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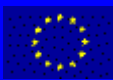


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A. Introduction

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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Slovakia is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Slovakia’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Slovakia’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Slovakia in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Slovakia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Slovakia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Slovakia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Slovakia in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Slovakia's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Slovakia's economic performance.

The report contains also a separate section examining the extent to which Slovakia has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and

resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and Slovakia

Recent developments under the Association Agreement (including bilateral trade)

Slovakia has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions. Following a request from the Slovak authorities for the passage to the second phase of the Europe Agreement, the Commission requested additional information. A reply was provided in September and the Commission is currently examining it with a view to forming the basis for a recommendation to the Council.

The Association Council met in June 2000 following the Association Committee meeting held in December 1999. These provided the occasion to review progress in preparation for accession, notably in the light of the Accession Partnership priorities, and in bilateral relations under the Europe Agreement. The system of sub-committees has operated under the new format as a forum for technical discussions.

Since publication of the Commission's last regular report the Joint Parliamentary Committee, comprising representatives of the Slovak National Council and the European Parliament, held its 8th, 9th and 10th meetings in Brussels in October 1999, in Bratislava in March 2000 and again in Brussels in October 2000.

Slovakia's trade with the EC has remained high and continued to grow in 1999, while it has not shown significant changes in the first six months of 2000. The EC kept its share of total Slovak trade, reflecting a high level of integration of the Slovak economy with the EU. During the first six months of 2000 Slovak exports to the EC accounted for 60.1 percent of Slovakia's total exports, while 50 percent of Slovakia's total imports came from the EC. For the first time Slovakia's trade with the EC showed a surplus in 1999, amounting to € 500 million. In the first six months of 2000 the surplus amounted to €0.56 million. In March 1999 the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU Member States and those of Slovakia. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP. The negotiations with Slovakia were concluded between negotiators in May 2000. As a consequence of the new agreement approximately two thirds of EC imports and 40 % of EC exports will benefit from preferences. The regime entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. For processed agricultural products, negotiations are still ongoing.

¹ For the European Parliament the *rapporteur* is Mr. Marinus Wiersma.

The Council decided to terminate without the imposition of measures the proceeding concerning imports of solutions of urea and ammonium nitrate originating in the Slovak Republic, since it was found that Slovak exports had no material impact on the injury caused to the Community industry. The safeguard measures on the imports of pigmeat that had been introduced in April 1999 were discontinued according to schedule. In April 2000 Slovakia introduced quotas on exports of corn (till the end of October) and barley (till the end of July). In late July it was decided, on the grounds of a severe drought, to prolong the quotas till the end of 2000, while extending them, for the August-December period, to other products. Moreover, Slovakia introduced duty free tariff quotas for certain basic agricultural commodities in order to enhance their import.

The import surcharge which had been reintroduced on June 1st 1999 has been phased out according to schedule and it now stands at 3%. It is due to be completely eliminated by 1st January 2001 at the latest.

In April 2000 exploratory talks between the Commission and Slovakia took place with a view to possibly opening negotiations on a Protocol to the Europe Agreement on Conformity Assessment (PECA) that would effectively provide for pre-extension of the single market benefits in certain sectors. This was followed up by a fact finding mission by the Commission in Bratislava in September 2000.

The legislative procedure for the setting-up of an EU-Slovakia Joint Consultative Committee with the Economic and Social Committee of the European Communities was completed. Slovakia has appointed its representatives to this body.

Accession Partnership/ National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in section D of this report.

In April 2000 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 part D below*).

Community Aid

Since January 2000 there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total annual financial assistance to Slovakia will amount to € 49 million for Phare, € 18.3 million for SAPARD and between € 36.4 million and € 57.2 million for ISPA, per year.

The **Phare** programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and

political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, “twinning” and accompanying investment support projects, to help them in their efforts to adopt the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for “institution building”, while the remaining 70% is used for financing investments.

During the period 1993 – 1999, the Phare programme allocated over € 370 million to Slovakia. The **2000 Phare Programme** for Slovakia consists of a national allocation of € 28 million, concentrated on the following priorities:

- **Political criteria:** improving the situation of the Roma through a better integration into society while maintaining their identity.
- **Economic criteria:** promoting competitiveness through market driven enterprise restructuring, particularly bad-debt recovery mechanisms; establishing an annual fiscal surveillance procedure in line with European standards.
- **Internal market:** implementing the law on technical requirements of product and conformity assessment.
- **Agriculture:** upgrading border inspection posts’ arrangements.
- **Employment and social affairs:** enhanced bipartite social dialogue; establishing an independent guarantee fund for employees in case of employer’s insolvency.
- **Environment:** implementation of the environmental impact assessment directive and reinforcement of the environmental inspectorates.
- **Justice & Home Affairs:** fight against corruption and drugs.
- **Economic and social cohesion:** preparation for the implementation of regional development programmes and Community initiatives.
- **Reinforcement of administrative capacity:** strengthening statistical capacities.

Additional money is committed for cross-border co-operation (CBC) programmes, notably with Austria (€ 6million), Poland (€ 4million) and Hungary (€ 2million).

Slovakia also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprise facility. In 2000 approximately € 6.5 million has been committed for Slovakia’s participation in Community programmes, notably the 5th Framework Programme for Science and Technology, Socrates, Leonardo and Youth, and the Third Multi annual Programme for SMEs. Slovakia expressed its interest to participate in the Culture 2000 programme.

Following the opening of negotiations regarding Slovakia's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Slovakia will become a member of the Agency.

In connection with the decision of the Slovak Government of September 1999 on the early closure of the Bohunice V1 reactors, Slovakia received in late 1999 an allocation of € 10 million for a special programme to support the decommissioning of nuclear power plants and consequential measures in the energy sector. An additional allocation of €20 million has been committed.

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 justice and home affairs, minority issues, agriculture, land registration, customs, etc.. Phare support has been instrumental in Slovakia's transformation process of adjusting to the characteristics of a market economy, a democratic society and the other requirements of EU membership. In particular,

- Phare support to SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms serving enterprises in these sectors (over € 40 million).
- In the field of development of civic society, the Phare funded Civil Society Development Foundation (CDSF) continues to support NGOs in the fields of democracy, minorities, human rights, social activities and the environment (€ 5.5 million).
- Lately, Phare has for example played an important role in the preparation for bank privatisation through the provision of essential financial and legal advice to implement key privatisation transactions (approximately € 2.9 million).
- In the framework of the export development programme, Phare has supported the transfer of marketing know-how to Slovak producers, providing inter alia export market information, support for export development and promotion and an export development investment scheme (€ 9 million).
- In the environment field, the Environmental Grant Scheme has provided grant support to capital investment projects in the private and public sectors which directly facilitate compliance levels in the key environmental problem areas.
- In the transport sector, Phare funds were committed to build a 6.5 km section of motorway D-61 by-passing the city of Bratislava (€15 million). The new link will divert transit traffic and part of the urban through-traffic away from congested city centre streets, thus improving traffic conditions, safety and environmental conditions in the city centre. This project is also co-financed by the European Investment Bank.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare's programming can be moved onto a multi-

annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

Concerning the management of the Phare programme in Slovakia, in spite of some progress achieved over the past few years, further progress is needed in programming, coordination and management capabilities in order to reap the full benefit of the programme in the future. This applies both to the Department of Foreign Assistance within the Office of Government and to individual ministries and beneficiary institutions.

The Slovak **SAPARD** plan received a positive opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in October 2000. The plan is likely to be adopted by the Commission before the end of the year. The programme is based on three major priorities: improvement of the agricultural production sector, including the food industry, supporting investments in farm holdings and investments aimed at contributing to the upgrade of agri-food enterprises to EC standards, and increasing their competitiveness; support to sustainable rural development with a view to increase job opportunities and to develop an ecologically sound management of natural resources; development of human resources. The average annual public expenditure will amount to €24.6 million (at 2000 prices) of which the Community will contribute €18.6 million (maximum annual amount). Preparations for accreditation of the Slovak SAPARD agency are currently ongoing. The Agency is also to carry out in the future issues related to the European Agricultural Guarantee and Guidance Fund. As concerns the **ISPA** programme, the Commission informed the Slovak authorities that its indicative allocation would range from 3.5 to 5.5 % of the overall ISPA budget per year and encouraged Slovakia to propose high quality projects in the fields covered by the programme, i.e. transport and environment. The Slovak Republic has already developed strategies for the use of Phare funds in the above-mentioned sectors that were submitted to the Commission from autumn 1999.

At project level, a transport project has already been selected for ISPA financing, i.e. the modernisation of the Bratislava - Trnava Rail Track (Bratislava Rača - Šenkvice Section) with an allocation of approximately €38.5 million.

Implementation of the ISPA project will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

Twining

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, 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 through the long-term secondment of civil servants and

accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For the Slovak Republic, following 14 twinning projects under the 1998 programme and 18 under the 1999 programme, twinning is foreseen for 9 projects under the 2000 programme. The new twinning projects will further cover sectors already addressed in the past (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), as well as new sectors (like the Roma minority, the fight against corruption and drugs, the establishment of a guarantee fund for employees in case of employers' insolvency, the development of social dialogue). Member States that had not participated in the past will be involved, in particular Spain, Italy and Sweden.

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 States administrations which will work with Slovak partners to prepare for the structural funds. Six justice and home affairs projects have been twinned, under the leadership of Austria, Germany (3), France and the United Kingdom. Other areas of activity are asylum and immigration, the judiciary, penal matters, bankruptcy and commercial law.

Negotiations / Screening

The analytical examination of the *acquis* (*screening*) with Slovakia was completed by the end of 1999, including agriculture and those parts of justice and home affairs not previously covered. During the first half of 2000 the screening has been updated on 23 chapters so far, with due account taken of latest developments in the *acquis* and recent progress.

Negotiations were officially opened at the bilateral intergovernmental conference held in February 2000. In March 2000 substantive negotiations started on eight chapters of the *acquis*: competition policy, statistics, small and medium-sized undertakings, science and research, education and training, culture and audiovisual policy, external relations and common foreign and security policy. The accession conference held in June 2000 decided to provisionally close all the above chapters, with the exception of competition policy and culture and audiovisual policy.

As recommended by the Commission, the Presidency's proposal is to open negotiations for eight additional chapters (freedom to provide services, free movement of capital, fisheries, transport, industrial policy, telecommunications and information technology, consumers and health protection, and customs union) in the second half of 2000.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Slovakia's progress towards accession, the Commission concluded that:

“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 the rights of the minorities. Particular attention should be paid to improving the situation of the Roma and to fight discriminatory attitudes in society”.

The section below aims to provide an assessment of developments in Slovakia since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country's executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Slovakia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovakia's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this report.

Recent developments

The process of consolidation of democratic institutions noted in the last report has continued. In line with the normal political calendar there have been no elections during the period. Due to the serious illness of the President, his powers were transferred in July, in accordance with the constitution, i.e. partially to the Prime Minister and partially to the Chair of Parliament. The President took back his powers upon his recovery four weeks later. A referendum on early elections has been called at the request of the opposition.

1.1. Democracy and the Rule of Law

As mentioned in the last Regular Report, Slovakia has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

The Parliament

The functioning of parliamentary committees and supervisory bodies has been weakened by the continued refusal of the leading opposition party to take the chair posts it was offered and by the decision of the second largest opposition party to remove its members from such positions. Currently chair positions are available on the parliamentary committees for Education, Youth and Sport, Social Affairs and Housing, Culture and Media and Conflict of Interest and on the special supervisory committees for the Slovak Intelligence Service and Military Information. The Parliament dismissed the president and vice-president of the national Property Fund (NPF), on the proposal of the government, for their mishandling of the gas storage company case.

In February the Parliament unanimously voted in favour of a resolution specifying its basic tasks in support of Slovakia's preparation for accession to the EU. All parliamentary political parties have also participated in the preparation of the reform of the constitution.

The case of a former member of Parliament who had been unduly deprived of his mandate has been definitely closed; the Parliament has cancelled its 1996 resolution, and financial compensation has been provided. The legal case filed by the former MP before the European Court of Human Rights has been dropped.

In one year the Parliament adopted 71 laws and law amendments. The Parliament has criticised the excessive recourse to the shortened legislative procedure, which it has attributed to a lack of adequate preparation of legislation on the part of the Government. It was estimated that in order to apply the *acquis* the Parliament will have to adopt 231 laws by 2002. The rules of parliamentary procedure have been modified to make them more efficient.

Following unclear rulings from the Constitutional Court on the possible retroactivity of presidential amnesties, the Parliament confirmed its previous resolution, already mentioned in the last report, to strip the parliamentary immunity of two MPs belonging to the opposition. However, the Parliament did not adopt proposed legislation that would have cancelled the two relevant but contradictory amnesties, thus facilitating the legal process. Recently, a district court cancelled the proceedings against one of the MPs, on the grounds that the original amnesty was still valid. As to the other MP, who is being prosecuted for eleven criminal offences, a new proposal was approved in Parliament in August to take him into custody, while he was apparently missing. The legal difficulties and uncertainties surrounding these important cases highlight a need for improved legal constitutional clarity in Slovakia.

The two main opposition parties presented a request to the President in August in view of holding a referendum on early parliamentary elections. The petition has been accepted and the referendum will take place on 11 November.

The Executive

The internal tensions within the four-party coalition government were exemplified in April 2000 when some members of Parliament belonging to the coalition, including its Chairman, voted against the Prime Minister in a no-confidence vote prompted by the opposition. More recently the chairman of the Hungarian coalition party indicated that his party could withdraw from the ruling coalition out of disagreement with the

administrative reform. These tensions have negatively affected the smooth progress of some politically sensitive elements of the pre-accession legislative agenda, including the reform of the constitution.

The Minister of Economy was replaced in October 1999, under allegations of corruption. The Minister of Health resigned and was replaced in July 2000 in connection with criticism of the functioning of the public health system, prompted by the medical treatment given to the President during his illness.

The Charter on Local Self-Government has been ratified and entered into force in May. *The adoption of the civil service law and starting the implementation of the public administration reform strategy* are short-term priorities under the Accession Partnership, but have both been delayed due to lack of political consensus. Although there has been progress in the definition of a public administration reform, the Law on Local Authority Administration has not yet been approved, thus delaying the setting up of the new territorial structures. Discussions surrounding the draft Civil Service Law have been particularly difficult and have not yet resulted in a consensus due to diverging views on key issues (i.e. conditions for tenure, pension rights) within government. The general weaknesses in individual administrative structures (*see chapter B3 for details*), have been accentuated by indiscriminate reductions in the number of civil servants and is compounded by the lack of a satisfactory civil service framework. In August the Government approved the recommendations of an audit review made on the State institutions which, when implemented, should lead to staff reductions and staff allocations in line with priorities. European integration is considered a priority area in this context.

In spite of some improvement at the diagnostic and conceptual levels, there has been no tangible progress in the strengthening of the practical functioning of the civil service in Slovakia since the last report. Therefore, politicisation, patronage and lack of accountability are still features of a public administration largely unattractive to new, highly qualified recruits. Delays in the reform of the civil service are already hindering the key role that the public administration must play in support of the accession process. Unless a satisfactory solution is found soon (i.e. one that guarantees a professional, impartial, politically neutral, efficient and flexible civil service) this will constitute a major obstacle to Slovakia's ambitions for early accession to the EU.

The Judicial System

The last Regular Report noted progress in the independence of the judiciary, while indicating that a forthcoming reform of the constitution should pave the way for further progress. A short-term priority under the 1999 Accession Partnership is: *“strengthen the independence of the judiciary, in particular amend the constitution with regard to nomination and probationary system for judges”*. The constitutional reform that should have, *inter alia*, abolished the probation period for judges and shifted the competence for proposing their appointment to the Judicial Council, has not been adopted yet. However, on the basis of the existing constitution, in October 2000 the Parliament passed a law regulating the status of judges, which will enter into force in January 2001. This law includes provisions that regulate, *inter alia*, the procedure for selecting, promoting and disciplining judges. It gives the judiciary more powers. The new law also increases the remuneration of judges, which was considered to be low in

comparison with neighbouring countries. The latter provisions will enter into force only in 2003.

There are 1243 judges in Slovakia. Of these, 1131 correspond to regional and district courts, a slight decrease compared to the last report.

The number of cases before the courts has tripled since the early 90's, reaching approximately 800,000 annually. The length in judicial proceedings, with an average duration of 12 months in civil cases continues to be an issue of concern and has resulted in an increasing number of complaints before the European Court of Human Rights.

The independence of the Supreme Court will be strengthened by an already adopted legislative amendment which foresees its funding outside the budget of the Ministry of Justice starting with the 2001 budget.

In spite of the work in progress there has been little practical improvement in the functioning of the judiciary and serious efforts are needed, as a matter of priority, to guarantee its professional impartiality and political neutrality. There have been reports of judicial corruption and political pressure on judges as well as physical attacks on a few of their number. A recent survey, produced at the request of the government, indicated that about one fifth of the parties involved in court proceedings would have experienced corrupt behaviour from judges. Bribes were given either to influence the outcome of the cases or to accelerate their proceedings.

In November last year the President of the Republic appointed several new members of the Constitutional Court, including a new chairman. In August the government decided to request a Parliamentary vote on the removal of the President of the Supreme Court, before the expiry of his five-year term, on the basis of allegations that he has not fulfilled his professional duties in compliance with ethical principles. It should be noted that this position had been filled under the previous Government in 1998. In the meantime, the Association of Judges adopted a Code of conduct for judges, setting standards of behaviour in professional and private life.

Anti-corruption measures

The European Commission has repeatedly stated that the fight against corruption needed to be made more effective in Slovakia. In the last Regular Report the Commission recognised a number of positive measures but indicated that their effects had not yet been sufficiently demonstrated. Therefore, further sustained efforts were needed to ensure effectiveness in the fight against corruption both in economic and political life.

In June, the Government adopted a national plan for the fight against corruption. It aims at tackling corruption by, inter alia, increasing transparency, limiting the scope for abuse of discretionary powers, addressing market failures related to state-owned enterprises and privatisation, reinforcing control and audit mechanisms, enhancing the quality and impartiality of the civil service and strengthening law enforcement, e.g. through the establishment of a special public prosecutor for anti-corruption. An anti-corruption steering committee was set up in July at the Office of Government to implement the programme, including representatives from ministries, other state administration, NGOs and international donors. The programme constitutes a positive starting point in that it contains a diagnosis of the situation and a well-balanced combination of prevention and enforcement proposals. Nevertheless, it remains rather general and lacks operational

criteria to prioritise measures. It therefore needs to be translated without delay into a detailed action plan with concrete commitments, responsibilities and resources. The relevant ministries have already submitted by September their individual proposals , which now need to be integrated into the plan.

At the beginning of November 1999, the first trial related to organised crime began amidst special security and information protection measures. The government has pursued numerous investigations and launched new ones into alleged cases of fraud, corruption and abuse of power connected with the previous government. The new law on public procurement, that entered into force in January has raised transparency by allowing for the monitoring of tenders by independent third parties at the request of the contracting authority, a possibility that has already been used in some cases.

During the period Slovakia has ratified the Council of Europe Criminal Law Convention on Corruption. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions has entered into force. Slovakia has signed, but not yet ratified, the Council of Europe Civil Law Convention on Corruption.

In spite of the above measures, the perception exists, confirmed by various sources, that corruption is widespread in Slovakia and that it is either rising or at best not decreasing. The most affected areas appear to be health care, the National Property Fund, customs, labour offices, tax authorities, the education system, the police, municipal governments, some ministries and the courts. According to a recent survey amongst entrepreneurs and civil servants, state subsidies to enterprises are often granted through bribery, political influence or contacts. The bodies prone to accepting bribes are those involved with regulating, licensing, certification, inspection, registration, and the issuing of permits.

In the face of this situation the translation of good intentions and well thought-out concepts into specific actions should not be delayed. The reform of the public administration and the civil service, including clear internal guidelines, codes of ethics and disciplinary procedures are also particularly important.

1.2. Human rights and the protection of minorities

As mentioned in the last Regular Report, Slovakia continues to respect human rights and freedoms. The following section concentrates on subsequent major developments.

Slovakia has already ratified the major human rights conventions (see annex). In November 1999 Slovakia signed, but has not yet ratified, the Revised European Social Charter.

Civil and political rights

Slovakia is further advancing in the active protection and implementation of basic civil and political rights, which see increased monitoring and protection by the state and NGOs. A law on free access to information was enacted in May and comes into effect in January 2001. Based on the principle that any information that is not classified as confidential is of public use, this law should contribute to improving transparency in public life and participation by civil society and to facilitating the fight against corruption.

The Government Council for *NGO's*, aimed at coordinating public support for civil society, has been created and is operating with 37 members, of whom 20 represent *NGO's*. The Government has not yet produced a policy document or adopted changes to legislation on foundations, non-investment funds and non-profit organisations. However, the ceiling for tax deductibility of contributions to *NGOs* has been raised. Moreover, a provision has been included in the Income Tax Law whereby taxpayers can, as of January 2001, assign up to 1 % of their income tax to *NGOs*.

The dialogue between Government and *NGOs* has continued to improve. "Third sector" representatives have been closely associated with the preparation of various reforms and their initiatives have increasingly benefited from financial support. In this improved climate a challenge for the future development of the *NGO* sector in Slovakia will be to sustain and improve its constructive cooperation with the political powers, while preserving the necessary intellectual and political independence so as to contribute to the furthering of democratic and social progress.

