 are processed according to the old methodology. 1997 ones according to the new methodology are as follows: imports = 10253 Mio EURO, exports = 8500 Mio EURO, balance = -1793 Mio EURO.

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	<b>% of labour force</b>				
<b>Economic activity rate</b>	59.9	59.8	60.1	59.9	59.9
<b>Unemployment rate, total</b>	13.7	13.1	11.3	11.8	12.5
<b>Unemployment rate of persons &lt; 25 years</b>	27.4	24.7	21.1	21.7	23.6
<b>Unemployment rate of persons &gt;= 25 years</b>	10.9	10.8	9.4	9.7	10.1
<b>Average employment by NACE branches (LFS)</b>	<b>% of total</b>				
- Agriculture and forestry	10.1	9.2	8.9	9.2	8.2
- Industry (excluding construction)	30.7	30.3	31.0	30.2	30.2
- Construction	8.9	8.6	8.5	9.1	9.3
- Services	50.3	51.9	51.6	51.5	52.3
Infrastructure	<b>Km per 1000 Km2</b>				
<b>Railway network</b>	75	75	75	75	75
	<b>Km</b>				
<b>Length of motorways</b>	:	198	215	219	288
Industry and agriculture	previous year = 100				
<b>Industrial production volume indices</b>	104.9	108.3	102.5	102.7	103.6
<b>Gross agricultural production volume indices</b>	102.6	102.4	102.7	99.2	95.0*
Standard of living	per 1000 inhabitants				
<b>Number of cars</b>	186	189	197	211	222
<b>Telephone subscribers</b>	284	301	322	340	359
<b>Number of Internet connections</b>	:	:	:	:	2.65 <sup>11</sup>

\* provisional  
: not available

<sup>11</sup> Source: United Nations.

## Methodological Notes

### **National account**

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

### **Inflation rate**

**Consumer price** The EU Member States have designed a new consumer price index in order to meet the obligations in the Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

### **Finance**

#### **Sources**

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

### **Method**

Reserve assets are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-

budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

### **External trade**

Imports and exports (current prices). The recording is based upon the special trade system, according to which; external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs. Exports are recorded here on FOB basis. Recording of data in case of exports is realised with the date the commodities cross the state border, in case of imports - with the date the commodities are released into circulation in the country. Value of exports is given in fob., i.e. price of the goods decreased by direct trade costs abroad. That price converted by a valid exchange rate into the Slovak crown, is a base for calculation of customs duty, value added tax and other charges and fees. Value of imports is expressed in fob., i.e. invoiced price of the goods which is neither increased nor decreased by direct trade costs abroad. Data in terms of USD are recalculated on the basis of an average exchange rate in corresponding period by exchange rate information of the National Bank of Slovakia. The 1997 data are definitive, processed by Decree by the Ministry of Finance of the SR No.82/1993 (Digest) and are not comparable with the 1998 data. The data for 1998 are preliminary, processed by Decree No.167/97 (Digest); 1998 data are cleaned from the imports (by the Ministry of Finance of the SR) realised in the framework of decreasing of some countries indebtedness towards the SR.

Imports and exports with EU-15. Data declared by the republic of Slovakia

### **Demography**

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is:  $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$ . This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference

between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

### **Labour force**

Economic activity rate (ILO Methodology). Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- (i) have no work,
- (ii) are actively seeking a job and
- (iii) are ready to take up a job within a fortnight.

For practical reasons, the quarters do not correspond to calendar ones, but they are shifted one month ahead. The unemployment rate is recalculated on economically active persons (excluding persons on additional maternity (parental) leave, including the conscripts on compulsory military service).

Unemployment rate (by ILO methodology). Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches (LFS). This indicator is derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations.

Since the first quarter of 1997 the conscripts on compulsory military service are included in the LFS. Persons on additional maternity (parental) leave were included among employed until 1996.

### **Infrastructure**

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

### **Industry and agriculture**

Industrial production volume indices. Data on total industrial production include estimates for enterprises and for tradesmen. Indices by selected branches (tab.3.24) until 1996 concern only the organisations with 25 or more employees, in 1997 - the organisations with 20 and more employees and in 1998 - all organisations. Indices are in constant prices of year 1995.

Gross agricultural production volume indices. The gross agricultural output is calculated on the basis of the turnover at current prices. Agricultural output index is recalculated to the constant prices of corresponding period of the previous year.

### **Standard of living**

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers. Number of telephone exchange stations per 1000 inhabitants as of 31.12. of the year surveyed.

## Sources

Total area, external trade, labour market infrastructure, industry and agriculture, standard of living (except Internet connection): **National sources.**

National accounts, balance of payment, inflation rate, public finance, financial indicators, demography: Eurostat.