As regards *freedom of expression*, no cases of intimidation of journalists and media have been reported during the period. The filling by the Parliament of a vacant position on the Council of Slovak Radio and Television (STV) took seven months, as opposed to the sixty days contemplated by the law. Monitoring of state-owned TV has indicated that the opposition is not given sufficient and objective coverage. A recent resolution by STV has determined that more air-time will be devoted to the opposition. It is important that the public service nature of state-owned media is ensured and improved.

Slovakia is increasingly being used both as country of origin and transit for *trafficking in women*, although the number of reported cases is low in absolute terms.

The 24 hour rule applicable to *asylum requests* has been eliminated thus facilitating access to asylum (see *Chapter 24 – Co-operation in the field of justice and home affairs in part B.3.1 of this report*).

Economic, social and cultural rights

The principle of *equal opportunities* has been reinforced by removing the complete prohibition on women working at night. Moreover, the rights of pregnant employees have been strengthened and the implementation of equal pay provisions safeguarded. The publication of job offers with discriminatory content as to gender has been prohibited (see *Chapter 13 – Social Policy and Employment – in part B.3.1 of this report*). The Optional Protocol to the Convention on the Elimination of all Forms of Discrimination against Women has been signed. However, the rights of women and children remain an important issue, despite the many international obligations adhered to. In particular, domestic violence directed at women and children is a serious problem, while appropriate legislation is lacking.

In the area of *child protection*, Slovakia is not making satisfactory progress and does not comply with the relevant conventions, including international adoption. There are around 5,800 abandoned children living in homes under the supervision of the Ministry of Labour, Social Affairs and Family. Their living and educational conditions are considered inadequate. The Government, however, has approved the establishment of a Committee for Children's Rights, which monitors the fulfilment of the UN Convention on the Rights of the Child. It consists of 16 members, representing both ministries and *NGO's*.

Social dialogue has further improved, despite increasing unemployment. The tripartite agreement for 2000 was signed in March by Government, Trade Unions and Employers. The Consultative Committee on European Integration involving the social partners has met regularly. In November 1999 Slovakia signed the *Revised European Social Charter*, still pending ratification. An amendment to the Penal Code made the late payment of wages liable to prosecution.

Minority rights and the protection of minorities

In the 1999 Accession Partnership for Slovakia a short-term priority is: “improve the situation of the Roma through strengthened implementation, including provision for the necessary financial support at national and local levels, of measures aimed, notably, at fighting against discrimination, foster employment opportunities and increase access to education”.

After the considerable progress in setting up the appropriate legislation and supporting institutions that was reported during the previous period, further progress can be noticed in developing approaches to tackle the problems of minorities, but only limited progress can be observed in actual implementation.

The Ministry of the Interior has established the list of 656 municipalities where the Law on the Use of Minority Languages in Official Communications applies (i.e. where national minorities - Hungarian, Ruthenian, Roma, Ukrainian and German - represent at least 20% of the population) and has issued guidelines. Some local authorities have also developed implementing regulations. However data on actual implementation of the law is scanty and does not allow for forming a judgement on its effectiveness. It appears that in many areas national minorities do not make use of the rights granted under the law due to lack of information. For instance, no Roma village has apparently taken advantage of the possibilities to use the Romany language.

An expert group at the Office of Government is working on the drafting of further legislative developments on the use of minority languages, notably in the areas of education, culture and the media. In May an action plan to prevent all forms of discrimination, racism, xenophobia, anti-semitism and other forms of intolerance was adopted, covering the period 2000-2001. The plan aims to raise public awareness about all forms of intolerance and to promote and co-ordinate education initiatives vis-à-vis students, targeted professional groups (the police, judges, prosecutors, the army, health and social workers), as well as the population in general. It appears to be comprehensive and well conceived, though it does not contain budget allocations.

The Roma minority is very sizeable in Slovakia, although its precise proportions are not well known. According to the last census it accounts for 1.6% of the population, but could be as high as nearly 10% -or the largest in Europe in relative terms- according to estimates. An effort to improve the accuracy of the next census in this respect should be undertaken. The Roma continued to suffer discrimination, violence at the hands of thugs (‘skinheads’) and lack of sufficient police protection. In August, a Romani mother of eight was attacked and killed. The police have launched investigations, confirming racial motives. The crime has been widely condemned by key political representatives. The Roma minority has also been the victim of racist language, including from some political

representatives. It should be positively noticed however that in September a member of parliament was stripped of his immunity to facilitate legal proceedings in this respect.

The reconstruction of Roma dwellings affected by the July 1998 floods in eastern Slovakia is not yet complete. There is under-representation of Roma students in the educational system, most particularly in higher education and university, and over-representation in schools for retarded children. The efforts to provide teachers with training about Romani culture and history have nevertheless been strengthened and the first textbook on Roma history has been made available to schools. De facto segregation continues to exist in some cities and towns.

The outflow of Slovaks of Roma origin to a number of EU countries has continued and outflows to the Czech Republic have equally been detected. This has resulted in the imposition of visa requirements in certain cases. At the time of drafting this report the following Member States impose visa requirements on Slovak citizens: Belgium, Denmark, Ireland and the United Kingdom. Some political representatives have blamed the situation on the Roma themselves or attributed it to organised gangs. The underlying social and economic roots of the problem can nevertheless not be ignored. The connection between the Roma outflow and the imposition of visa requirements has prompted anti-Roma resentment. Recent crop thefts have had a similar effect.

The strategy to tackle the problems of the Roma community which was adopted in September 1999 (stage I) was further elaborated in March 2000 (Stage II). The new document constitutes a list of valid intentions and good projects, but lacks in definition of objectives, assessment of progress to date, clarity in financial allocations and follow-up mechanisms. Further development and concrete measures would be needed to ensure its operational value.

The actual budget allocation under the 2000 budget for the Government Commissioner on Roma Affairs was, in comparison to the previous year, doubled to 0.75 M€. This allocation seems clearly insufficient. The allocation foreseen under the stage II strategy is of around 4 M€, but the budgetary sources are not yet clearly identified.

A recent amendment to the Penal Code explicitly recognised racially motivated bodily crime and raised the penalty for harm in such cases. A number of verdicts have already been based on this provision. For example, in April a court in Banska Bystrica modified the legal qualification of a crime, perpetrated four years earlier, deeming it racially motivated, although the sentence was not changed. In that case and for the first time a court decision, based on the above provision, was publicised in Slovakia.

Concerning the Hungarian minority, the implementation of the basic treaty with Hungary has continued through the functioning of various working groups.

The Parliament approved a law designed to compensate people deported to labour camps in World War II. A total of 4,500 victims will benefit from about 10 M€ in funds.

In spite of some progress recorded there appears to exist, in general, a gap between the good intentions and their actual implementation. As a result, practical improvement in the daily life of the minorities is very minor if not unnoticeable. More attention, including attention at local administration level, needs to be paid to protecting minorities and to

changing deep-rooted discriminatory attitudes in society and, in particular, to improving the living and social conditions of the Roma population.

1.3. General evaluation

Slovakia continues to meet the political criteria for accession which the last report had recognised, for the first time, as having been fulfilled. Slovakia has further advanced in the consolidation of its democratic system and in the normal functioning of its institutions. However the speed of the reform process has lost some momentum due, in part, to dissension within the ruling coalition.

Certain legal steps were taken to strengthen the independence of the judiciary. However, key parts of the reform, in particular the constitutional amendment with regard to the nomination and probationary system, which were set as a short term priority, have not yet been adopted. Therefore, continued efforts are needed to ensure the independence of the judiciary.

Progress was also achieved in the fight against crime and corruption, mainly in formulating a government policy and transposing international obligations. The translation of good intentions and well thought-out concepts into specific actions should not be delayed, in order to improve Slovakia's otherwise insufficient record in this respect.

Further progress can be noticed in developing approaches to tackle the problems of minorities, but there remains a gap between policy formulation and implementation on the ground. Tangible improvement of the situation of the Roma minority in particular by implementing specific measures, a short term priority of the 1999 Accession Partnership, has therefore not been achieved to a large extent. Increased efforts in implementing legislation in various sectors as well as strengthening policies and budgetary means in line with the medium term priorities of the 1999 Accession Partnership are needed in this respect.

The adoption of the civil service law and starting implementing the strategy of the public administration reform, both short term priorities of the 1999 Accession Partnership, have been delayed. Sustained efforts are required to maintain momentum in these important areas of the reform process.

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 its 1999 Regular Report, the Commission acknowledged that progress had been made and found that:

"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 will 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 examining the economic developments in Slovakia since the Opinion, the Commission's approach is 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, as well as in the previous Regular Reports.

2.2. Economic developments

The macroeconomic stabilisation policies of the government have broadly generated the desired results. It will be crucial to maintain fiscal discipline in order not to endanger the still fragile macro-economic stabilisation achievements. In the reporting period, fiscal tightening and sharp increases in administered prices have curtailed excess domestic demand. As a result, the trade and current account deficits have been almost halved, while economic growth slowed down in 1999 to 1.9%, remaining positive thanks to robust exports. The lower current account deficit and increased net foreign direct investment have put financing of the balance of payments on a more sustainable path. Inflation increased in line with expectations as a result of necessary administrative price adjustments. The exchange rate stabilised, although occasional tensions linked to political uncertainty still occur. Unemployment increased faster than anticipated, partly due to the resumption of enterprise restructuring.

Slovak Republic		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	6.2	6.2	4.1	1.9	1.7 Jan-June
Inflation rate ²						
- annual average	per cent	5.8	6.1	6.7	10.6	13.6 ³ Sept
- December-on-December	per cent	5.4	6.3	5.7	14.1	8.7 Sept
Unemployment rate, end-year						
- ILO definition	per cent	11.3	11.8	12.5	16.2	18.9 April-June
General government budget balance	per cent of GDP	-1.7	-3.6	-4.8	-3.4	:
Current account balance	per cent of GDP million €	-10.6 -1,655	-9.6 -1,725	-10.0 - 1,893	-5.9 -1,088	-1.6 Jan-June -162 Jan-June
Foreign debt						
- debt export ratio	per cent	38.8	53.6	57.4	60.4 E	:
- gross foreign debt	million €	3,338	5,595	6,673	6,863 E	:
Foreign direct investment in flow	per cent of GDP	1.8	0.9	2.7	1.7	1.3 Jan-June
- balance of payments data	million €	279	154	504	310	136 Jan-June

E = Estimates

The structural reform programme that was announced by the government in early 1999 has been further elaborated and implemented in the past year. In particular, a new bankruptcy framework has been approved, state-owned banks have been re-capitalised and are being privatised, and the privatisation of public utilities has started. This set of measures is creating an environment where enterprises are put under pressure to restructure, while the possibilities for attracting the financial means for restructuring are being improved by enhanced incentives for foreign direct investment and a better functioning banking sector.

² PROXY HICP since 1996 (see methodological notes)

³ Moving 12 month average rate of change.

Main Indicators of Economic Structure in 1999		
Population (average)	thousand	5,395
GDP per head ⁴	PPS-€	10,279
	Per cent of EU average	49
Share of agriculture ⁵ in:		
- gross value added	per cent	4.5
- employment	per cent	7.4
Investment-to-GDP ratio ⁶	per cent	30.8
Gross foreign debt/GDP ⁷	per cent	38.9
Exports of goods & services/GDP	per cent	61.5
Stock of foreign direct investment	million €	2,801
	€ per head	377
End of 1999 data (Eurostat)		

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.

Despite political differences in the governing coalition, the government has managed to reach a broad consensus on the need for macroeconomic stabilisation and structural reforms. Although the execution of the ambitious economic reform programme has sometimes been slower than initially planned, all implementing measures are in line with, or in some cases even stronger than, the original agreement. In February 2000, the Slovak government and the European Commission services signed a Joint Assessment of Slovakia's medium-term economic priorities. The Joint Assessment is the result of co-

⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁵ Agriculture, hunting, forestry and fishing.

⁶ Data refer to Gross fixed capital formation as % of GDP.

⁷ The 1999 data for foreign debt are estimates.

operation among all relevant ministries and thus integrates a number of sectoral strategies into a consistent framework. The wide support that this economic strategy has received, both within the government coalition and from the social partners, is essential to guarantee the full implementation of its sometimes difficult measures.

During 1999, the government started to introduce an austerity package to cut excess domestic demand in order to restore macroeconomic stability. By the end of 1998, when the current government was formed, the internal and external macroeconomic stance had become unsustainable, leading to periods of exchange rate tensions. The initially positive results of the austerity package that were observed in the 1999 Regular Report have been confirmed and strengthened since.

The decline in economic growth from 4.1% in 1998 to 1.9% in 1999 is relatively modest, given the size of the painful but necessary cuts in domestic demand. Price and tax increases, lower public investment and the imposition of a harder budget constraint on the enterprise sector generated a drop in domestic demand (excluding stocks) by 7.7% in 1999, compared to an increase by 7.2% in 1998. This was mainly the result of a dramatic contraction of gross fixed capital formation. Private consumption growth also decelerated sharply from 5.3% to 0.1%, as a result of a decline in real wages by 3.1%.

The negative effects of the weak domestic developments on GDP growth were largely compensated by the contribution from net exports. Real exports grew by 3.6%, which is a good performance given the feeble economic growth during most of the year in Germany, the Czech Republic and Italy, Slovakia's main export markets. Exports were supported by the moderate domestic wage developments and by increased productivity in some sectors. The sharp contraction of domestic demand resulted in a decline of real imports by 6.1%, compared to an increase by close to 20% in 1998.

In the first half of 2000, the protracted shrinking of domestic demand has continued to be compensated by a strong positive contribution from net exports, leading to GDP growth of 1.7%. Although the decline of investment has slowed down, private and public consumption became even weaker than in 1999.

Unemployment increased rapidly and reached 18.9% in the second quarter of 2000 (labour force survey data), an increase of 6.4 percentage points compared to the end of 1998. Unemployment had been high from the start of transition and only declined marginally when economic growth accelerated from 1994 onwards. It started to increase again in 1997, even though at that time the economy still grew by 6.5%. This was mainly the result of increased pressures for enterprise restructuring. Enterprises were forced to cut costs by eliminating over-employment. The rapid surge in unemployment seems to have moderated wage developments, leading to a real wage decline by 3.1% in 1999.

In the second half of 1999 and early 2000, changes in the rate of inflation have been largely determined by government decisions. Various increases of administered prices (mainly in the energy sector), higher indirect taxes and the introduction of an import surcharge have pushed up the inflation rate from 7.1% in June 1999 to 16.6% in March 2000. The average inflation rate in 1999 was 10.6%, compared to 6.7% in 1998. However, this acceleration of headline inflation has not threatened medium-term price stability because core inflation, which excludes the effect of government measures, is kept under control at around 6 to 7%. Due to the profile of administered price increases in the past, inflation stayed high in the first half of 2000, but eased rapidly from July

onwards, to reach 8.7% in September. Core inflation also declined to less than 5% in September.

In 1999, the trade and current account deficits were almost halved. After three years of deficits of around 10% of GDP, they declined to below 6% as a result of the strong export performance and import contraction, and despite the sharp price increase of imported energy products. The smaller current account deficit was easily financed, partly by an increase of net foreign direct investment to 3.6% of GDP. The positive external developments have continued in 2000. The current account deficit has been reduced to about 1.5% of GDP in the first six months and the trade deficit was only about 2.8% of GDP in the first eight months of this year. In April 2000, even a surplus on the trade balance has been recorded for the first time since 1995.

The reduction of the general government deficit will be crucial for the consolidation of the government's macroeconomic stabilisation achievements. Although the 1999 general government deficit of 3.4% of GDP was higher than the 3% target, the authorities have been able to reduce the primary deficit (excluding interest payments) by about 2% of GDP, which represents a significant fiscal tightening. The budget for 2000 again aims at a general government deficit of 3% of GDP (excluding the cost for bank restructuring). The state budget developed favourably in the first nine months of 2000: a deficit of SKK 7.8 billion (€ 184 million) was recorded, compared to a deficit of SKK 12.4 billion (€ 279 million) in the same period of 1999, mainly as a result of fast revenue growth. In particular, revenues from corporate income tax and self-employed taxes have been significantly higher than expected. Past measures seem to have been successful in improving tax compliance. However, because of a number of risks, mainly on the expenditure side, it is unlikely that the end-of-year deficit target will be reached.

The current budget proposals for 2001 are not in line with the medium term consolidation envisaged in the Joint Assessment and give reason for concern. The current budget proposals foresee a general government deficit of around 4.9% in 2001 (including off-budget-items and excluding the costs of bank restructuring). It is essential that the final budget for 2001 foresee sufficient measures, including in the area of social expenditures, to keep the general government deficit under control. Otherwise, the positive but still fragile results of macroeconomic stabilisation would be endangered.

Furthermore, a more medium-term outlook should be introduced in the budget preparation process, in order to incorporate better future effects of current measures and to assure the sustainability of budget consolidation. The structural reforms on the revenue side should be completed. In this framework, the tax base could be extended and measures to further improve tax compliance must be introduced. However, because the tax burden is already relatively high in Slovakia, medium-term measures should concentrate on containing expenditures. Among other things, this will require a comprehensive reform of the health, pension and social security system to make it more self-sustainable. The reform of Slovak Railways, which is under preparation, should cut losses and thus reduce the need for subsidies from the budget. In addition, other subsidies to enterprises from the budget should be reduced.

Some relaxation of monetary policy has been made possible by the more restrictive fiscal policy leading to lower interest rates. Foreign demand for government securities increased and has also contributed to lower domestic interest rates. As a result of the improved current account balance and the increased foreign interest in koruna denominated securities, the exchange rate started to recover against the euro from the

middle of 1999. The National Bank of Slovakia has repeatedly intervened to slow down the appreciation of the koruna. As a result, official international reserves have increased from a low of €2.4 billion at the time of the currency crisis in May 1999 to €4.5 billion in early May 2000. Later, the currency came under some temporary downward pressure as a result of Slovak crown sales by foreigners during periods of increased political uncertainty. On some of these occasions, the central bank intervened to support the currency. In the near future, significant capital inflows from ongoing privatisations can be expected. This could lead to upward pressures on the exchange rate and will challenge monetary policy.

The equilibrium between demand and supply is now largely established by the free interplay of market forces. The accelerated increase of administered prices has been continued. After several hikes in energy and transport prices during 1999, substantial increases were introduced again in 2000. The rapid price adjustments had become necessary because the previous government had kept administered prices at an artificially low level, hampering the profitability of most utilities. As an unavoidable consequence, the increase of administered prices, which represent 19.3% of the consumer price index, was one of the main causes of the acceleration of inflation in Slovakia.

The current government has given a new impetus to the privatisation process by opening up state-owned banks and utilities for full or partial private ownership. The vast majority of enterprises in Slovakia are private. The first major sale by the current government, of a majority stake in Slovak Telecom, has been successfully completed in July 2000. The ongoing full privatisation of the major state-owned banks is expected to be finalised between the autumn of 2000 and the first half of 2001, while the sale of minority stakes in the important energy sector (Slovak Gas, Transpetrol, Slovak Electricity) is under preparation. In sharp contrast to the past, all these privatisations are conducted through transparent open tenders, with the full involvement of interested foreign bidders.

In principle, market entry is free in Slovakia, although relatively few new enterprises have been established. With some delay compared to the originally announced plans, the Parliament approved substantial amendments to the bankruptcy framework in June 2000. The lack of a functioning bankruptcy framework has been one of the main factors behind slow enterprise restructuring and the build-up of non-performing loans in the banking system. The amendments to the law should shorten bankruptcy proceedings and improve the possibilities for financial restructuring of potentially viable enterprises. Conditions to start bankruptcy procedures have been made more accurate and stringent, and the powers of creditors in the process have been substantially reinforced. The new legal bankruptcy framework, if effectively implemented by the responsible courts, should be able to contribute to faster and less destructive enterprise restructuring.

The legal system for a functioning market economy is largely in place, but implementation needs considerable strengthening. The recent amendments to the bankruptcy framework have solved the biggest remaining problem. Property rights are guaranteed by the legal and court system. Nevertheless, courts need to be strengthened further in order to improve commercial law enforcement. As discussed in more detail in the chapter on the political criteria, corruption is relatively widespread in Slovakia. The government is currently establishing an action plan for combating corruption.

The role of the financial sector in enterprise restructuring and in supporting economic development has been hampered by the conduct of the main state-owned banks. This conduct has also led to their precarious financial situation. In the second half of 1999, bad

debts in the banking system had increased to more than 40% of total loans, mainly concentrated in the state-owned banks, which represent about half of the sector. Despite the weakness of part of the financial sector, financial intermediation has traditionally been relatively high, with a domestic credit to GDP ratio of over 60% in 1999, but the criteria for granting loans have been distorted. This is mainly the result of the heavy involvement of the state-owned banks in the financing of some of the big Slovak enterprises which generated the bad debt problem.

During the past year, Slovakia has made great progress in restructuring and re-capitalising the state-owned banks. The government increased their capital, and took SKK 108 billion (about 13% of GDP) of bad assets in two rounds, reducing their share of non-performing loans to less than 20%. Most of the carved-out assets were put in the newly established Slovak Consolidation Agency, while the remainder was allocated to the Slovak Consolidation Bank. The Consolidation Agency will not directly manage the assets it took over, but will auction them as soon as possible. The capital adequacy ratios of all state-owned banks are now higher than the required 8%. The steps taken to improve the financial situation of the state-owned banks should enable their privatisation. The government has decided to sell all its shares in all banks, including in the Slovak Savings Bank (SLSP), where it originally intended to sell only a minority stake. Calls for interest for the Investment and Development Bank, the SLSP and the smaller Banka Slovakia have already been published. The selection of buyers for these three banks is expected to be completed before the end of 2000. The sale of the last state-owned bank, the General Credit Bank, has been postponed somewhat in order not to interfere with the sale of the other banks and is expected to be finalised in the first half of 2001.

A number of smaller banks, which only represent a small proportion of the Slovak banking sector, have run into difficulty over the last year. The supervisory authorities and the government have taken a differentiated approach. In three cases the license has been revoked and the bank closed. As a consequence, the deposit insurance fund has paid out about 1% of GDP in 2000. In other cases the government temporarily stepped in, with the intention of selling the bank to a strategic investor as soon as possible. Meanwhile, some of the smaller banks have been taken over by foreign investors, while the sale of others is pending.

Capital markets remain illiquid and fragmented and progress is still needed in their regulation. An integrated supervisory authority is being set up, initially to supervise capital markets and the insurance sector. In the future, banking supervision, which is currently done by the National Bank of Slovakia, will be transferred to the integrated supervision authority. The authorities should ensure the financial and operating independence of the new authority. Although the banking supervision framework is largely in place, it needs to be strengthened.

Slovakia can be regarded as a functioning market economy. Macroeconomic stability has presently been restored through measures to reduce the fiscal and external deficits and macroeconomic risks have so far been contained. However, the current budget proposals for 2001 risk to endanger the stabilisation achievements. Continued adoption and implementation of medium-term fiscal reform will be needed. The legislative framework for business activity is largely in place, but effective implementation needs to be strengthened. Price distortions are being eliminated through increases in administered prices. Privatisation is advanced and it is under preparation in the energy sector. The authorities are making good progress in the restructuring and privatisation of the state-

owned banks, but the process needs to be completed and banking supervision has to be further improved.

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 can be regarded as a functioning market economy. The steps taken to consolidate the functioning of the market economy have improved Slovakia's medium-term competitiveness. 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. The confidence of international financial investors in Slovakia is returning after the first positive effects of the macroeconomic stabilisation programme appeared and after the government made credible progress with structural reforms, which facilitated OECD membership.

In line with the slower growth of domestic demand, growth of investment has fallen. The investment ratio receded from an abnormally high level of 38.0% of GDP in 1998 to 30.8% in 1999 and 28.4% in the first half of 2000. Nevertheless, in 1999, the government accelerated the public investment programme in infrastructure somewhat. Net foreign direct investment increased to 3.6% of GDP in 1999, the highest level ever. However, this result was mainly the outcome of a reduction of direct investment by Slovaks abroad, while foreign direct investment inflows to Slovakia were even lower than in 1998. Foreign direct investment is expected to be significantly higher in 2000. The privatisation of Slovak Telecom alone represents close to 5% of GDP. In addition, the sale abroad of Slovnaft and VSZ, two of Slovakia's private industrial giants, and the pending privatisation in 2000 of some of the state-owned banks, could further push up foreign direct investment this year. Moreover, a more favourable fiscal and regulatory environment should support greater green-field investment projects.

The labour force is in general well qualified and wage costs remain relatively low, although the lack of regional mobility, partly due to housing problems, is creating labour scarcity for specific occupations in some regions. Nevertheless, overall unemployment has reached very high levels, and regional discrepancies are significant. Indeed, in regions where the concentration of less favoured population groups is higher, unemployment affects up to one third of the working population. Some specifically targeted measures, such as skills up-grading and broader education may be necessary in these cases.. The structural aspects of unemployment must be dealt with through policies supporting the competitiveness and flexibility of the economy and the creation of favourable conditions

for long-term sustainable economic growth. The social security system needs to be reformed so as to create incentives for employment. An amendment of the Employment Act, which has entered into force in December 1999, already made the criteria for the provision of unemployment benefits stricter in order to increase the motivation for the registered unemployed to look for work. In addition, efforts to improve regional and occupational labour market flexibility will be of key importance.

Enterprise profitability has picked up significantly in 1999 compared with the low level of 1998. In particular, profits have improved in the utilities as a result of the increased administered prices, in the exporting sector as a consequence of high export growth and moderate wage developments, and also in the financial sector. However, the improved overall profitability is the net result of both the increases in profits of profitable enterprises and losses of loss-makers, resulting in a dichotomous enterprise sector. Inter-enterprise arrears remain high, which is another indication that there is a large group of insolvent enterprises that co-exists next to more profitable enterprises. In the past, pressures for enterprise restructuring in Slovakia were weak. The bankruptcy framework failed to remove insolvent enterprises, bank credits were easily obtained by the large enterprises, and tax arrears were significant. The government's restructuring plans are tackling these problems. Easy credits have dried up as a result of the restructuring of the banks, the bankruptcy framework is being strengthened, and the tax administration is pushing for better tax compliance. Personal and corporate income taxes are being reduced to promote entrepreneurial activity.

The economic policies of the current Slovak government abstain largely from interfering with the private sector and its main policies to promote competitiveness are based on market mechanisms. Even the collection of the bad debts that were carved out of the state-owned banks will be left to the private sector, thus minimising government interference. "Hidden" state aids such as easy loans from state-owned banks or accumulations of tax arrears are being eliminated and the government has become much more selective in providing state guarantees to private enterprises. Trade protection is also low, with the exception of the import surcharge, which should be phased out by 1 January 2001 at the latest.

Slovakia has re-oriented its external trade towards west European markets. Exports to the EC represented about 60% of total exports in 1999, compared to only 41% in 1996. Germany is still the most important trade partner. The proportion of imports from the EC is still smaller (52%) because Slovakia remains dependent on Russia for most of its energy imports. The high growth rates of trade with the Community in recent years are an indication that Slovak enterprises, with the help of foreign partners, are penetrating EC markets, while ongoing reforms and a decline of real wages are helping to increase their competitiveness. As a result of negative real wage growth, labour productivity is now growing significantly faster than real wages.

Production and exports are concentrated in a few big enterprises. Nevertheless, the SME sector is also growing and already includes roughly 70% of enterprises. It contributes 50% of GDP and accounts for around 55% of employment and almost one third of all exports (*see also chapter 16 – Small and medium-sized enterprises*).

Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the structural reform agenda is fully implemented and broadened to include remaining reforms. Macroeconomic stability has significantly improved and the implementation of the legal and structural reform

programme for the financial and enterprise sectors has progressed. The implementation of these reforms needs to be further strengthened and the privatisation in the financial and energy sectors needs to be executed according to plan. Public finances need to be consolidated in a medium term framework, specifically in the area of health, pensions and social security. This would help to create room for the financing of public investment and for measures aimed at reducing the disparities in regional labour markets and enhancing labour mobility.

2.4. General evaluation

Slovakia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the structural reform agenda is fully implemented and broadened to include remaining reforms.

Macroeconomic stability has presently been restored through measures to reduce the fiscal and external deficits. The legislative framework for business activity is now largely in place. Price distortions are being eliminated and the privatisation of public utilities has been started. The authorities are making good progress in the restructuring and privatisation of the state-owned banks.

However, the progress on macroeconomic stabilisation will need to be consolidated by a continued prudent policy mix. In particular, the current budget proposals for 2001 risk to endanger the stabilisation achievements and the medium-term sustainability of public finances is not yet guaranteed. Ongoing structural reforms still need to be completed and the new legislation will have to be effectively implemented. Banking supervision needs to be further strengthened.

The authorities need to implement the remaining reforms and execute the privatisation in the financial and energy sectors according to plan. Priority should be given to effective implementation of the legal framework and to administrative capacity. Public finances need to be kept under control in the short term and to be consolidated in a medium term framework, specifically in the areas of health, pensions and social security. This would help to create room for the financing of public investment and for measures aimed at reducing the disparities in regional labour markets and enhancing labour mobility.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Slovakia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*⁸, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Slovakia's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Slovakia's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Slovakia in translating the *acquis* into its official language.

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, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance 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, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Slovakia's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that:

“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.

⁸ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Slovakia's application for EU membership.

Important progress was made in alignment in the energy sector with the commitment to closure dates for the Bohunice 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 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.”

3.1. The chapters of the *acquis*

As indicated, the review of Slovakia's ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free Movement of Goods

Since the last regular report, some notable progress has been made by Slovakia in the free movement of goods field.

In the area of **horizontal and procedural measures** an Act on Technical Requirements for Products and Conformity Assessment and associated implementing decrees entered into force in January 2000. This Act introduced many of the key elements of the *New and Global Approach* and marked a significant step forward for Slovakia. In accordance with this Act, the national standard setting and accreditation functions of the Office for Standardisation, Metrology and Testing were transferred in January to the Slovak Standardisation Office and the Slovak National Accreditation Service respectively. In July 2000 an agreement on mutual cooperation in the standardisation area was signed between Slovakia and the Czech Republic which inter alia provides for the adoption in Slovakia of over four thousand EN standards already transposed and published in the Czech language.

As far as **sector specific legislation** is concerned, alignment has begun in the specific new approach sectors, building on the framework established in the Act on Technical Requirements for Products and Conformity Assessment. Since January, government ordinances have been adopted in the following areas: electromagnetic compatibility, low voltage, machinery, gas appliances, toys, and non-automated weighing instruments.

Further delays have prevented the adoption of basic legislation in the chemicals area, despite this being a short term Accession Partnership priority. An Act on Fertilisers was adopted in March and is mostly in line with the *acquis*. In June, Parliament approved the Precursors Act regulating the treatment of narcotic and psychotropic substances. An Act on Metrology and subsequent implementing regulations entered into force in July 2000, thereby transposing a significant part of the *acquis* in this area. Some progress was made in motor vehicles through new legislation partially in line with the *acquis* on agriculture and forestry tractors. In foodstuffs, some further alignment was achieved through amendments to the Food Code although the pre-market system of control still exists and in the area of labelling little progress has been made. The requirement for sensitive or organolyptic testing is not in line with the *acquis*. The amendments to the Food Code brought legislation on cosmetics closely in line with the Community system, although pre-market control still exists here also. In the field of pharmaceuticals some legislative progress was achieved in the area of classification of medicines and the registration of generic medicines. Although some first steps were taken with regard to industrial property rights in the field of medicines, full alignment in this area is not expected until adoption of the new Patent Act. There have been no new developments in the **non-harmonised areas**.

A new Public Procurement Act entered into force in January which, although largely in line with the *acquis*, will require some fine-tuning. In accordance with this Act, a Public Procurement Office was established in January 2000, thereby fulfilling a short-term Accession Partnership priority. Since its inauguration, this office has made good progress in key areas.

Overall assessment

Generally progress has been good, although a number of problems remain. Although the intention of the Act on Technical Requirements for Products and Conformity Assessment is to simplify the procedure of introducing goods into the market, the Act does contain a transitional period for some products until the end of 2002, during which the former certification system, which is not in line with EC rules, stays in force. There have been calls from business to amend the act and connected interim regulations as in some cases it would appear that the number of steps necessary for the release of goods into circulation has been increased and complicated. These issues must be rectified in the relevant sectors before any successful negotiation of a Protocol to the Europe Agreement on Conformity Assessment (PECA), for which the relevant Slovak authorities has carried out good preparatory work.

As mentioned above, alignment in the chemicals area should be accelerated. As regards food legislation, although the Slovak Food Code provides a global framework for the transposition of the *acquis*, it seems that in many cases veterinary legislation is combined with legislation regulating processed food. It is vital that no important piece of legislation is overlooked when combining legislation of the two sectors. In the **non-harmonised areas**, Slovakia currently operates a system of import licences, which is not in line with the *acquis*. There is currently no Slovak legislation in force corresponding to the *acquis* in the field of notification and co-operation mechanisms, for which the necessary administrative structures should be set up. Slovakia continues to apply price controls to some sensitive areas. In the area of cultural objects Slovak legislation is largely in line with the *acquis*.

In terms of administrative capacity to implement the *acquis* under this chapter, there is a mixed picture. Progress in the adoption of EC standards being made by the Slovak Standardisation Office was given a boost by the agreement with the Czech Republic in July thereby marking an important step towards eventual membership of CEN and CENELEC. The Slovak National Accreditation Service has been a member of European Accreditation since 1998 and its evaluation for membership of the multilateral agreement for mutual recognition of certificates and reports issued by accredited bodies (MLA) is on-going. The independence and capacity of this body will need to be assured, as will that of the State Institute for the Control of Medicines, where improvements are required. Further efforts will be necessary to establish the capacity of the conformity assessment bodies to fulfil their tasks. The Public Procurement Office appears to be sufficiently staffed and functioning well, with a strong increasing tendency in the number of notices published. The current complaints/review system should be improved, however, possibly through the creation of a judicial or quasi-judicial means of arbitration.

In the area of market surveillance, there is a need for improved co-ordination between, and strengthening of, the bodies active in this field. In particular, the independence and the capacity of the enforcement authorities in this area to cope with the major shift from what is essentially pre-market to post-market product control should be assured. Attention will have to be paid to the effectiveness of these bodies, to the upgrading of the technical equipment and further training of staff. It is notable that at a time when the strengthening of the Slovak Trade Inspectorate, the main enforcement body in this area, would be expected, its staff has been reduced by 10%, due to financial reasons. It is also noteworthy that in the first half of 2000 almost 80% of the controls carried out by the Trade Inspectorate led to some form of sanction.

Overall, much legislative work has been undertaken by Slovakia. The challenge now is to provide adequate capacity for the implementation and enforcement of the *acquis* in this area and to accelerate work where legislative gaps remain.

Chapter 2: Free Movement of Persons

Little progress has been achieved in this area over the past year.

As regards **mutual recognition of professional qualifications** small steps were taken but much remains to be done. The Act on chartered architects and chartered civil engineers was amended with the abolition of the requirement of Slovak citizenship for the take-up of professional activity in these fields, and an amendment to the Act on Health Care was passed which lays down the categories of health care workers in line with EC rules. Particular problems were reported in relation to practice rights of EU lawyers in Slovakia in the past year.

No progress can be reported on **citizens rights** and only little progress was made in the area of **free movement of workers** with minor amendments to the Act regulating the Stay of Aliens in the Slovak Republic in April and some preparatory steps taken to enable participation in the EURES (European Employment Services) network.

With a view to the future application of the *acquis* in the area of **co-ordination of social security systems** Slovakia is setting up within the Ministry of Labour, Social Affairs and Family, an inter-ministerial co-ordination working group consisting of all organisations administering social security.

Overall assessment

There has been little progress generally under this chapter.

In particular, a general framework for the recognition of foreign professional qualifications has not been established. Much work remains to be done to reach alignment with the General Systems Directives, and certain sectoral directives. An inventory of bodies authorised to take decisions under the general systems directives still needs to be completed. Some delays have been occurring in legislative alignment with implementing decrees on health care workers. It is important that the proposed Act on Advocates and that on Commercial Lawyers bring the rules in this area closer to the *acquis*, especially given the problems referred to above. The Centre for Equivalency of Education Documents which has been set up will require strengthening as progress is achieved in the various sectors Slovakia should ensure that a clear distinction is made between academic and professional recognition.

Efforts will be required to ensure that there are no provisions in Slovak rules which contradict Community rules, in particular with respect to nationality, residence or language requirements. This is the case in the field of free movement of workers, where efforts are required to ensure that all such provisions are removed. With regard to future participation in EURES, efforts should also be continued, with a special emphasis on language training. With a view to the future co-ordination of social security systems, further work to develop the necessary administrative infrastructures is necessary.

Chapter 3: Free Movement of Services

Since last year's report some progress has been achieved in this area, mainly in financial services.

In the field of **freedom of establishment and freedom to provide services**, the Foreign Exchange Act has been amended for financial services companies, thus allowing companies active in this sector to open branches in Slovakia without the need to set up subsidiaries.

In the area of **financial services**, a number of legislative measures have been taken which move Slovakia in the direction of the medium term accession partnership priority of completing alignment and implementation of directives on banking, insurance, investment services and securities markets. In addition to providing for further consolidation of bank restructuring, the new **Banking** Act, which entered into force in October 1999, strengthens the supervisory role of the Slovak National Bank and improves access to information for potential investors.

A new **Insurance** Act entered into force in April which provides Slovak entities with the option of insuring themselves abroad and also outlines that newly established insurance companies will be licensed only for either life or non-life insurance. The present universal insurance companies will be able to retain both activities, but to be in compliance with EC rules, will need to introduce separate bookkeeping for both activities. The revision also strengthens the role of the supervisory authority, and introduces a new registration obligation for insurance brokers.

In the **investment services and securities** domain, a new Act on Stock Exchanges was adopted in September which foresees a number of improvements, including tightening up listing requirements, and introduces stricter requirements on the provision of information. Improvements were made to the process of bond issuance with an amendment to the Act on Bonds in January. Also, an Act on Collective Investments entered into force in January, which transposed certain provisions of the Directive on collective investment.

Progress has been made towards achieving the short term Accession Partnership priority in the area of supervision, an important objective given the historically insufficient standards of financial services supervision. An Act on the Financial Market Authority providing for the establishment of a Joint Supervisory Authority (JSA) was adopted and, from November 2000, the JSA is responsible for the supervision of the insurance and capital markets.

The Council of Europe Convention ETS 108 was ratified by Slovakia in September 2000. A Supervisory Office for Personal **data protection** was established in accordance with the new Act in this area last year, its main task being the supervision of personal data processing, registration of information systems containing such data and the lodging and settlement of complaints in cases of violation of the law. No new developments can be reported with regard to **information society regulations**.

Overall assessment

Overall, despite some progress, there is still important legislative work to be completed and institutional capacity, particularly as regards financial services supervision needs to be reinforced.

Although financial services companies can now set up branches, these rights of establishment and the related rights to acquire, use, rent or sell immovable property, are not yet granted also to other economic operators. There are still a number of restrictions which are not yet in line with the *acquis*, such as the requirement that the directors/managers of branches of Community firms be in possession of long-term residence permits and that rental contracts be approved by the authorities. Furthermore, according to EC rules no seat of a company in any form can be required in order to facilitate the free provision of services.

In banking despite some progress, further efforts are needed to bring the legislative framework more fully in line with the *acquis*. Slovak banking rules on capital adequacy and consolidated supervision and accounting are not in line with EC requirements. While the strengthening of the National Bank of Slovakia's supervisory role should lead to improvements in bank supervision, the capacity to fulfil the allocated tasks should be assured with adequate numbers of well trained staff.

The cornerstone of Slovakia's commercial insurance legislation consists of the Insurance Act and other generally binding laws. The changes introduced in April by the amendment to the Insurance Act bring the operation of the insurance market in Slovakia closer to community standards. The creation of the Joint Supervisory Authority should lead to improvements in supervision of the insurance market, which is currently less than satisfactory. The Government is yet to elaborate a concept paper for the restructuring and privatisation of the Slovak Insurance Company, Slovenska poisťovňa. The monopolies held by this company in motor vehicle third party liability insurance and employer's liability insurance have not yet been dismantled.

Despite some progress, more remains to be done in the investment services and securities field. The Directive on Insider Trading is only partially transposed and in addition to completing transposition, enforcement needs to be improved. The Directives on Investment Services and Investor Protection Schemes have not yet been transposed.

The plans for the JSA aim to lay the basis for important improvements in area of supervision. Adequate staffing should be assured and attention paid to the need for effective, impartial, regular control of financial institutions. Further legislative and administrative measures will be required, should the JSA's competence be extended beyond the capital and insurance markets to the banking sector and pension funds.

The Supervisory Office for Data Protection seems to be sufficiently equipped on the technical level and its independence has been assured to some extent. However, the Directive on the protection of personal data and the free movement of such data has not yet been transposed and public awareness about data protection is still very low.

Chapter 4: Free movement of capital

Since the last regular report Slovakia has made reasonable progress in this chapter, especially on capital movements and payments. On payment systems, progress was limited.

In the area of **capital movements and payments**, Slovakia has been applying a gradual approach to liberalisation, focusing first on long-term capital inflows. Since the last regular report the Slovak Foreign Exchange Act, which regulates this domain, was liberalised in several respects.

Acquisition of real estate was liberalised as from January 2000 for foreign financial institutions including banks, insurance companies, collective investment companies and securities dealers, provided that the real estate is needed for the performance of their business activity.

As regards trade in securities, as of January 2000 residents are no longer required to obtain a Foreign Exchange permission to acquire foreign securities traded in the main market of foreign stock exchanges. The permission requirement was also dropped for residents issuing Slovak securities abroad, provided that the securities have a maturity period of at least one year. Other such securities still require approval. As for capital outflows, direct investments for Slovak companies in OECD countries were liberalised.

As reported under Chapter 3, a new supervisory authority covering the insurance sector and capital market is in place from 1 November 2000 following adoption of a new Act in September.

As regards the *acquis* in payment systems, Slovakia has not taken any steps to implement the directives on **cross-border credit transfers** and on settlement finality.

Only some provisions of the directive on **Money laundering** have been incorporated into national legislation. A new law, passed by Parliament in October 2000, requires banks and a broad range of other financial entities to identify the authors of transactions exceeding the equivalent of € 2.500. The new law also requires reporting to the police in case such transactions appear suspicious.

Overall assessment

Although progress has been achieved recently, an effort is still needed to achieve full compliance with the *acquis*, notably on capital movements with maturity shorter than one year, on trade in financial derivatives, and on the acquisition of real estate. As for short-term capital movements, the improved external balance situation should permit further liberalisation. In addition, during negotiations for accession to the OECD, Slovakia has taken wide-ranging commitments for further liberalisation.

As for direct investments of foreign companies, foreign branches belonging to the non-financial sector cannot yet acquire land in Slovakia. As far as natural persons are concerned, the present legislation does not permit non-residents to acquire real estate.

Slovakia's Commercial Code stipulates that non-residents may run a business in the country under the same conditions as Slovak persons. However, in some sectors, primary legislation provides otherwise, and restrictions remain. The sectors concerned include

lotteries, the Stock Exchange and the Securities Centre, the non-bank financial sector (investments can only be made through an enterprise incorporated in Slovakia), and the air transport sector. .

As part of the privatisation process, the government is taking significant steps forward on the way to opening up state-owned companies and financial institutions to foreign participation with transparent procedures.

In the field of payment systems, the National Bank of Slovakia has started preliminary activities to improve the payment infrastructure. However, substantial efforts are needed to fully implement the *acquis* in this field.

Progress is still to be made at legislative level on money laundering. In particular, anonymous accounts are still to be abolished, and the criminal responsibility of legal entities to be introduced.

The National Bank of Slovakia regulates and supervises credit in accordance with the Ministry of Finance, and oversees the payment system. The Ministry of Finance operates capital market and insurance authorisation. Both the National Bank of Slovakia and the Ministry of Finance are deemed to have appropriate competence and capacity to implement a regime of free movements of capital.

However, administrative capacity should be reinforced by setting up a body for handling customers' complaints, as required by the directive on cross-border credit transfers.

Chapter 5: Company Law

Only little progress can be reported under this chapter over the past year.

In terms of alignment with the **company law** directives, no legislative progress has been made since the last regular report. In *accounting law*, some progress was achieved with the partial alignment with the 4th and 7th Accounting Directives and the adoption of an amendment to the Act on Auditors and Slovak Chamber of Auditors which partially implements the 8th Accounting Directive.

Only minor progress was achieved in the field of **industrial and intellectual property rights** with the adoption of an Act on the Protection of Topographies of Semi-Conductor Products which aims to bring protection in this specific area in line with the *acquis*. No progress was made as regards adoption of amendments to the *trademark law* and adoption of a new *patent law* has been delayed, though this is partly due to the need to take on board imminent revisions to the European Patent Convention. Progress has been achieved in reducing registration times for trademarks, though further advances will be needed to meet EC norms. An amendment to the *copyright law* entering into force in August extends the protection provided by the existing legislation in connection with the development of digital information technologies and databases, and aligns Slovak law with recent changes to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, both of which were ratified by Slovakia in January.

The mechanism for the **fight against piracy and counterfeiting**, a short-term Accession Partnership priority, is also not yet in line with the relevant EC Regulations on counterfeit and pirated goods.

Overall assessment

There is still a certain amount of outstanding work in the field of company law where amendments to the Commercial Code necessary to achieve full alignment with the various company law Directives have been put back. Improvements are also called for in relation to the *Company Register* to increase efficiency, transparency and allow public access. In this regard the on-line trial operation of the Commercial Register is to be welcomed. Slovakia is seeking adherence to the Lugano Convention on jurisdiction and enforcement of judgements in civil and commercial matters.

The legislative environment for *trademarks and patents* in particular needs more progress and appropriate institutional strengthening should be pursued to ensure implementation of the relevant laws in all fields of industrial and intellectual property protection. Positive steps to reinforce the Industrial Property Office have resulted in reductions in the time taken for trademark registration. Although copyright rules are largely in line with the *acquis*, there appears to be a need to strengthen the Ministry of Culture's capacity in this field. The Ministry of Culture has authorised four bodies for the collective administration of rights covering between them musical authors and publishers, literary authors, performers and producers of phonograms.

As regards the fight against piracy and counterfeiting, work on the preparation of an act on measures related the import, export and re-import of goods violating certain intellectual and industrial property rights and an amendment to certain laws should be continued. Trademark infringement appears to be a problem mainly in the areas of textiles, shoes and electronics and the level of copyright infringement seems to be decreasing. Nevertheless, Slovakia should ensure adequate administrative capacity to deal with this, in particular through training of customs officers and effective border control, where particular attention is required in order to create a coherent enforcement system in Slovakia. Judicial bodies involved in all areas of industrial and intellectual property should be sufficiently strengthened to ensure their effectiveness and the currently insufficient level of co-ordination between the actors involved addressed. In addition to judges and prosecutors, relevant police officials still lack knowledge and experience in respect of both legal aspects in the field of copyright and neighbouring rights infringements and in practical issues.

Chapter 6: Competition Policy

Important new legislation in the competition area, the enactment of which was reported on in last year's Regular Report, entered into force in January. In particular, the new State Aid Act setting up the State Aid Monitoring Authority marks an important step forward.

In the **anti-trust** area the Competition Act is largely in line with EC rules. Through amendments to this Act, progress has been made in areas identified last year such as the exemption of the agricultural sector, the de minimis rule and negative clearance. In 1999, 280 cases were handled by the Antimonopoly Office of which 123 concerned agreements restricting competition, 36 abuses of dominant position and 121 concentrations. Of these, 27 decisions prohibited particular parts of restrictive agreements and 12 decisions on cartels led to financial penalties of roughly SKK 7.5 million (€170 000), the main areas concerned being the agriculture, food and rubber tyre industries. In 5 cases abuse of dominant position was proved and prohibited, with a total penalty of about SKK 3.7

million (€84 000), with abuse mainly in the area of natural monopolies. One concentration was prevented. In the first half of 2000 there were 136 Decisions, 14 concerning restrictive agreements, 21 on abuse of dominant position, 55 concerning concentrations and 46 miscellaneous.

Despite recent progress, the Slovak Republic's achievements in the **state aid** field have been lagging behind those in the anti-trust area. The Slovak Act on State Aid which entered into force on 1 January 2000 represents a positive step but has not yet achieved full alignment with the Community *acquis*. As regards administrative capacity, the State Aid Monitoring Authority has only been operational since May. This followed the resignation of the first Director of the Authority shortly after taking up duties and the appointment of a new Director in February. At present, there are 30 staff members (12 operational experts) working for the Office with further staff reinforcements envisaged.

Overall assessment

The Slovak Competition Act of 1994, as amended, is largely compatible with the anti-trust *acquis*. Full alignment has not yet been achieved, but the Slovak Republic is already quite advanced in fine-tuning its legislation. State-controlled undertakings are covered by the current Act. Secondary merger legislation covering turnover and the notification questionnaire and further alignment especially in view of developments in the *acquis* on vertical restraints and as regards EC policy on block exemptions is still necessary.

The Antimonopoly Office has examined a large number of cases. The main challenge now is to ensure that the application and enforcement of anti-trust rules is effective and that priority is given to cases that concern the most serious distortions of competition.

In the state aid field, the State Aid Act is not fully in line with the *acquis*. The work of further amending this Act, notably regarding provisions regulating State aid for employment; and aid to the sensitive sectors, should be accelerated.

As far as administrative capacity is concerned, further resources will be required in view of the need to accelerate work in the State aid field. There appears to be a need to upgrade the status of the State Aid Monitoring Authority to enable it to require the necessary information from all aid providers at all levels of government. In practice, no comprehensive state aid notification system is in place. It is therefore doubtful whether the Slovak State Aid Monitoring Authority is currently able to actually assess all aid projects at all levels of government whether local, district, regional, or national, including all Ministries.

An adequate notification system should in turn allow for a comprehensive State aid inventory, currently not complete, despite the importance attached to this in the short term Accession Partnership priorities. Such an inventory should also cover all old aid measures under which aid continues to be granted and which must be brought into line in line with the *acquis*. Work on the State aid reports should continue.

In order to ensure a differentiation of maximum aid intensities in assisted areas, the Slovak Republic should prepare a regional aid map in consultation with the Commission.

Incompatible aid measures in the sensitive sectors (in particular car manufacturing and steel) and with regard to investment incentives should be addressed as a matter of urgency.

Chapter 7: Agriculture

Limited progress can be reported in the agricultural sector.

The share of agriculture in GDP (4.5 % in 1999, 4.6 % in 1998⁹) continued its downward trend. So did employment in agriculture, accounting now for 7.4 % of total employment, as opposed to 8.2 % in 1998.¹⁰

The overall agricultural production in 1999 was 22 % lower in comparison to 1998 (of it – 6 % for crop and – 30,1 % for livestock production).¹¹ The difficult economic situation of the agricultural enterprises continued, with losses in 1999 about twice as high as in 1998. This was due to increased input costs, lower yields and unfavourable climatic conditions. Agricultural prices decreased by 2.1 % on a year-by-year basis. The bank sector considerably reduced its financial engagement in this sector. Drought throughout the spring has negatively influenced this year's harvest, leading to a shortage in the production of certain agricultural products. The Government has introduced temporary safeguard measures for barley, maize, seed rape, bran, sharps and other residues, residues of starch, oil-cake and other solid residues (*see section A.b - Relations between the European Union and the Slovak Republic*).

In 1999, EC imports of agricultural products originating in the Slovak Republic increased to € 91.1 million.¹² EC exports to the Slovak Republic decreased to € 254 million. The trade balance in favour of the Community amounted to € 163 million compared to € 172.2 million in 1998. In the first six months of 2000, the negative agricultural trade balance with the EC slightly grew, whilst the total trade agricultural deficit dropped by more than 4 %, compared to last year. The most important product groups in terms of EC imports from the Slovak Republic in 1999 were oil seeds (+82 percent), animal fodder (-36 percent) and dairy products (+18 percent). As far as EC exports to the Slovak Republic are concerned, the most important sectors were animal fodder (-26 percent) and edible fruits and nuts (- 5 percent).

⁹ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹⁰ In order to improve consistency and compatibility, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Fuller information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops."

¹¹ Source: FAO.

¹² Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMTEXT (see Agriculture in the European Union – statistical and economic information 1999 p. 36 for definition of the products).

Negotiations on bilateral trade concessions were concluded in May 2000. As a consequence of the new agreement approximately two thirds of the EC imports and 40 percent of EC exports of agricultural products will be exempted from duties (*see section A.b - Relations between the European Union and the Slovak Republic*).

As regards Slovakia's agricultural policy and its preparation for the Common Agricultural Policy, the Government has approved long-term programmes for the development of agriculture, the food industry as well as for forest and water management. These long-term strategic documents aim at anticipating the basic sectoral developments in the next decade on the basis of an analysis of the current situation. The Government has also elaborated a Concept for Agrarian and Foodstuff Policy, addressing, inter alia, areas like price policy and financial instruments.

The number of staff in the Ministry of Agriculture was reduced from 414 in 1999 to 373.

Further progress in the land reform has been hampered by the unresolved issue of unidentified land.

Horizontal issues

The **SAPARD** rural development plan received a favourable opinion by the STAR Committee (EC Management Committee on agricultural structures and rural development) in October 2000. Preparations for accreditation of the SAPARD agency are currently ongoing (*see section A.b – relations between the EU and Slovakia*).

No significant progress can be reported concerning trade mechanisms and quality policy. As regards Slovakia's preparations to establish the Integrated Administration and Control System (IACS) and to participate in the Farm Accountancy Data Network, no significant progress was achieved either. However, preparations have started to carry out an agricultural census for 2001.

Common Market Organisations

Little progress can be reported in view to the adoption of specific regulations organising the different markets covered by the EC *acquis*. Slovakia passed several commodity regulations for, inter alia, sugar, cereal and milk which are, however, not yet in line with EC legislation. A school milk programme was introduced in the last quarter of 1999.

The completion of the vineyard register, a short-term priority of the 1999 Accession Partnership, has not been achieved, mainly due to a lack of clarity about the ownership of land and its fragmentation.

Rural development and forestry

No significant progress can be reported in this area. However, it is to be noted that only agri-environmental measures are compulsory from the *acquis* point of view.

Veterinary and phytosanitary issues

Continuing alignment and upgrading of inspection arrangements, in particular at the future external border, were identified as short-term priorities in Slovakia's 1999 Accession Partnership. This priority has been met to a limited extent. Installations for the inspection of live animals were built at the border station Vysné Nemecké. The State

Veterinary Administration elaborated annual programmes for residue and zoonosis control. Further elements of the control Directives have been incorporated in the quarantine measures by the Slovak authorities. Regulations concerning, inter alia, control of potato ring rot and brown rot of potato were transposed. Provisions of the Food Code obliging producers to introduce and apply the Hazard analysis critical centre point system (HACCP) entered into force in the beginning of the year. The Act on Veterinary Care was amended, determining the headquarters of regional veterinary administrations. Efforts to establish an uniform approach to veterinary supervision at central, regional and district level were continued. A central laboratory for TSE diagnostics was completed.

Overall assessment

Overall, despite some progress achieved in recent years, there is a need for accelerated alignment and implementation as well as strengthening of administrative capacities in all areas.

As regards **horizontal issues**, preparations to establish the IACS have to be accelerated and work in preparing the envisaged agricultural census needs to be continued. Implementation of EC legislation concerning designations of origin and protection of geographical indications has to be continued.

As regards **Common Market Organisations** the adoption and implementation of market regulation tools needs to be continued; these need to be fully brought in line with EC legislation. The market information system needs to be completed. Considerable progress still has to be achieved in, inter alia, adopting secondary legislation establishing quality and marketing standards. Further efforts are needed as regards the introduction of the legal framework and administrative structures.

In the area of **Rural Development and Forestry**, Slovakia needs to make further progress as regards the introduction of agro-environmental schemes.

The transposition of EC legislation in the **veterinary and phytosanitary** field is advanced, although implementation remains rather weak. Further efforts are required, notably in upgrading border inspection posts, laboratories, training of inspectors, completion of the establishment of the veterinary and phytosanitary informatic systems and in the field of animal welfare. The creation of the central animal register needs to be accomplished, and the procedures for herd registration and animal identification should be brought fully in line with EC requirements. The strengthening of administrative capacities of veterinary and phytosanitary institutions in general remains an important objective.

Chapter 8: Fisheries

As in the last reporting period, no legislative and no substantial administrative changes can be reported. An authorisation committee for the breeding of fish was set up in October 1999.

In pond farming, salmon and lowland fish are the main species involved. In 1999, the total production accounted for around 3000 tonnes, imports of freshwater fish for around

1700 tonnes and imports of sea fish for approximately 80 tonnes. The exports amounted to around 360 tonnes.

Overall assessment

Since Slovakia is a landlocked country, parts of the *acquis* on fisheries are of minor importance for the country. Slovakia has only partly transposed and implemented the *acquis*. Further alignment should take place by amending and implementing the Fisheries Act and the Veterinary Care Act. The legal basis for setting up an Agricultural Agency is awaited to channel EC funds for Market policy and structural actions. Strengthening of administrative structures is needed, namely in the inspection and control sector but also in the Ministry of Agriculture in order to implement effectively the Common Fisheries Policy.

Slovakia provides no price subsidies for fish products. State aid is given to the Slovak fishing union for the improvement of fishing resources, breed stock in aquaculture and to protect fishing areas in larger water reservoirs and to fish farmers for the support of genetic pools of fish.

Chapter 9: Transport policy

Some limited progress has been made by Slovakia in the approximation to the transport *acquis* during the period covered by this Regular Report.

Regarding **horizontal issues**, the Slovak Government approved in January 2000 the "Updated Principles of the State Transport Policy", which take account of EC principles on the development of Trans European Transport Networks (TEN), the interoperability of the trans-European high-speed rail system and the financing of TEN. The Slovak Republic has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999, which should form the basis for extending the trans-European networks to the Slovak Republic. At present 40% of the planned corridor motorways are completed and around 10% under construction. Slovakia and Hungary continued preparations on the reconstruction of a bridge over the Danube at Sturovo.

As regards **land transport**, some limited progress has been made regarding road transport. New legislation to align with the *acquis* was adopted concerning roadworthiness tests of vehicles. Partial alignment was achieved in respect of driving licences (training of drivers and instructors) and dimensions and weights of vehicles. However, Slovakia does not fully comply yet with the EC weight limits for trucks, as it provides both for lower axle weight limits and for lower total weight limits. As regards fiscal issues, partial alignment has been achieved through amendments to the Road Tax Act, which entered into force in January 2000. Concerning road user charges, Slovakia has changed its system, which is now based on the weight of vehicles. However, whilst it now provides for 15-day vignettes in addition to yearly ones, compliance with the *acquis* has not been achieved yet since heavy goods vehicles with a total weight more than 3.5 tonnes can only use the yearly vignettes. In July 2000, the Slovak Government approved a concept for transformation and privatisation of state owned bus transport companies.

In relation to rail transport and combined transport, no particular progress can be reported. The current critical situation of Slovak Railways (ZSR) continues to have a negative impact on alignment in this area.

As regards inland waterways, further alignment has been carried out through the adoption in September 2000 of a new Inland Waterways Act. This act is due to enter into force on 1 January 2001.

In the field of **air transport**, negotiations between the EC and the Slovak Republic on the multilateral Agreement to establish a European Common Aviation Area (ECAA) have been concluded at the end of 1999 and a bilateral protocol has been signed.

As a landlocked country, **maritime transport** is of less importance for Slovakia. However, work on introducing the maritime *acquis* -including maritime safety- has continued through the preparation of a new Maritime Navigation Act.

Overall assessment

Despite limited progress, much remains to be done in most of the transport areas, notably as regards rail and road transport. A considerable adaptation and strengthening of the administrative structures is also necessary.

On horizontal issues, harmonisation with the *acquis* on TEN and interoperability will require further regulatory measures beyond the level of Government resolutions.

The limited progress in the area of road transport in the last year cannot hide the fact that the Slovak Republic is still at a rather early stage of alignment concerning land transport. Substantial efforts to accelerate transposition and implementation are needed on many parts of the road transport *acquis*, for example in the field of fiscal harmonisation, social rules as well as technology, safety and environment (including weights and dimensions). The multilateral INTERBUS agreement on occasional bus services has not yet been initialled by Slovakia.

As regards rail transport, Slovakia needs to accelerate its restructuring efforts in this sector, in accordance with the 1999 Restructuring Plan, and to adopt and implement new legislation in order to achieve further alignment to the *acquis*, notably as regards management independence for railways undertakings, access to the rail infrastructure and transit rights, sound financial basis for undertakings, separation of accounts for infrastructure and operation services, as well as licensing and allocation of infrastructure. A great deal of resistance remains to be overcome, due to the foreseen reduction of staff within this sector.

As regards combined transport, inland waterways and maritime transport, Slovakia needs to continue its efforts to progressively align with the *acquis*.

As regards air transport, Slovakia should accelerate the establishment of an independent body in charge of the investigation of air traffic accidents and should reinforce the system for the approval of compatible technical specifications in the procurement of air traffic management equipment and systems. In this respect, reinforcement of the Civil Aviation Authority, which will be responsible for implementing JAR (Joint Aviation Requirements), is necessary.

Overall administrative capacity regarding the transport sector should be enhanced through an adequate clarification of tasks and proper co-ordination between the various Ministries involved in the legislative process. Provision should be made for the establishment of the necessary independent bodies in accordance with the best practices in the EC, an adequate law enforcement by the competent bodies and the provision of sufficient qualified human resources and information technology to properly implement the tasks deriving from the *acquis*.

Chapter 10: Taxation

Since the last regular report Slovakia has made some progress, especially in the area of excise duties.

In the area of **indirect taxation**, progress was made in particular in the field of excise duties, whereas on VAT, progress was limited to an amendment to the VAT Act defining the taxable amount for transactions related to bankruptcy and other forced sales, which entered into force in January 2000. No progress was done on the alignment of the scope of the reduced rate, an Accession Partnership short-term priority.

In the field of excise duties, the government applies a policy of gradual but steady rate increases, with a view to preventing economic disruption. In 1999 and 2000 the adjustment towards the minimum rates required by the *acquis*, and -in the case of mineral oils- by an Accession Partnership short-term priority, has continued. As of January 2000 rates on spirits and beer were increased. In January an adjustment of the excise duty on domestically produced ecological fuel entered into force and the duty rates on petrol and diesel for specific purposes were brought closer to the required EC minima (in the case of gas oil, the rate is now higher than the minimum). Finally, the duty rates on cigarettes were increased, however much remains to be done in this area.

As for duty-free shops at land-borders, the only previously in operation was closed at the end of 1999.

On **direct taxation**, capital gains -including mergers-, the withholding tax for parent companies and their subsidiaries and the prevention of double taxation were partly aligned to the Community *acquis* by 1 January 2000. A “flat tax” income scheme for small enterprises was introduced in January 2000 (see chapter 16 – Small and Medium-Sized enterprises).

As regards the area of **administrative co-operation and mutual assistance**, Slovakia’s legislation is only partially harmonised with the *acquis*. In September 1999 the term “tax secrecy” was defined and measures were introduced for the exchange of information with other countries based upon reciprocity. Measures to grant, under certain conditions, relief from imposed penalties, sanctions and interest on tax arrears were introduced in January 2000.

Slovakia’s tax administration is operated by the Ministry of Finance and by the Central Tax Administration –based in Banska Bystrica- and its 108 local tax offices.

Some measures have been taken in order to modernise the tax administration and improve its effectiveness. As a first step, the reform has implied a reorganisation of offices at both central and local level, by introducing a structure based on activities, rather than on types of taxes. In addition, the powers of the tax administration in

enforcing tax collection have been strengthened and taxpayer services were introduced. Finally, the transfer of the administration of Excise Duties on mineral oils from the Tax to the Customs authorities has taken place.

Overall assessment

VAT was introduced in Slovakia in 1993 and the relevant legislation has been amended several times to bring it closer to the *acquis*. As a result, the system currently in place is on the whole close to the general principles of the Community VAT system, although it still requires being further amended in some substantive areas. No progress was made last year on issues requiring harmonisation. These include in particular the scope of application of the reduced VAT rate, which is currently applied to a range of goods and services going beyond what is provided for by the *acquis*, exempt transactions and the provisions for the right of deduction of input VAT.

In the field of excise duties, legislation also requires extensive adjustments. As concerns excise rate levels, Slovakia has recently made progress. However, the duty rates for most product categories remain lower than what is provided for under the *acquis*, and alignment should be further pursued and intensified. Slovakia should also address the taxation structure for cigarettes and certain protective measures in the field of mineral oils and alcoholic beverages.

As regards direct taxation and the directives on administrative co-operation and mutual assistance, full transposition is still required.

Despite some steps taken last year, Slovakia should give higher priority to the upgrading of administrative capacity. Prompt action is required in particular to address the most critical weaknesses, including tax collection and high accumulation of tax arrears, VAT refunds management and internal and external audit functions.

Action should focus particularly on strengthening headquarters. Of the 5,700 total employees, only about 3.5% work at headquarters level, a ratio much below the average of other modern tax administrations. In addition, tasks at central level are currently not clearly defined and dispersed. The organisation of the headquarters along functional lines should be completed, and functional units should be given responsibility for strategy planning and overall policy co-ordination across the country. Particular efforts should be devoted to training and human resource development.

Chapter 11: Economic and Monetary Union

A detailed assessment of Slovakia's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* -as defined by title VII of the EC treaty and the other relevant texts- which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on Chapter 4 – Free movement of capital.

Since the 1999 regular report no particular progress could be reported on the legislative adjustments required to comply with the *acquis*.

Overall assessment

Slovakia will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

A substantial effort is still needed in order to bring legislation fully in line with the *acquis* in this chapter, on both the **independence of the Central Bank** and the **prohibition of direct public sector financing**.

The Central Bank Act allows in particular limited short-term direct financing of the government by the Central Bank. The relevant article should be repealed. In addition, the Act is only partially compliant with the *acquis* requirements on Central Bank independence, and should be extensively amended to introduce full functional, institutional, personal, and financial independence.

As for the issue of privileged access by public authorities to financial institutions, pinpointed in the 1999 regular report, there are no explicit provisions in Slovakia's legislation allowing it, nor is there empirical evidence of such activities at this stage. Potential risks of privileged access will be considerably reduced once the privatisation of financial institutions is completed.

Slovakia has been steadily upgrading its administrative structures to design and implement its economic policies and to implement the EMU *acquis*. In addition, over the last year Slovakia has improved its internal policy co-ordination and macroeconomic planning.

Chapter 12: Statistics

Slovakia has made progress over the past year in order to achieve compliance with the *acquis* in this area.

As regards **statistical infrastructure**, the Statistical Office of the Slovak Republic (SOSR) is composed of a Head Office and 8 Regional Offices, set to be increased to 11 in the frame of the Administrative Reform. The SOSR employs around 1100 staff, of which 300 at central level and 800 at regional level.

Most classifications are harmonised with EC standards.

In **demographic and social statistics**, methodological and technical preparation was carried out for the Population Census, scheduled for May 2001. A sample survey on earnings was conducted during the second half of 1999. Labour statistics largely comply with EC standards.

Concerning **macroeconomics statistics**, progress on the adoption of the European system of integrated economic accounts ESA 95 was made. As for the Quarterly economic accounts, the compilation of figures on Import and Export of goods and services was

improved. More data sources are available for the establishment and improvement of financial accounts and government finance statistics.

In the field of **business statistics**, further progress was also made with respect to the Structural Business Statistics. Short-term statistics were extended to the construction sector and now monthly data is available.

As regards **agriculture Statistics**, the Slovak Republic has started the implementation of the Farm Structure Census. The SOSR has elaborated for the first time Regional Agricultural Economic Accounts concerning 1998.

In **regional Statistics**, at the NUTS 2 and 3 digit levels, data for 1997 and 1998 have been updated, and data for 1999 have become available.

Overall assessment

Overall, the Slovak statistical system has shown significant improvements in the last year. Several projects started recently, such as Farm Structure Census, or under preparation (Population Census, New Statistical Law, Improvement and harmonisation of Business Registers), will help Slovakia to bring statistics more into line with the EC methodology. However, most of these projects require substantial financial support. Slovakia still needs to finalise legislation to comply with the principles of Community statistics.

In some areas efforts are still required. These include macro-economic statistics, where some inconsistencies on the structure of GDP remain. Slovakia should also address the harmonisation of its Regional statistics.

The Statistical Office of the Slovak Republic is deemed to be adequately staffed and to have appropriate competence to implement the *acquis*. However, the level of salaries is still low in comparison with the private sector and turnover relatively high. Policies aimed at improving recruitment and retention of skilled staff should be applied.

Chapter 13: Social policy and employment

Since the last Regular Report, Slovakia has made further progress in aligning with the *acquis* in the field of social policy and employment.

In the area of **Labour Law**, progress has been achieved over the last year. The Amendment to the Labour Code and to the Employment Act addressed several *acquis* requirements, in particular those on insolvency, part-time work and health and safety for workers with fixed-term contracts. The Guarantee Fund required under the Insolvency Directive was established as of 1 May 2000. The Labour Inspection Act, which entered into force in July 2000, aims at, inter alia, ensuring the practical implementation of labour law provisions.

The amendment to the Act on Employment also has implications for the further alignment of the *acquis* in the field of **equal treatment for men and women**. The amendment has removed the complete prohibition on women working at night. Moreover, it reinforced the principle of equal opportunities by inserting an explicit ban on publishing job offers containing any restrictions or discrimination with regard to

gender. The rights of pregnant employees have been strengthened through the amendment to the Labour Code. The implementation of equal pay provisions is intended to be safeguarded, *inter alia*, by the new Labour Inspection Act.

Little progress can be reported in the field of occupational **health and safety**, apart from that achieved through the above-mentioned amendment to the Labour Code and the amendment to the Act on Safety and Protection of Health at Work. The Labour Inspection Act entered into force in July 2000 and aims at creating an effective tool to systematically protect the health and safety of workers. It also intends to streamline the relevant competencies in the National Labour Inspectorate and to co-ordinate the activities of the administrative bodies involved in supervision. The amendment aims to establish the legal preconditions for strengthening the integrated supervision on the spot and thus the practical application of provisions relating to health and safety at work. The provisions on supervision will enter into force in July 2001.

In the area of **public health**, the Government has approved a National programme of health promotion in November 1999, aiming at, *inter alia*, the fight against drugs and cancer.

As regards **Social Dialogue**, a tripartite General Agreement was signed for the year 2000 for the first time after 1997. Efforts have been made by the Slovak authorities to promote social dialogue at all levels. However, bipartite Social Dialogue at sectoral and enterprise level still needs further strengthening.

Decline in **employment** accelerated in 1999. The labour force survey shows that average employment fell by 3 % between 1998 and 1999, with the employment rate falling to less than 58 % - significantly below the EU 1999 average of over 62 %. The average unemployment rate rose from 12.5 % to 16.2 %. The deterioration in the labour market continued in 2000. In the second quarter, employment was 2 % down on the same period in 1999, and unemployment had reached 18.9 %. Serious structural problems persist in the labour market. The Government is now in the process of elaborating a National Employment Plan, a short-term priority under the 1999 Accession Partnership. A joint assessment of employment policy priorities, together with the Commission, is also being prepared. A training unit for the **European Social Fund (ESF)** was established at the National Labour Office. Its objective is to elaborate concepts and to provide training for the state and public administration in view of Slovakia's preparations for administering support by the ESF.

The Government has launched **social protection** reforms, including the reform of social insurance, particularly pensions, and of health service financing. Slovakia signed the reviewed European Social Charter. The amendment to the Act on Employment has introduced the obligation for companies employing over 20 persons to reserve 3% of their posts for disabled people.

Overall assessment

While some progress was made in terms of transposition and implementation of the *acquis* in some areas, continuing efforts need to be made to ensure that both further transposition and implementation occurs as planned.

Slovakia has partly transposed the EC *acquis* in the field of labour law. Further alignment will be necessary to secure adoption of measures transposing the remaining *acquis*

requirements, notably as regards collective redundancies, working time, the written statement Directive, posting of workers, employee participation and European Works Councils. Particular attention should be paid to the reinforcement of implementation and enforcement structures. Major progress is dependent on the adoption of the new Labour Code, scheduled to enter into force next year. Proper functioning of the guarantee fund has to be ensured.

Transposition of the equal treatment for men and women *acquis* is, despite continued alignment, only partially achieved. Further alignment is needed, in particular, as regards parental leave, burden of proof and equal treatment in social security and equal treatment in occupational social security. Implementation and enforcement of equal treatment rules needs to be strengthened.

In the field of health and safety at work, Slovakia has to speed up its efforts to progress in transposition and implementation. Considerable work remains to be done to secure the adoption of measures transposing the *acquis* and to avoid slippage in the timetable. Particular attention has to be paid to the financial impact of the implementation of health and safety legislation on businesses, in order to ensure a realistic assessment of when each element can be realistically brought into force. As concerns the administrative capacity to implement the *acquis*, continued efforts are needed to strengthen enforcement bodies, notably the national labour inspectorate .

The autonomous social dialogue and social partners' structures at sectorial level need to be further strengthened, also in the regions. The Council of Economic and Social Partnership has to be strengthened. Collective bargaining, particularly at sectoral and regional level, needs to be reinforced. Forms of dialogue and workers' participation should also be promoted at enterprise level. The social partners have to be, in general, more widely involved in the social and employment policy, in order to play a role in the adoption and implementation of the *acquis*.

Slovakia is making progress in transforming its labour market and adapting its employment system so as to be able to implement the European Employment Strategy. Finalisation of the employment plan and moving onto implementation is an urgent priority. Policy needs to concentrate on a number of structural problems. The extent of the occupational and sectoral mobility that will be required as re-structuring proceeds means that particular attention will need to be paid to reform of vocational education and training, and to potential barriers to mobility in the tax and benefit systems.

The social protection reforms announced are much needed to meet macroeconomic and demographic pressures. Achieving the immediate priority of restoring balance to the social insurance fund, and the success with the longer-terms aims of overhauling this system and health insurance by 2002, with a subsequent broadening of pension provision foreseen, will be crucial to develop an effective and sustainable social protection. It will be important to track the development of these reforms.

As regards future participation in the European Social Fund, appropriate administrative structures still yet need to be established within the relevant ministry. Training of staff and development of management systems will be of particular importance in order to meet EC requirements.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to **discrimination** on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Some progress has been made by Slovakia during the period covered by this Regular Report. An important development in the field of energy has been the approval by the Slovak Government, in January 2000, of a new Energy Policy which sets up a basis for alignment with the *acquis*.

Concerning **security of supply**, little progress has been made by Slovakia. Current emergency oil stocks stand at 26 days, calculated according to the *acquis*. Slovakia will need to enact the relevant legislation and enhance its efforts to build up the infrastructures necessary to ensure oil stocks for 90 days' consumption, as required by EC legislation. The Slovak Administration of State Material Reserves is in charge of the administration of oil stocks. This body would require further strengthening, notably through adequate training.

In relation to **competitiveness and the internal energy market**, initial steps have been undertaken by Slovakia in order to progressively align with the *acquis*.

In February 2000 the Slovak Government approved an increase of electricity prices (average of 40% for households and 5% for businesses), of natural gas prices and of the ceiling price for heating. These measures were taken in the context of the overall policy of gradual energy prices increase to ensure cost recovery by energy producers. For the first time, household prices are higher than those for industry.

The Slovak electricity and gas sectors still need to be restructured in order to prepare for the implementation of the EC gas and electricity directives, although preparatory steps are being undertaken. In the framework of the Slovak Energy Policy, Slovakia has decided that certain end-users would be given the opportunity to choose their electricity supplier from amongst the electricity generation licence holders in Slovakia. This process will start on 1 January 2001 for the major energy users (approximately 20% of the market). The domestic market will be progressively further opened. Access by foreign suppliers to the Slovak market is, however, not foreseen in the medium term. For the gas sector, no decisions have yet been taken on the rhythm for market opening.

The privatisation plan (49% of shares) for the state owned Slovak Gas Company (SPP) has been adopted, while plans are being elaborated for the national electricity company (SE), for the national oil company (Transpetrol) and for the distribution sector. Steps are also being undertaken for the establishment of an independent regulatory authority, which will be responsible for all regulatory activities such as granting of licenses, inspection, price regulation.

As regards **energy efficiency**, no particular progress can be reported. Energy efficiency remains low and needs to be improved. Concrete steps to enhance support for energy efficiency, energy saving and the use of renewable energy sources should be rapidly undertaken.

In the **nuclear energy** field, Slovakia operates two nuclear power plants (NPPs), located at Bohunice and Mochovce. At Bohunice there are four units in operation: two VVER

440/230 reactors (units 1 and 2 at Bohunice V1) which have been classified as non-upgradable, and two VVER 440/213 reactors (units 3 and 4 at Bohunice V2) classified as upgradable. At Mochovce, two upgradable VVER 440/213 reactors (units 1 and 2) are in operation.

Following the conclusions of a Joint European Commission-Slovakia Working Group on Nuclear Energy, which was created in June 1999 to analyse the consequences of the closing down of Bohunice V1, the Slovak Government decided in September 1999 that the two Bohunice V1 reactors will be shut down in 2006 and 2008 respectively. The Commission considered these dates in line with Agenda 2000 and with the 1998 Accession Partnership, and welcomed this decision.

The 1999 Accession partnership for Slovakia considered the preparation of a decommissioning plan to implement the Government decision to close the Bohunice V1 nuclear reactors and the continuation of efforts aiming to ensure high levels of nuclear safety at Bohunice V2 and Mochovce nuclear power plants as short term priorities.

In 2000, the Slovak authorities have prepared a Report on the Economic and Social Consequences of the Early Closure of the Bohunice V1 NPP. This report includes an "Early Decommissioning Preparation Plan", which indicates tasks, timing, sequencing, and costs estimates for the decommissioning of the plant. Once approved by the Government, Slovakia will need to rapidly develop a detailed decommissioning plan and to implement it vigorously .

As regards units 3 and 4 at Mochovce NPP, the Slovak Government made clear in April 2000 that no State guarantees or any form of state aid will be provided for the completion and operation of these units.

Extensive upgrading programmes are being implemented at both Bohunice and Mochovce. Unit 2 at Mochovce NPP was put into commercial operation at the beginning of 2000.

Concerning radioactive waste management, a new radioactive waste treatment centre has been in operation in Bohunice since March 2000. Mochovce low and intermediate-level operational waste disposal facility was licensed at the end of 1999 for one year period of test operation.

The Slovak Nuclear safety Authority has continued to improve its mode of operation.

Overall assessment

Slovakia needs to enhance its efforts to be in the position to comply with the energy *acquis* in the medium term. Particular attention should be given to the completion of a compatible legislative framework as regards emergency oil stocks and to develop a credible plan for the required investments in this area. Also the preparation for the internal energy market (electricity and gas directives) needs particular attention. In this respect, Slovakia should establish an appropriate and efficient regulatory mechanism able to carry out the functions as defined in the internal energy market directives. Removal of price distortions should continue while "stranded costs" also need attention. Energy efficiency should continue to be improved

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in the candidate countries in the context of the Union's enlargement. The Union has also asked for the earliest practicable closure of the candidate countries' nuclear power plants which are deemed non-upgradeable to international safety standards at a reasonable cost. In this context, Slovakia should continue and, as far as possible accelerate, the preparations for the shutting down and decommissioning of reactors 1 and 2 at Bohunice V1. Moreover, the planning and duration of the upgrading plan for Bohunice V2 needs also to be actively pursued. It should be fully implemented on a time-scale consistent with Agenda 2000 requirements (by 2004-2007). The remaining upgrading safety measures scheduled for Mochovce units 1 and 2 should be implemented promptly.

The Slovak Nuclear regulatory Authority, although credible and technically competent, needs more resources in order to be able to better fulfil its tasks, notably in the field of technical assessment. Slovakia should ensure that all regulations required by the Atomic Act of July 1998 are issued.

Slovakia should also ensure full compliance with Euratom requirements and procedures. In this respect, due attention should be given to preparing the implementation of Euratom Safeguards.

Longer term solutions for spent fuel and nuclear waste will continue to need attention.

Chapter 15: Industrial policy¹³

Since the last regular report, the government has begun to make substantial progress on this chapter and prepared the conditions for meeting the Accession Partnership priorities, in particular those relating to investment promotion and enterprise restructuring.

The Slovak **industrial strategy** is based on a document adopted by the government in 1999, "Elaboration of the European Union's Industrial Policy in the conditions of the Slovak Republic". The document puts emphasis on the need to implement a market-friendly industrial policy aimed at increasing the competitiveness of the Slovak industry through the creation of a good business environment and a stable institutional and legal framework. The paper recognises the need for Slovakia to shift resources from traditional sectors and rules out direct State intervention to maintain non-viable industries. However, it considers the possibility of applying specific schemes to sustain sectors undergoing restructuring, although in compliance with EC state aid rules.

The paper also reflects the increased government awareness that priority is to be given to policies aimed at attracting foreign direct investments (FDI). A set of financial measures in this respect entered into force in January 2000, including the reduction of corporate tax from 40% to 29%, and the introduction of five-year tax holidays for legal entities with foreign capital participation. However, the unrestricted nature of the tax holidays does not allow the calculation of a state aid equivalent and thus appears not to conform to state aid rules (*see also Chapter 6 – Competition*).

¹³ Developments concerning Industrial policy should be seen in relation to developments in the context of SME policy (*see chapter 16 – Small and medium-sized enterprises*).

As regards **privatisation and restructuring**, the new Bankruptcy Law, passed by the Parliament in June 2000, improves the legal framework for industry development and should create the conditions for more effective enterprise restructuring. The law strengthens the position of creditors in bankruptcy cases and allows them to participate in the restructuring of the bankrupt company.

The privatisation of the national Telecom Company was finalised in July 2000, and 51% of the company's capital sold to a foreign investor. The sale of VSZ Kosice steel plant to a US strategic investor was negotiated by the government and approved in May 2000 by the company's shareholders meeting. A foreign partner also entered into a business agreement with Slovnaft, the Refinery Company. The deal is now before the Anti-Trust authority for clearance.

Legislation that entered into force in October 1999 allows for privatisation of up to 49% of most public utilities in the energy and transport sectors. The government is committed to going ahead in this direction, and has taken preliminary steps in this respect as concerns the energy company Transpetrol and the Slovak gas industry.

The most significant progress in the field of restructuring and privatisation came about in the financial sector, and more particularly in the banking sector, where full privatisation of the three major state-owned banks (IRB, VUB and SLSP) is firmly on track. Two debt carve-out operations, the latest of which was completed in June, allowed the government to transfer the bad-debts to a newly created consolidation company, and to clear the financial situation of the banks. During summer the government invited offers for IRB, SLSP (the savings bank) and the smaller Bank of Slovakia. It has been decided that VUB will be put on the market at a later stage.

The Ministry of Economy formulates and co-ordinates industrial policy. Since January 2000, the Ministry has created a Benchmarking Information Centre, focusing on incorporating modern benchmarking methods into policy-making, and a Council for Competitiveness in Industry, made up of representatives from industry, Trade Unions, Chambers of Commerce and relevant government departments. Other implementing agencies, such as the National Agency for Development of SMEs, the Industrial Development and Revitalisation Agency and the Slovak Post-Privatisation Fund, complete the range of public institutions involved in industrial policy implementation.

Overall assessment

Slovakia's approach to industrial policy has evolved towards the EC principles of a market-oriented, stable and predictable policy. The recent steps in transparent and market-friendly restructuring and privatisation in the industrial and financial sectors, together with the first measures to increase FDI, all go in this direction.

However, more attention should be devoted to the respect of EC state-aid rules, for some of the measures taken do not always appear to be entirely in line with what is provided for by EC legislation. The recently created State Aid authority needs to be strengthened as previously mentioned.

Steps forward were also taken as regards the adoption of a long-term industrial strategy. However, the document "Elaboration of the European Union's Industrial Policy in the conditions of the Slovak Republic", although innovative in the context of Slovakia's

approach to industrial policy, needs to be further developed, especially in terms of defining specific priorities and policy implementation.

The administrative capacity is adequate, and the two above mentioned recently created agencies within the Ministry of Economy should provide additional expertise. The extent to which their contribution to the policy-making process will be taken into account, remains however to be assessed.

Chapter 16: Small and medium-sized enterprises¹⁴

Since the last regular report, Slovakia has been focusing increased attention on the SME sector. Progress was made in decreasing and simplifying taxation of small businesses and streamlining SME support schemes.

As regards **SME policy**, the main document underpinning Slovak industrial strategy mentioned in the previous chapter, considers support to SMEs as instrumental to achieving the policy objective of shifting redundant industrial capacity from traditional sectors.

The Council for small and medium-sized enterprises formulates recommendations to the government to simplify the **business environment** for SMEs. In July 2000 the Council submitted to the government two extensive SME policy documents, “Improvement of the Legal and Regulatory Framework for Support of Businesses and Investments” and “Improvement of the tax and customs framework to support enterprises and investments”. The documents focus on simplification of new business registration, of real estate registry, of court proceedings and collateral rights, and suggest that the protection of the minority shareholders rights be improved.

Against this background, efforts to improve the business environment were stepped up over the last year.

The State Aid Act, entered into force in January 2000, fully aligned the Slovak **SME definition** with the recommendation of the European Commission. The Act also includes SMEs among the possible targets for state aid and defines the circumstances under which state aid can be provided to them.

A new taxation scheme for small businesses has entered into force in January, allowing SMEs having annual income under 1.5 million SKK to pre-pay a lump tax at rates of 2 to 2.5% of annual turnover at the beginning of every year, with no need for book keeping. This measure however proved to be only partially successful, for between January and April 2000 a lower than expected number of businesses applied. An amendment extending the categories of eligible entrepreneurs was therefore passed by Parliament in September, and will enter into force in January 2001.

In March the government support programmes for SMEs were streamlined and merged into a single scheme renamed Start 2000. The equivalent of €24 million was allocated to the scheme, which concentrates on providing start-ups with interest subsidy for

¹⁴ Developments concerning SME policy should be seen in relation to developments in the context of industrial policy (*see chapter 15 – Industrial Policy*)

commercial loans. As of January 2000, the export-import Bank introduced a new financial scheme aimed at SMEs.

Two Euro Info Centres were opened, and an Interprise event took place in April 2000.

Overall assessment

Slovakia's SME policy is increasingly aligned with the principles and objectives of EC enterprise policy. SMEs account for a 58% share of GDP and for 60% of total employment. As for financial support to SMEs, Slovak programmes are overall in line with the approach used in the EC, as they concentrate on support for intangibles. However, SME development continues to be hampered by difficulties to access to finance.

The Ministry of Economy is responsible for the formulation and overall co-ordination of SME policy, and relies on the advice of the Council for Small and Medium-Sized Enterprises, created in August 1999. Representatives from the economic ministries, the parliament, and the business sector are represented in the Council, which is chaired by the Ministry of Economy. Policy implementation is mostly carried out by the National Agency for the Development of Small and Medium-Sized Enterprises, which co-ordinates a network of local Regional Advisory and Information Centres (RPICs) and Business Innovation Centres (BICs).

The necessary administrative structure in the field of SMEs has been established, and appears to be relatively effective. The government envisages completing the range of institutions active in this field by the creation of a Research Centre on the SME Environment.

Chapter 17: Science and Research

The Slovak Republic has made further progress in this area since the last regular report.

Since September 1999 the Slovak Republic is fully associated to the **Fifth Framework Programme**, as well as the Euratom Framework Programme. It has established the National Contact Point (NCP) system and appointed experts to the Programme Committees. Results for the first year of participation in these programmes correspond to average expectation.

Overall assessment

On the whole, Slovakia should have little difficulty in taking on the *acquis* in this area, but efforts on its part will be needed, including a substantial increase of financial support, if it wishes to take full advantage of the opportunities offered by Community programmes.

After its successful launch, participation in the Community programmes could be further enhanced through strengthening of administrative capacity and encouraging greater participation of the enterprise sector, including SMEs.

For the further development of the sector it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP which is

relatively low (0.86% of GDP in 1998). Priorities urgently require definition, particularly regarding the relationship between research and higher education. Funding mechanisms should be aligned with the redefined priorities. Measures to promote and enhance the rate of research and development as well as to increase the European co-operation in this field are needed.

Chapter 18: Education and Training

Since the last Regular Report, progress can also be reported in the area of Education and Training.

In the past year, Slovakia continued to take part in the **Community programmes** (*see bilateral part A*). In addition, the Association Council adopted in July 2000 a decision allowing participation in the second phase of the Socrates and Leonardo da Vinci programmes (2000-2006) and in September 2000 allowing participation, also from 2000, in the new Youth Programme which incorporates European Voluntary Service activities.

The Government has approved two strategic documents in the field of **vocational education and training** in December 1999 and January 2000. They propose, inter alia, the introduction of a diversified system of tertiary education, the extension of compulsory and average length of education and to increase the share of education expenditure in the GDP.

Overall assessment

On the whole, Slovakia is on a good track, but efforts to further reform the sector and to increase financial support need to be undertaken.

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning.

The **Directive concerning the education of children of migrant workers** still has to be fully transposed and implementation to be ensured. As regards the free movement of students, Slovakia is also not yet fully in line with the *acquis*.

The pace of reform of the vocational education and training system (VET) continues to be slow and a legal framework is still missing and, in particular, legislation on education and higher education is pending. A comprehensive approach for the introduction of a new system of VET financing, including financial management, to increase accountability and cost-effectiveness is pending. The spread of competencies between different ministries remains unclear. Training is often offered in obsolete professions, not sufficiently meeting labour market needs. Promotion of co-ordinated inter-ministerial policy is also necessary to increase access to vocational training, in particular for disadvantaged groups in the labour market.

There is a need to further strengthening the administrative capacity of the Ministry of Education and to promote the dialogue with social partners.

Chapter 19: Telecommunications and information technologies

Since the last regular report, Slovakia has achieved further significant progress in the **telecommunication** sector.

As regards the **telecom market**, the privatization of Slovak Telekom has advanced well through the sale of a 51 per cent stake in July to a major international firm. Slovak Telekom has acquired a license to provide public services via the fixed public telecommunication network. For public telephone services the licence will be exclusive until the end of 2002.

The mobile sector has maintained its quick growth to reach a market share of 20 % of inhabitants (as compared to 9 % in the last reporting period). The licensing of a third mobile operating company has not still been achieved. The process of price re-balancing has continued.

The Act on Telecommunication entered into force in July. It addresses, inter alia, the open access to network, the provision and financing of universal telecommunication service, price regulation and creates a standard licensing system.

The Government has approved its paper on the **Telecommunication Policy** for the years 2000 – 2002 in June 2000, preparing further necessary steps for harmonization in this sector. The strategy focuses on licensing, price policy, interconnection, mobile communication, open network provision and development of digital broadcasting.

The new Act on Telecommunication creates a new **regulatory** framework. It abolishes, as from January 2003, the exclusive rights presently assigned to Slovak Telekom. The new Act re-establishes the Telecommunications Office as a separate legal body with wider powers and greater independence to regulate the sector and to administer the radio spectrum, thus bringing Slovakia closer in line with the *acquis* in this area. Further clarifications however are needed in particular whether regulatory and operational functions are properly separated.

The number of staff in the Ministry of Transport, Post and Telecommunication remains relatively low. The division of Posts and Telecommunication employed 23 persons, amongst them 10 working for the two telecommunication departments. The Telecommunication Office is currently employing 220 people.

No significant progress can be reported as regards the liberalisation of **postal markets**.

Overall assessment

In the telecommunication sector, Slovakia has significantly advanced in terms of harmonisation and liberalisation, although it is not yet fully in line with the *acquis*. The foundations laid by the new Telecommunications Act now need to be built on to secure complete compliance with the *acquis*, particularly regarding cost-orientation, interconnection, affordability, universal service and the availability of carrier selection facilities. Rapid progress is needed with respect to the remaining pieces of secondary legislation that are necessary for the market to be fully opened and regulated properly in the meantime. Fair competition and proper functioning of the market have to be ensured.

Administrative structures need to be strengthened, the independency of the regulatory body needs to be safeguarded.

The number of lines is still low (nearly 31 of 100 inhabitants at the end of 1999), the average waiting time of more than 5 months still quite long. The successful privatisation of Slovak Telecom is expected to accomplish, inter alia, full digitalisation of the fixed telephone network by the end of 2004.

The current legislation on Posts is not yet in line with the *acquis*. A new law on postal services and the establishment of an independent Postal Regulatory Authority are needed to comply with EC legislation.

Chapter 20: Culture and audio-visual policy

During the period since the last Regular Report, Slovakia made substantial progress in aligning to the Community **audio-visual** *acquis*. The Parliament adopted the Act on Broadcasting and Retransmission in September. This Act brings Slovak legislation very closely in line with the Television without frontier directive.

In October Slovakia ratified the Protocol to the Council of Europe Convention on Transfrontier Television, to which Slovakia is already a party.

Slovakia's successful process of accession to the OECD has been consistent with its process of alignment with the audio-visual *acquis*.

Overall assessment

With the approval of the new Broadcasting Act, Slovakia has achieved a substantial degree of alignment with the audio-visual *acquis* thus meeting the relevant short-term priority in the 1999 Accession Partnership.

However, the administrative capacity of the the Council for Radio and Television Broadcasting has to be noticeably strengthened, both in terms of staff and equipment to cope with the new competences and powers conferred on it by the new legislation. Particular attention has to be paid to the monitoring and sanctioning powers.

As regards future participation in the **Culture** 2000 programme, administrative capacities for the management of the programme have to be reinforced also.

On the whole, Slovakia has made substantial progress and has reached a high degree of alignment with the Community *acquis*.

Chapter 21: Regional policy and co-ordination of structural instruments

Slovakia has achieved limited progress in this area since the 1999 Regular Report.

In June 2000 the Slovak Government adopted a new **territorial and administrative organisation** (corresponding to NUTS 3). The new classification, which has not been agreed as yet with the European Commission (Eurostat), divides the Slovak territory into twelve units. The latter present important differences as regards unemployment rate, varying from 8 % in the Bratislava region to nearly 28 % in the Kosice region as already

mentioned. The Government has not indicated when the new territorial organisation will enter into force.

As concerns the **legislative framework**, through a Parliamentary Resolution of November 1999, the Ministry of Construction and Regional Development was established on 1st December 1999 as the central state administration body for regional development.

The Act on Regional Development, currently under preparation, should define the competences of individual entities and strategic objectives. The Slovak authorities must pay particular attention to define a strategy on how to shape and prepare the administration to implement structural funds, the present role of various state institutions in the preparatory process, the legal framework, coordination amongst ministries and the role of the lead ministry in the decision making process.

As regards the **preparation for programming**, the preliminary Integrated Plan for Regional and Social Development of the Slovak Republic (National Development Plan), was approved in October 1999. The plan has identified Eastern Slovakia (corresponding to NUTS II level) -Kosice, Banska Bystrica and Presov-) as the target region where joint financing should be provided by Phare, the Slovak Government and local authorities for integrated regional development projects. A revised version of the National Development Plan (NDP) should be adopted by the Government in November 2000.

The Slovak Republic has also elaborated programming documents for ISPA and SAPARD. Details are included in the section on Community aid (A.b).

The **co-ordination and monitoring** of pre-accession funds is the responsibility of the Preparatory Committee for Structural Funds chaired by the State Secretary of the Ministry of Construction and Regional Development. This Committee, set up in February 2000, is an inter-ministerial body, with representation of several ministries.

A Department of Regional Development has been operational since January 2000 at the Office of the Government. Its main task is to support the Ministerial Council on Regional Policy, which is responsible for the overall coordination of regional development and is chaired by the relevant Deputy Prime Minister.

The Ministry of Construction and Regional Development has set-up in March 2000 a "Department of Regional Development Management" as the operational "arm" of the Ministry until the National Agency for Regional Development is established.

As regards the **financial and budgetary management**, the Slovak Government has adopted in June, 2000 a "Strategy for the establishment of the Treasury System" which aims, inter alia, at ensuring a comprehensive management of public finances, including funds provided through the pre-accession financial instruments (see also chapters 28 and 29).

Overall assessment

Substantial problems remain in this area and efforts need to be intensified, both with regard to the legislative framework and as concerns administrative capacity.

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. Special attention should be devoted to reinforcing the administrative capacity necessary to carry out the programming and policy tasks in a satisfactory manner.

The competence on regional policy is scattered among different institutions/bodies. The current situation in terms of responsibilities for the implementation of future Structural Funds and the Cohesion Fund needs to be clarified.

Developments in this area are linked with the new territorial and administrative organisation, not yet adopted by the Parliament and also with the public administration reform, the adoption of which has also been further delayed.

The lack of qualified staff at the Ministry of Construction and Regional Development is also a matter of concern and should be addressed by the Government without delay.

Programming and monitoring working committees responsible for sectoral operational programmes are being set-up. The Ministry of Construction and Regional Development and the Preparatory Committee for Structural Funds are organising the coordination of this work in co-operation with representatives of the academic community, non-profit governmental organisations and regional partners. The Slovak Government will have to ensure an effective coherence between the various sectoral strategies and the activities covered by the Rural Development Plan and those envisaged by the National Development Plan.

As to regional statistics, data for the determination of eligibility are available for Objective 1 and INTERREG criteria. The availability of data allowing for the determination of Objective 2 and the URBAN initiative has yet to be confirmed. More importantly, the provision of data necessary to meet the ex-ante evaluation requirements has yet to be assured. For instance, at NUTS 2 level, no data exists concerning social indicators and structural business statistics. Data is available for employment statistics and infrastructure. Investments statistics should be improved.

Chapter 22: Environment

Limited progress has been achieved by Slovakia in the field of environment since the last Regular Report.

Slovakia has undertaken a number of actions of a general nature in this area, in particular, the adoption by the Slovak Government of an Updated National Environmental Action Program and the establishment of a "free phone line" for citizens on environmental issues. Moreover, in May 2000, Slovakia set up a new department for the implementation of EC-financed Projects and Programmes in order to ensure better co-ordination and management. This department, which currently comprises 7 persons, is still in its start-up phase and results cannot be assessed yet. With regard to the integration of environment into other policies, this is now addressed in more detail in the Updated National Environmental Programme referred to above.

As regards **EC horizontal legislation**, an important step forward has been the adoption by the Slovak Parliament of new legislation to align with the Environmental Impact Assessment directive. This addresses an Accession Partnership short term priority. It can also be noted that the UN ECE (United Nations Economic Commission for Europe) Convention on Environmental Impact Assessment in a Trans-boundary Context was ratified by Slovakia in November 1999 and that the Directive on Access to Information has been fully transposed.

Little progress can be reported in the field of **nature protection**. Preparatory steps have been undertaken in view of the transposition of the Habitats and the Birds Directive. The actions carried out to date by the Slovak authorities aiming to increase administrative capacity in this area are insufficient in view of the considerable tasks ahead.

In relation to **water quality**, no concrete progress can be reported as all Directives concerning water protection will be transposed through the new Water Act and its implementing regulations, expected to be finalised in 2001. In the field of **industrial pollution and risk management**, progress with respect to the transposition and implementation of the relevant EC Directive is lacking. Only some indirect progress can be reported as regards the Directive on the Control of Major-Accident Hazards involving dangerous substances (Seveso II) through the entry into force in July 2000 of an act on Labour Inspection which takes into account the requirements of the Directive.

As far as **air quality** is concerned, some limited progress has been made, in particular by transposing certain emission quotas provided for in the EC Directives relating to combating air pollution and by partially aligning the quality requirements for fuels. Some progress has also been achieved through further alignment of the Directive on ambient air quality assessment and management. A Government decree on the requirements for keeping operational evidence of pollution sources and on provisions of data to the air protection authorities by operators of pollution sources has also been adopted.

Further alignment in the field of **noise from vehicles and machinery** has been achieved through new legislation on "Technical Product Requirements and Assessment of Consistency", which came into force in January 2000, as well as through an amendment of the Slovak act on Consumer protection. In addition, a number of European standards relating to noise measuring have been adopted. The Slovak testing bodies for measurements of noise of household appliances and construction machinery according to the above mentioned European standards are in the last phase of accreditation process in compliance with the European Norm 45001. The market supervision in this area is to be ensured by the Slovak Commerce Inspection.

In the fields of **chemicals** and **Genetically Modified Organisms (GMOs)** no particular progress can be noted.

No particular progress can be reported in the area of **waste**. The adoption of a new law on waste, which will constitute a major step forward, will only be carried out in 2001. It is to be noted that the Slovak administration in charge of waste management needs to be substantially reinforced at all levels.

In relation to **nuclear safety and radiation protection**, legislation on accidental planning for case of breakdown or accident in nuclear installations has been issued by the Slovak Nuclear Regulatory authority. This legislation fully complies with Directive 89/618/Euratom on Information of the Public. A regulation of the Slovak Nuclear

Regulatory Authority on nuclear material handling and radioactive waste shipment entered into force in November 1999. This regulation complies with the requirements of Commission Decision 93/552/Euratom on Shipments of Radioactive Waste. (*Other aspects related to nuclear safety are dealt with under Chapter 14 - Energy*).

Overall assessment

Slovakia needs to accelerate the legislative alignment process and to adopt a comprehensive strategic approach including implementation plans and financial strategies necessary to ensure implementation, particularly for those Directives having important financial implications. It should also progressively implement the principle of integration of environmental aspects in all policy areas.

The need for the adoption of Slovak legislation transposing the major EC Directives in the fields on Water, Waste, Nature Protection and Industrial Pollution and Risk Management becomes pressing. Slovakia needs to ensure the urgent adoption of major pieces of legislation in these sectors, as planned. Moreover, investment efforts in compliance with the *acquis* will need to be progressively increased. To this end further efforts in project preparation and implementation are needed.

Overall institutional strengthening remains necessary. Additional duly trained personnel should be allocated to the Slovak bodies competent for the alignment, implementation and enforcement of the *acquis*, in particular in the fields of water, waste, nature and control of industrial pollution and risk management. Slovak Environmental Inspectorates should also be provided with a higher number of inspectors in order to be able to properly fulfil their tasks.

Chapter 23: Consumers and Health Protection

Overall progress under this chapter since the last Regular Report has been encouraging. Slovakia has made significant advances in terms of its alignment with the **safety related measures** of the consumer protection *acquis*, with amendments to the Act on consumer protection integrating most provisions of EC Directives on General Product Safety, Dangerous Imitations and Product Liability into Slovak law, although the damages threshold under product liability should be raised to €500 from the current level of approximately €113.

Also in the **non-safety consumer protection** area Slovakia has made notable progress. Further amendments to the Consumer Protection Act have partially aligned rules on doorstep and distance selling, and unfair contract terms. A new Act on Advertising should enter into force in January 2001 with the aim of incorporating EC rules on misleading and also comparative advertising.

The important progress Slovakia has made legislatively highlights the need to ensure effective **market surveillance** and also the indispensability of proper **enforcement** of the rules. The Slovak Trade Inspectorate, subordinate to the Ministry of Economy, is the general body in charge of consumer affairs, although specific inspectorates deal for example with food complaints.

Overall assessment

Although progress under this chapter has been good, further work is required to align in the areas of consumer credit, indication of prices on foodstuffs, package travel, time-share, and injunctions and guarantees.

Furthermore, it will be particularly important to ensure adequate co-ordination between and strengthening of those bodies involved in market surveillance activities including the consumer organisations so that the consumer can rely with greater confidence on the safety of the products available on the Slovak market. Recent figures on the activities of the Slovak Trade Inspectorate show a high level of infringements discovered as a percentage of total inspections, highlighting the need for more effective enforcement. Adequate funding of the relevant bodies should be assured (*see also Chapter 1 - Free movement of goods*). In the field of consumer protection, two associations already exist that are raising public awareness, providing information to individual citizens and helping out with specific complaints.

Chapter 24: Co-operation in the field of justice and home affairs

Since the 1999 regular report, significant progress has been registered in the Slovak Republic in the fields of visa and asylum. Some progress has also been registered in the area of migration, police co-operation, fight against money laundering and organised crime, fight against fraud and corruption, drugs, customs co-operation and judicial co-operation. However little progress is to be reported on border control.

The Supervisory Office for Personal **Data Protection** was established in accordance with the Law on Personal Data Protection at the end of last year (*see section B.3.1. chapter 3*). Slovakia has ratified the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data in September.

As far as **visa policy** is concerned, the amendment to the Law on the residence of foreigners entered into force in April. It includes provisions on the issuing of visas. Visas are no longer granted at borders, except for humanitarian reasons. Visa stickers were introduced as of 1 January 2000 replacing the old visa stamps. Harmonisation of Slovakia's visa policy continued. The Government introduced a visa requirement for Ukraine with effect from end of June 2000 and decided to abolish the current non-visa regime with Russia and Belarus as of the beginning of next year and with Cuba not later than six months prior to the entry of Slovakia to the EU.

With regard to **border control**, the Slovak Government adopted in November 1999 a concept for the protection of the future EU external borders, aiming at restructuring the border guards and improving the infrastructure of the border crossing points.

Regarding **migration**, some progress was achieved by the above-mentioned amendment to the Law on the residence of foreigners, which entered into force in April. The amendment regulates the control of movements at the border. In May 2000, the Border and Foreigners Office was established. It is responsible for granting various forms of stay to foreign nationals who come to Slovakia to work, to study or who have received refugee status. It is, at the same time, the appeal body for decisions made by first instance bodies of the police force concerning visas, stays and expulsion. The office employs 54

police officers and 12 civil servants. Moreover, a refugee camp in the Eastern part of Slovakia has been built and is already open.

Significant progress can be reported in the alignment of **asylum** legislation. The Parliament approved an amendment to the Law on Refugees in September. It includes the abolition of the “24 hour rule” for lodging an asylum claim, one of the 1999 Accession Partnership short-term priorities. Furthermore it amends the definition of manifestly unfounded cases, establishes the right to recognition as a refugee for purposes of family reunification and lengthens the accelerated procedure at first instance from 7 days to 30 days and of the appeal procedure to 7 days. The list of safe third countries and safe countries of origin has been amended. The independent body as the second instance in the asylum procedure has not yet been established.

In the field of **police co-operation and fight against organised crime**, an amendment to the Act on weapons and ammunition entered into force in April, redefining weapons and ammunition and tightening up conditions to grant licenses. The Criminal Procedure Code was amended, including provisions on recognition and implementation of third country’s decisions concerning asset forfeiture. The alignment of the Penal Code in the area of the fight against organised crime and fraud – a short-term priority of the 1999 Accession Partnership – has not yet been achieved. The Act on the Police Corps was also amended, regulating, inter alia, international police co-operation. The legal basis for seconding liaison officers abroad was hereby established. The management structure of the Slovak police was partly changed, shifting responsibilities from the Ministry of Interior to the head of police corps. This change aims at enabling a close co-operation between the future Europol Office and the Interpol Office under the umbrella of one department.

As regards **Money laundering**, the Parliament passed the Law on the Protection against the Legalisation of Revenues from Criminal Activities in October 2000. It requires banks and a broad range of other financial entities to identify the individuals or corporate entities undertaking transactions exceeding the equivalent of € 2,500 over one year. The new law also requires reporting to the police in case such transactions appear suspicious.

As far as the **fight against fraud and corruption** is concerned, the Government adopted in June a National Plan for the Fight against corruption (*see section B.1.*). In order to better detect corruption and other types of serious crimes, the possibility to use undercover agents was established. Slovakia ratified the Council of Europe Criminal Law Convention on Corruption, thus fulfilling a short-term priority of the 1999 Accession Partnership, and signed the Council of Europe Civil Law Convention on Corruption in June. The ratification procedure for the OECD Convention on combating bribery of Foreign Public Officials in international business transactions was, as a short-term priority of the 1999 Accession Partnership, completed and the Convention entered into force for Slovakia in November 1999.

In the field of **drugs**, the Government approved the National Programme for the Fight against Drugs in January 2000. The Programme focuses on three elements: prevention, treatment and re-socialisation of addicted people. It constitutes a valuable and comprehensive analytical document which now needs to be implemented into concrete measures. The Act on narcotic, psychotropic substances and preparations was amended, aiming at improving efficient drug control. This Act covers also new synthetic drugs but there is no exact definition of this type of drug. A joint police/customs team has been set up in October 1999 to improve the control of import and export of precursors.

In the area of **customs co-operation**, work has continued to further develop customs IT systems, notably concerning the establishment of a Slovak integrated tariff and on the computerisation of customs procedures. Actions are also being undertaken in Slovakia to strengthen the co-operation between customs and police at the borders, as for example through the establishment of joint police-customs points for precursor control.

As regards **judicial-co-operation**, the Slovak Parliament approved the Convention on Civil Aspects of Kidnapping in June, which now needs to be ratified. The amendment of the Criminal Code Procedure has partly transposed the Conventions on extradition into Slovak legislation.

Overall assessment

Overall, Slovakia has kept its momentum in transposing and implementing the *acquis*. However, additional work needs to be done, in particular as regards further alignment in the field of asylum and migration, improving border facilities and management at the future external border. The fight against organised crime needs further to be sustained.

As regards **data protection**, Slovakia needs to ratify the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data.

By introducing **visa** stickers, Slovakia has met one important short-term priority of the 1999 Accession Partnership. Yet, efforts to upgrade and complete the visa system have to be maintained. In particular, an on-line system for issuing visa and a central registration system need to be established.

As regards **border control**, currently 1686 police officers work at the border crossing points. At the green border, 1100 police officers and 763 soldiers are installed. The detection rate for illegal border crossing remained at a similar level (1999: 7888, 1998: 8320), whilst the number of undetected illegal immigrants is still estimated to be very high. Particular effort has to be focused on strengthening the administrative capacities. The current reorganisation of the border security system, notably the replacement of soldiers by professional border guards as well as their training need to be continued. Sufficient and qualitative equipment remains a prerequisite for efficient border control. Slovakia is still very susceptible to illegal immigration and needs to make serious efforts to strengthen the border management.

The number of **asylum** seekers in 1999 amounted to 1320 (as compared to only 506 in 1998). In the first nine months of 2000, 1101 people sought asylum. Almost half of the applicants came from Afghanistan, followed by India and Pakistan. Despite the progress reported, Slovakia is not yet fully in line with the *acquis* in the field of asylum. In particular, an independent body as the second instance in the asylum procedure still needs to be established, as was also set out as a 1999 Accession Partnership short-term priority. The exclusion clause of the Law on Refugees is too broad, its *non-refoulement* provisions are not in line with international requirements, the provisions for recognition for purposes of family unity are too narrow. Continued attention needs to be paid to the practical application of provisions relating to the concept of "safe third countries". The different responsibilities of the Migration Office and the Aliens and Border Police for determining the need for international protection are a constant cause for concern, since they do not guarantee a consistent, competent assessment of refugee cases. Also, administrative

capacities need to be strengthened, mainly the staff and equipment of the Migration office need to be increased and training continued.

In the area of **migration**, Slovakia has partially transposed and implemented the *acquis*. It needs to continue efforts to conclude a number of readmission agreements with third countries and strengthen its administrative capacity to implement the readmission *acquis*. The amendment of the Law on the residence of foreigners does not properly meet all *acquis* requirements. In particular, the *non-refoulement* provisions should be harmonised with international rules, the status of tolerated stay and associated rights introduced for persons who are not eligible under the law but nevertheless un-deportable as well as the right for family reunification stipulated. Further alignment is necessary, notably in view to the admission of third country nationals. The granting and extension of work permits is still not in line with the *acquis*.

In the field of **police co-operation**, the Europol office has to be established and the fight against **organised crime** intensified, as organised crimes continues to be a major problem. The Penal Code is not yet in line with the *acquis*, notably as regards the notion of “organised crime”. The re-codification of the Penal Code and the Code of Criminal Procedure is expected to bring Slovakia in line with the *acquis* in this respect. Internal co-operation within the police as well as with other law enforcement agencies need to be improved.

The Council of Europe Convention on **Laundering, Search, Seizure and Confiscation of the Proceeds from Crime** remains to be ratified. Further efforts are needed to strengthen the administrative capacity to fight money laundering.

Alignment in **drugs** legislation needs to continue, comprising the control of precursors. There is a need both to widen the competence of the customs authorities to carry out investigations into drug related crimes and to improve co-operation between the various bodies involved. Further efforts to enhance administrative capacities, mainly as regards equipment, are necessary.

As regards **customs-co-operation**, Slovakia should continue its efforts, namely in implementing customs-related IT systems compatible with those used in the EC.

In the field of **judicial co-operation**, the Conventions on Extradition need to be fully implemented.

Chapter 25: Customs Union

Limited progress has been achieved by Slovakia in the field of customs since the last Regular Report.

As regards alignment between the Slovak legislation and the **EC Customs Code and its implementing provisions**, only minor steps concerning inward processing, supplementary declaration for customs warehouses as well as the diversion of narcotic and psychotropic substances have been undertaken. A new Customs Act which should achieve full alignment in this area is still pending.

Regarding the **customs *acquis* outside the Customs Code**, it can be noted that, since January 2000, Slovakia applies a quota management system based on actual imports, on the “first-come, first-served” principle applied in the Community. Moreover, Slovakia

has issued for the first time an Integrated Customs Tariff consistent with the EC Integrated Tariff (TARIC). Regarding the pan-European system of origin, Slovakia has agreed to the amendments to the system which will come into force in January 2001.

In relation to international Agreements and Conventions, Slovakia acceded to the Convention on Customs Treatment of Pool Containers used in International Transport in November 1999. In March 2000, the Slovak Government approved the International Agreement on the temporary importation, free of duty, of medical, surgical, and laboratory equipment to be used in hospitals and other medical institutions for purposes of diagnosis or treatment. In May 2000, the Slovak Government approved the Proposal of Slovakia's Accession to the 1990 Convention relating to temporary admission. In June 2000, the Protocol on amending the International Convention on the simplification and harmonisation of customs procedures (the Kyoto Convention) was signed by the Slovak Government. Moreover, Slovakia is part of the Nairobi Convention on mutual administrative assistance for the prevention, investigation and repression of customs offences since May 2000.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, some progress can be noted. Regarding computerisation, the ASYCUDA system (a computerised customs information system) is in the process of being generalised. By the end of 2000, 75 % of all customs declarations are expected to be processed through this system. Work has also continued to further develop customs IT systems, notably concerning the establishment of a Slovak integrated tariff and on the computerisation of customs procedures. Some progress has also been made as regards the provision of information to the economic operators via internet in view of trade facilitation.

Steps have been undertaken to prepare the transfer of the administration of excise duties on mineral oils from the tax authorities to the customs authorities.

In relation to border management, Slovakia has concentrated its efforts on the Ukrainian border, as the future EU external border. The main works regarding the construction of a border control facility at the Vyšné Nemecké border crossing have been completed. However, this facility needs to be now properly equipped, and appropriate veterinary facilities need still to be set up.

Actions are also being undertaken in Slovakia to strengthen the co-operation between customs and police at the borders, as for example through the establishment of joint police-customs points for precursor control.

Overall assessment

Although Slovakia has already achieved a considerable degree of legislative alignment in the field of customs, this process needs now to be completed. In particular, Slovakia should adopt, as soon as possible, new legislation ensuring full compliance with the EC Customs Code and its implementing provisions. Slovakia should also aim to achieve further alignment in the fields of simplified procedures, re-exportation, customs warehouses, end-use, duty relief, and customs debt repayment and remission of duties.

As regards administrative and operational capacity to implement the *acquis*, Slovakia should continue its efforts, notably as regards the implementation of customs-related IT systems compatible with those used in the EC, the establishment of customs laboratories,

the improvement of border management and the fight against irregularities and corruption within the customs administration. There is also room for improvement in relation to the internal organisation of the customs administration, in particular regarding the co-ordination between the Ministry of Finance, in charge of the legislative process, and the Customs Directorate, in charge of the effective implementation of the Customs legislation.

Chapter 26: External Relations

Since the last Regular Report, Slovakia has made progress in continuing to align its trade policy with that of the EC.

As regards the **common commercial policy**, upon accession Slovakia will need to fully align with the Common External Tariff (CET). Slovakia's applied tariffs currently average 6.4% on all products, 14% on agricultural products, 0.1% on fishery products and 4.6% on industrial products. By comparison the EC tariffs currently stand at 5.3 % on all products, 9.4 % on agricultural products, 12.4% on fishery products and 4.2 % on industrial products.

Slovakia is a member of the WTO, and joined the PHARMA initiative for the liberalisation of trade in pharmaceutical products in January 2000. Slovakia is not yet a member of the plurilateral Agreements on Government Procurement (GPA) and on Trade in Civil Aircraft. However, some progress was done in this respect, as the Act on Public Procurement entered into force in January 2000 set the prerequisites for opening negotiations for accession to the GPA.

In July 2000, the OECD invited Slovakia to become member of the organisation.

As of July 2000 Slovakia has started harmonisation of legislation in the area of export credits. Amendments to the Act on the Export Import Bank were introduced, aimed at extending the possibilities of medium-term import and export credit financing, and abolishing fees due from exporters and importers to the Bank. The decision-making process at the Bank was also streamlined, and some competencies transferred from the government to the Bank.

As regards the conclusion of new free trade agreements, none has been concluded in the period since the last Regular Report. The possibility of starting negotiations with Croatia is being considered, and consultations are being held with Morocco.

In the field of **development policy and humanitarian aid**, Slovakia does not have a comprehensive policy addressing developing countries.

The administrative capacity relevant to external relations is split among several Ministries, including the Ministries of Economy, Agriculture, Foreign Affairs and Finance. These institutions are considered to be able to cope effectively with commercial policy and their upgrading in this respect is not foreseen at this stage.

Overall assessment

Slovakia is prepared to take over the *acquis* upon accession, and is not expected to experience particular problems in its full implementation.

However, in some areas alignment with the *acquis* is required, and although Slovakia has made progress, legislative action is still required in particular as regards accession to the WTO agreements on Government procurement and Civil Aircraft. The national legislation on export credits still requires further harmonisation to the *acquis*.

The EU and Slovakia have established a framework for co-operation regarding WTO issues both at ministerial and at services level. Slovakia has been supportive of EU policies and positions within the WTO framework. As regards the new round, Slovakia concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the build-in-agenda would be less substantial in its absence.

As regards the WTO Agreement on Trade in Textiles and Clothing (ATC), Slovakia needs to use the third stage of integration under the ATC to align its integration programmes on those of the EC, while notably avoiding integrating products not yet integrated by the EC.

As regards free trade agreements, Slovakia and the Czech Republic are part of a Customs Union and pursue a common trade policy. As regards **bilateral agreements with third countries**, the two countries only aim at signing free trade agreements with countries having association agreements with the EU. Slovakia is a member of CEFTA (Central European Free Trade Agreement) and holds free trade agreements with Estonia, Latvia, Lithuania, Turkey and Israel. In this area, further progress is necessary in aligning with the EC's international trade obligations; Slovakia should continue to keep the Union fully informed about negotiations aimed at the conclusion of any new trade agreements with a third country.

The administrative structures currently in place are adequate. The administrative infrastructure for customs services is addressed under the chapter covering Customs Union (*Chapter 25*).

Chapter 27: Common foreign and security policy

The regular **political dialogue** established by the Europe Agreement is proceeding smoothly, and Slovakia continues to orient its foreign and security policy towards the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Slovakia has shown a keen interest in the development of the European Security and Defence Policy as part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (ie non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Slovakia has regularly aligned its positions with those of the Union and, when requested to do so, has associated itself with all Union's joint actions and common positions.

Over the last year, Slovakia has taken an active role in the Balkan region, while fully coordinating its policy in this area with the EU. Slovakia has continued its participation in the European Community Monitoring Mission (ECMM) under EU mandate in the Western Balkans. Eight Slovak officers participate in the SFOR operation in Bosnia

Herzegovina and an engineering unit of forty soldiers takes part in the KFOR operation in Kosovo. The Slovak Foreign Minister has been confirmed as special UN envoy to the Balkans. The “Bratislava Process”, an initiative aimed at strengthening relations between the international Community and the pro-democratic forces in the Former Republic of Yugoslavia (FRY) held its fifth meeting in Bratislava in July.

Slovakia improved further its relations with neighbouring central European partners both at multilateral and bilateral level. In May 2000 the Slovak and the Czech governments settled the issue of division of former Czechoslovak Federation property. The agreement provided for the Czech Republic to return 4.5 metric tons of gold that it kept as lien for a 25.8 billion crown debt that Slovakia did not acknowledge. The Czech Republic was compensated by the exchange of shares of the Slovak Bank VÚB and the Czech Komerční Banka (KB). The implementation of the basic treaty with Hungary has continued through the functioning of several working groups. Discussions with Hungary on the Gabčíkovo-Nagymaros dam are underway, and kept at a technical level.

After contributing to the revival of the Visegrad group in 1998 and 1999, Slovakia has continued to participate actively in this framework. In 2000, more than fourteen high-level meetings took place to discuss common issues ranging from defence to transport, justice and home affairs, environment and culture. In June 2000 the four governments agreed to set up a Visegrad Fund aimed at promoting co-operation in the fields of culture, education and youth, sports and cross-border co-operation. The Secretariat of the Fund is based in Bratislava.

CFSP issues are handled by the Division of European Integration within the Ministry of Foreign Affairs. A European Correspondent co-ordinates CSFP issues within the Department of Political Relations with the EU. In 1999 a new coded communication system was implemented at the Ministry and at the Mission of the Slovak Republic to the EC, allowing easier access to communication, démarches and other CFSP instruments, and facilitating contacts with the Council Secretariat and associated countries.

Overall assessment

Since the beginning of the political dialogue with the EU, Slovakia has reached significant alignment with the EU statements and other CFSP instruments.

Slovakia has also shown active support for and co-operation goodwill with the EU in the Balkan region.

The Slovak republic’s relations with its neighbours have shown a further improvement since last year, especially in the frame of the Visegrad group. For Slovakia, co-operation with its Visegrad partners represents an increasingly valuable source of political support and technical know-how on its way to accession to the EU.

Regarding arms exports, Slovakia has adhered to the EU Code of Conduct on Arms Exports, but there is concern that Slovakia needs to make more effort to ensure respect for sanctions and weapons exports to conflict zones.

Slovakia has in place all the necessary administrative capacity to handle CFSP, and participation in the Associated Correspondents’ Network has so far operated smoothly.

Chapter 28: Financial control

During the period covered by this regular report, only limited progress has been made in this area.

The 1999 Accession Partnership includes the completion of the legislative framework for internal and external financial control as a short-term priority.

Little progress has been made by Slovakia regarding its **Public Internal Financial Control system (PIFC)**, which continues to need substantial improvement. A Concept Paper on further developments and strengthening of PIFC has been prepared. This Paper will be the basis for the development of primary and secondary legislation on the issue of PIFC. Slovakia has also approved a strategy for the setting up of a State Treasury system in view of providing for an efficient management of public finance and has adopted new legislation in areas closely related to public financial control, such as public procurement and accounting. However, these measures do not sufficiently address the key pending issues.

As regards **external financial control** (external audit), some limited alignment has been achieved through the adoption by the Slovak Parliament of an amendment to the Act on Auditors and the Slovak Chamber of Auditors. In January 2000 the Supreme Audit Office prepared and issued a Code of Ethics for its auditors based on the Code adopted by INTOSAI at the 1998 World Congress in Uruguay.

In relation to the **control measures relating to Own Resources**, the Slovak customs and tax administrations are in the process of reform in order to enhance their operational and administrative capacity. This involves in particular the completion of the computerisation process, the strengthening of human resources, and the improvement of internal organisation.

Regarding **control of structural action expenditure**, the Slovak Parliament has adopted new legislation which creates the legislative framework for the reception and administration of support funds provided by the European Community. This legislation (amendment to an existing law) stipulates precedence of international agreements over Slovak legislation, and sets forth the rules for the accounting of funds received from the EC, as well as the purpose for which such funds can be used and the manner in which they can be disbursed.

In the field of **protection of EC financial interests**, the Slovak Criminal Law has been amended in order to define the concept of indirect corruption, to specify penal sanctions for bribery and to determine the conduct of special agents in charge to fight corruption.

Overall assessment

Little progress has been achieved by Slovakia in this area to date. Slovak efforts need therefore to be substantially enhanced, in particular, through the development of the necessary public internal financial control functions.

Slovakia needs to urgently establish the basis on which a sound financial control system could be built up, and start its implementation. It also needs to strengthen the functional independence of internal auditors and controllers. The administrative structures for effective internal financial control must be improved and an audit trail relating to the pre-

accession funds has to be developed. Efficient systems for fighting irregularities, fraud and corruption, and for recovering those public funds not used in conformity with the rules governing their use, should also be developed. The independence of the Supreme Audit Office needs to be reinforced and its overall operational capacity enhanced.

In relation to the control of future EC Own Resources, Slovakia should continue its efforts to set up effective instruments to combat fraud relating to VAT and customs duties.

In the field on structural actions expenditure, efforts need to be made in order to enhance Slovakia's capacity for the management of pre-accession funding and future structural funds, in particular through the establishment of clear public internal financial control rules and procedures, and a substantial reinforcement of the Slovak administrative capacity. The development of mechanisms for the expedient recovery of lost EC funds is equally important.

With a view to ensuring adequate protection of EC financial interests, Slovakia needs to put in place the necessary legislation to allow the competent EC bodies to carry out on-the-spot checks and to develop adequate administrative capacity to implement the *acquis*, including the ability of the Slovak law enforcement bodies and judiciary to address cases where EC financial interests are at stake. Slovakia should nominate as soon as possible a single contact point for the relations and co-operation with the bodies competent for the protection of the EC financial interests, in particular with OLAF.

Chapter 29: Financial and budgetary provisions

Slovakia has made some progress over the reporting period, in particular as regards **the national budget and EC co-financed measures**. In December 1999 amendments to the Act on Budgetary Rules clarified some of the provisions of this Act and introduced some of the basic functions of a State Treasury. In June 2000, the Government adopted a 'Strategy for the establishment of a State Treasury System' which aims, inter alia, at ensuring a comprehensive management of public finances, including funds provided by the EC.

An amendment to the Act on State Statistics in late 1999 brought Slovak practice closer to the European System of Accounts (ESA 95) norms, although for the statistical calculations of the GNP resource some inconsistencies remain. Otherwise little progress can be reported as **regards own resources and administrative infrastructure**.

Overall assessment

Whilst Slovakia has made some progress in this area, further efforts will be required.

Although basic budgetary rules are broadly satisfactory, further amendments will be necessary to ensure budgetary principles and rules are brought into line with those standards generally applicable in the Community. In the interest of transparency the number of extra-budgetary funds should be further reduced. Procedures for multi-year budgeting should be put in place, in parallel with the development of macro-economic forecasting and a medium-term budget strategy. The procedures for selecting, monitoring and evaluating public investments and expenditure programmes need to be strengthened in order to improve the process of allocation of resources. To this end, the corresponding

analytical capacity should also be increased in the Ministry of Finance and the spending Departments.

The work in progress for defining and implementing the operating procedures for the management of EC pre-accession funds, through the National Fund, should be continued.

As regards the Community's Own Resources, there is currently no provision in Slovak law with regard to the levies on trading in and warehousing of sugar. Further alignment for the calculation of the VAT and GNP resources is also necessary. In addition to the need for central coordination for the proper collection, monitoring and payment of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report such as Agriculture, Customs, and Regional Policy.

3.2. Translation of the *acquis* into the national language

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60.000-70.000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of central Europe.

So far, in Slovakia approximately 35,000 pages of the Official Journal have been translated, of which more than 5,000 have been revised. To ease some of the remaining workload of translation, Slovakia has decided to give legal validity to texts translated into Czech in the field of standardisation.

Further efforts are required in this area.

3.3. General evaluation

Slovakia has continued to make significant progress in legislative alignment with the *acquis*, thus furthering its ability to assume the obligations of membership. However, progress has not been uniform across chapters. As already indicated in last year's Regular Report, a number of areas continue to lag behind, such as company law, agriculture, transport, regional policy and co-ordination of structural instruments, the environment and financial control. Also, progress is generally more noticeable in legislative developments than in the strengthening of the institutions responsible for implementation and enforcement. These weaknesses need to be remedied. Appropriate resources should be allocated for this purpose.

Concerning *internal market legislation*, noticeable progress has been achieved in public procurement, financial services and capital movements and in preparing a basis for full alignment in the New Approach area, including standardisation. Little progress has been achieved as regards free movement of persons, as a general framework for the recognition of foreign professional qualifications has not been established. Apart from continuing alignment, a particular challenge is now to provide adequate capacity for the implementation and enforcement of the *acquis*. In *company law*, there has been no substantial progress in alignment with the partial exception of accounting law. Further

sustained efforts are needed, in particular with regard to trademarks and patents as well as the fight against piracy and counterfeiting. In competition policy legislative progress means anti-trust rules are largely in line and the focus should now shift to their correct application. Despite some progress in the state aids area further legislative steps are required and the newly created State Aid Monitoring Authority should be strengthened.

Tangible progress has also been reached in the area of *statistics* and efforts should be maintained, especially concerning macro-economic statistics and harmonisation of regional statistics. Substantial progress has been achieved in the *industrial policy* sector through continuing privatisation and restructuring. Particular attention needs to be paid to the respect of EC state-aid rules. Significant progress, notably in terms of legislation, has also been made in the *telecommunication* and *audiovisual* sector. The emphasis must now turn in particular to strengthening administrative capacity. Whilst Slovakia has also advanced well in the field of *consumer and health protection*, both as regards safety related measures and non-safety consumer protection, some further alignment is required and adequate co-ordination and strengthening of those bodies involved in market surveillance activities needs to be ensured.

In the case of *co-operation in the field of justice and home affairs*, significant progress has been achieved mainly in aligning visa policy and asylum legislation. However, considerable progress in all relevant *acquis* areas is needed, with a particular emphasis on migration, border control and fight against crime.

Only limited progress has been achieved in the *agricultural sector*, where efforts have focused on preparations for the SAPARD programme. Despite the progress achieved in the recent years, there is a need for accelerated alignment and implementation with particular emphasis on establishing an Integrated Administration and Control System, on adopting specific market regulations and continuing implementing veterinary and phytosanitary legislation. In the field of *transport*, limited alignment has been achieved in the area of road transport and inland waterways. However, most of the transport areas, notably rail and road transport, still require substantial alignment efforts and the strengthening of relevant administrative structures. Some limited progress has been made in the *energy* sector and in the field of *regional policy and co-ordination of structural instruments*; Slovakia needs still to enhance its alignment effort and to reinforce its administrative capacity in these sectors. Limited progress has been made in the field of *environment*, where substantial efforts remain necessary as regards legislative alignment, investments and implementation/enforcement capacity. Concerning *customs*, Slovakia had already achieved a considerable degree of legislative alignment, but it has not made significant progress during the period. Further efforts are still necessary to complete the legislative framework and to ensure proper implementation of the customs-related *acquis*. Little progress can be reported in the area of *financial control*, where Slovakia needs to make substantial progress, notably by developing the necessary public internal financial control functions.

As regards *administrative capacity* in general, Slovakia has made little progress, with a few exceptions, in strengthening the relevant institutions. Delays in the adoption of the public administration reform and in the civil service law further contribute to this general weakness.

The fulfilment of the short term priorities varies in a broad range from sector to sector. As regards the internal market, Slovakia has met the relevant priorities to a large extent. Whereas in the area of social policy and employment, energy and co-operation in the

field of justice and home affairs the short term priorities have been partially met, they have been fulfilled only to a limited extent in the case of agriculture. Concerning environment and reinforcement of administrative and judicial capacity, the short term priorities have essentially not been met.

Slovakia has taken some initial steps to start addressing a number of medium-term priorities.

C. Conclusion

Slovakia continues to meet the political criteria for accession which the last report had recognised, for the first time, as having been fulfilled. Slovakia has further advanced in the consolidation of its democratic system and in the normal functioning of its institutions. However the speed of the reform process has lost some momentum due, in part, to dissension within the ruling coalition.

Certain legal steps were taken to strengthen the independence of the judiciary. However, key parts of the reform, in particular the constitutional amendment with regard to the nomination and probationary system, which were set as a short term priority, have not yet been adopted. Therefore, continued efforts are needed to ensure the independence of the judiciary.

Progress was also achieved in the fight against crime and corruption, mainly in formulating a government policy and transposing international obligations. The translation of good intentions and well thought-out concepts into specific actions should not be delayed, in order to improve Slovakia's otherwise insufficient record in this respect.

Further progress can be noticed in developing approaches to tackle the problems of minorities, but there remains a gap between policy formulation and implementation on the ground. Tangible improvement of the situation of the Roma minority in particular by implementing specific measures, a short term priority of the 1999 Accession Partnership, has therefore not been achieved to a large extent. Increased efforts in implementing legislation in various sectors as well as strengthening policies and budgetary means in line with the medium term priorities of the 1999 Accession Partnership are needed in this respect.

The adoption of the civil service law and starting implementing the strategy of the public administration reform, both short term priorities of the 1999 Accession Partnership, have been delayed. Sustained efforts are required to maintain momentum in these important areas of the reform process.

Slovakia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the structural reform agenda is fully implemented and broadened to include remaining reforms.

Macroeconomic stability has presently been restored through measures to reduce the fiscal and external deficits. The legislative framework for business activity is now largely in place. Price distortions are being eliminated and the privatisation of public utilities has been started. The authorities are making good progress in the restructuring and privatisation of the state-owned banks.

However, the progress on macroeconomic stabilisation will need to be consolidated by a continued prudent policy mix. In particular, the current budget proposals for 2001 risk to endanger the stabilisation achievements and the medium-term sustainability of public finances is not yet guaranteed. Ongoing structural reforms still need to be completed and

the new legislation will have to be effectively implemented. Banking supervision needs to be further strengthened.

The authorities need to implement the remaining reforms and execute the privatisation in the financial and energy sectors according to plan. Priority should be given to effective implementation of the legal framework and to administrative capacity. Public finances need to be kept under control in the short term and to be consolidated in a medium term framework, specifically in the areas of health, pensions and social security. This would help to create room for the financing of public investment and for measures aimed at reducing the disparities in regional labour markets and enhancing labour mobility.

Slovakia has continued to make significant progress in legislative alignment with the *acquis*, thus furthering its ability to assume the obligations of membership. However, progress has not been uniform across chapters. As already indicated in last year's Regular Report, a number of areas continue to lag behind, such as company law, agriculture, transport, regional policy and co-ordination of structural instruments, the environment and financial control. Also, progress is generally more noticeable in legislative developments than in the strengthening of the institutions responsible for implementation and enforcement. These weaknesses need to be remedied. Appropriate resources should be allocated for this purpose.

Concerning *internal market legislation*, noticeable progress has been achieved in public procurement, financial services and capital movements and in preparing a basis for full alignment in the New Approach area, including standardisation. Little progress has been achieved as regards free movement of persons, as a general framework for the recognition of foreign professional qualifications has not been established. Apart from continuing alignment, a particular challenge is now to provide adequate capacity for the implementation and enforcement of the *acquis*. In *company law*, there has been no substantial progress in alignment with the partial exception of accounting law. Further sustained efforts are needed, in particular with regard to trademarks and patents as well as the fight against piracy and counterfeiting. In competition policy legislative progress means anti-trust rules are largely in line and the focus should now shift to their correct application. Despite some progress in the state aids area further legislative steps are required and the newly created State Aid Monitoring Authority should be strengthened.

Tangible progress has also been reached in the area of *statistics* and efforts should be maintained, especially concerning macro-economic statistics and harmonisation of regional statistics. Substantial progress has been achieved in the *industrial policy* sector through continuing privatisation and restructuring. Particular attention needs to be paid to the respect of EC state-aid rules. Significant progress, notably in terms of legislation, has also been made in the *telecommunication* and *audiovisual* sector. The emphasis must now turn in particular to strengthening administrative capacity. Whilst Slovakia has also advanced well in the field of *consumer and health protection*, both as regards safety related measures and non-safety consumer protection, some further alignment is required and adequate co-ordination and strengthening of those bodies involved in market surveillance activities needs to be ensured.

In the case of *co-operation in the field of justice and home affairs*, significant progress has been achieved mainly in aligning visa policy and asylum legislation. However, considerable progress in all relevant *acquis* areas is needed, with a particular emphasis on migration, border control and fight against crime.

Only limited progress has been achieved in the *agricultural sector*, where efforts have focused on preparations for the SAPARD programme. Despite the progress achieved in the recent years, there is a need for accelerated alignment and implementation with particular emphasis on establishing an Integrated Administration and Control System, on adopting specific market regulations and continuing implementing veterinary and phytosanitary legislation. In the field of *transport*, limited alignment has been achieved in the area of road transport and inland waterways. However, most of the transport areas, notably rail and road transport, still require substantial alignment efforts and the strengthening of relevant administrative structures. Some limited progress has been made in the *energy* sector and in the field of *regional policy and co-ordination of structural instruments*; Slovakia needs still to enhance its alignment effort and to reinforce its administrative capacity in these sectors. Limited progress has been made in the field of *environment*, where substantial efforts remain necessary as regards legislative alignment, investments and implementation/enforcement capacity. Concerning *customs*, Slovakia had already achieved a considerable degree of legislative alignment, but it has not made significant progress during the period. Further efforts are still necessary to complete the legislative framework and to ensure proper implementation of the customs-related *acquis*. Little progress can be reported in the area of *financial control*, where Slovakia needs to make substantial progress, notably by developing the necessary public internal financial control functions.

As regards *administrative capacity* in general, Slovakia has made little progress, with a few exceptions, in strengthening the relevant institutions. Delays in the adoption of the public administration reform and in the civil service law further contribute to this general weakness.

The fulfilment of the short term priorities varies in a broad range from sector to sector. As regards the internal market, Slovakia has met the relevant priorities to a large extent. Whereas in the area of social policy and employment, energy and co-operation in the field of justice and home affairs the short term priorities have been partially met, they have been fulfilled only to a limited extent in the case of agriculture. Concerning environment and reinforcement of administrative and judicial capacity, the short term priorities have essentially not been met.

Slovakia has taken some initial steps to start addressing a number of medium-term priorities.

D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

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 regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

Short-term priorities

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.¹⁵

Political criteria: There is a gap between good intentions and actual implementation in this area. The strategy to tackle *Roma-related* problems is not sufficiently operational and lacks adequate *financial support*. A comprehensive plan for the fight against *discrimination* is in place. Nonetheless, no overall tangible progress in the daily life of the Roma minority can be noted. Therefore, **this priority has only been addressed to a limited extent.**

Economic criteria: *Macroeconomic stability* has improved. *Enterprise restructuring* and *bank privatisation* are progressing and a *bad-debt recovery mechanism* is in place, while little progress was achieved in the *insurance sector*. Some fiscal measures to *stimulate investment* were introduced in 2000. New *bankruptcy procedures have been adopted* and are being implemented. Therefore, **this priority has been largely met.**

Internal Market: There has been significant progress in all areas with notably the following exceptions: In *industrial property rights* legislation is still outstanding on trademarks and patents and progress in the fight against piracy and counterfeiting is needed.

In *free movement of goods* the major shortcoming are delays in alignment with *chemical sector* legislation. In *free movement of capital* some steps have been taken, but some restrictions still apply on direct investments, while there has been little progress in the

¹⁵ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Council Decision 1999/853/EC, OJ L335 of 28/12/1999, p22.

relaxation of investment rules for institutional investors. The strengthening and co-ordination of *financial supervision* has been made possible by recent legislation but needs to be implemented. The *state-aid inventory* is not advancing as expected.

In the *taxation area* rates on *mineral oils* were brought closer to the required minimum. No measures were taken to align the scope of application of the VAT reduced rate. No timetable was made available to the Commission. In the customs field, Slovakia needs to continue its efforts to improve border management. **Taking into account the above exceptions, this priority has been met to a large extent.**

Agriculture: There has been little progress in *alignment of veterinary and phytosanitary legislation* and in upgrading *border inspection posts*. The establishment of the *vineyard register* has not yet been completed. Therefore **this priority has been met only to a limited extent.**

Energy: - A preliminary *decommissioning plan for Bohunice VI* has been prepared but needs to be developed. Demand forecasts have been updated in the framework of the new Energy Policy adopted in January 2000, but no particular progress has been made as regards *energy efficiency*, which needs to be improved. Efforts are being made to ensure high levels of *nuclear safety*. Therefore **this priority has been partially met.**

Employment and social affairs: There is little progress in the enforcement of *occupational safety and health legislation*. However, with the new Labour Inspection Act legal preconditions have been established to strengthen supervision. Efforts have been made by the Slovak authorities to promote *bipartite social dialogue*, but it needs further strengthening at all levels. Therefore, **this priority has been partially met.**

Environment: A *comprehensive strategic* approach, including implementation plans and *financial strategies* is still lacking. No significant progress can be reported in the areas of *water, waste, and integrated pollution prevention control*, and little progress as regards *nature protection and air quality*. A step forward has been the adoption by the Slovak Parliament of new legislation to align with the *environmental impact assessment* directive. Therefore **this priority has been addressed to a very limited extent.**

Justice and Home Affairs: There has been some progress in the *fight against organised crime and illegal migration* (including the *introduction of visa stickers*) but much more needs to be done. Slovakia has ratified the relevant *international conventions*, with the exception of *the European convention on money laundering*. The *penal code* has not been aligned in this area. *Asylum legislation* has been improved, in particular with the abolition of the *24 hour deadline*, but further improvement is needed (notably the *second instance body* for appeals needs to be established). The capacity to deal with *money laundering* has not been strengthened. In summary, **this priority has been partially met.**

Reinforcement of administrative and judicial capacity, including the management and control of EC funds: The *civil service law* has not been adopted and the implementation of the *public administration reform strategy* has been delayed. The *National Development Plan* needs further development, so does the *Rural Development Plan*. The *legal, administrative and budgetary framework* to programme and manage *ISPA and SAPARD* is only partially in place, and this has had a negative impact on the preparation and submission of eligible projects, particularly in the field of the environment. A *paying agency for SAPARD* has been established and staffed, but further strengthening of administrative capacity is needed. Little progress has been achieved in

financial control. Some minor alignment has been achieved through an amendment of the Act of Auditors and the Slovak Chamber of Auditors, and new legislation in the fields of public procurement and accounting. However, these measures have not addressed key issues like the development of the necessary *internal public financial control functions*. The constitution has not been amended. Therefore **this priority has essentially not been met**.

Medium-term priorities

Slovakia has taken some initial steps to start addressing a number of medium-term priorities. These efforts have so far mainly focused on the establishment of the independent guarantee fund and on actions areas linked with the short-term priorities. Therefore the medium-term priorities remain essentially valid.

2. National Programme for the Adoption of the *Acquis*

The third revision of the National Programme for the Adoption of the *Acquis* (NPAA) was approved by the Slovak government on 22 March 2000. The revised text was prepared in a format consistent with past editions and is generally in line with the guidelines provided by the Commission in the past.

The NPAA consists of two parts -a core document and annexes- but unlike the 1999 edition, it lacks a summary version. This would have been useful in a document extending, without the annexes, to nearly 400 pages. The core document covers the political criteria, the economic criteria, the ability to assume the obligations of membership (*acquis*), the administrative capacity to implement the *acquis* and the resulting financial needs. Each section under the *acquis* chapter has a uniform structure covering: measures adopted (including legislation and administrative structures), short-term priorities, medium-term priorities, administrative needs and financial needs. The annexes contain, amongst other things, a plan of the legislative tasks of the government for 2000, which constitutes a useful addition. It also includes, as in the past, a table to monitor progress under the Accession Partnership priorities, although not under the whole NPAA.

In general the NPAA is consistent with commitments made by Slovakia in the framework of the Europe Agreement, the screening and the negotiations process. The Accession Partnership priorities are mostly included in the text and there is ample reference to the Regular Report conclusions. Sector coverage is generally appropriate with some exceptions and has improved vis-à-vis the past. Also the NPAA fulfils its role as a co-ordinating instrument and notably contains relevant references to ISPA and SAPARD.

Nonetheless, the administrative capacity aspects are not sufficiently addressed under many parts of the *acquis*, so that important gaps still exist in this key area. Also the quality of financial estimates is often weak and incomplete, lacking in sufficient breakdown and justification. Deadlines are sometimes missing or difficult to assess because actions are not always defined in operational terms. The overall impression that deadlines are generally optimistic is confirmed by a review of actual compliance under the 1999 programme. Also the follow-up of deadlines under the 2000 programme shows that a number of key target dates have already been missed in the few months elapsed, while others cannot be realistically met. It should also be noted that references to

regional and local levels are not sufficiently addressed in some areas where they are relevant.

The current NPAA represents, therefore, a further step ahead in the process of improving the quality of this instrument so as to make it more effective to steer the process of preparation for accession. However further efforts are needed to render the instrument fully operational. It will be important, in particular, to address administrative capacities more thoroughly , to sharpen financial estimates and to impress more realism upon target dates. The future NPAA should also give particular attention to those chapters of the *acquis* which are the weakest in absolute terms (*see section B3*). Finally, in order to facilitate monitoring it would be useful to produce, in the future, a summary document and a monitoring table, thus allowing for the proper checking of compliance with target dates and financial targets.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
September 2000***

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on 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	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	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
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	O	X	X	X	O
ICCPR (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	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (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; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	5.364	5.374	5.383	5.391	5.395
	in km²				
Total area	49.040	49.030	49.030	49.035	49.035

National accounts	1000 Mio Slovak Koruna				
Gross domestic product at current prices	546,0	606,1	686,1	750,8	815,3
	1000 Mio ECU/euro				
Gross domestic product at current prices	14,0	15,6	18,0	19,0	18,5
	ECU/euro				
Gross domestic product per capita ¹⁶ at current prices	2.600	2.900	3.300	3.500	3.400
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	6,7	6,2	6,2	4,1	1,9
	in Purchasing Power Standards				
Gross domestic product per capita ¹⁷ at current prices	7.730	8.525	9.371	9.828	10.279
	% of Gross Value Added¹⁸				
Structure of production					
- Agriculture	5,7	5,2	5,0	4,6	4,5
- Industry (excluding construction)	31,6	32,2	29,1	28,1	29,3
- Construction	7,6	7,8	7,5	7,1	5,8
- Services	55,2	54,8	58,4	60,2	60,4
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	70,9	74,4	73,2	74,8	73,5
- household and NPISH	51,4	52,6	52,0	53,3	54,0
- general government	19,4	21,8	21,2	21,5	19,5
- Gross fixed capital formation	26,4	34,2	35,9	38,0	30,8
- Stock variation	0,9	2,9	0,7	-1,9	1,1
- Exports of goods and services	59,8	55,2	58,0	61,2	61,5
- Imports of goods and services	58,0	66,8	67,8	72,2	66,9

Inflation rate	% change over the previous year				
Consumer price index ¹⁹	9,9	5,8	6,1	6,7	10,6

¹⁶ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁷ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁸ Including FISIM.

¹⁹ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

Balance of payments²⁰	Mio ECU/euro				
-Current account	299	-1.655	-1.725	-1.893	-1.088
-Trade balance	-174	-1.805	-1.836	-2.097	-1.035
<i>Exports of goods</i>	6.564	6.953	8.503	9.555	:
<i>Imports of goods</i>	6.738	8.758	10.339	11.652	:
-Net services	413	29	66	17	139
-Net income	-11	-37	-110	-140	-282
-Net current transfers	71	159	154	327	162
<i>-of which: government transfers</i>	13	7	8	0	:
- FDI (net) inflows	181	279	154	504	310

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	1,0	-1,7	-3,6	-4,8	-0,6

Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	19,60	22,57	32,61	36,78	38.86 E
	as % of exports				
Gross foreign debt of the whole economy	31,03	38,81	53,60	57,42	60.36 E
Monetary aggregates	1000 Mio ECU/euro				
- M1	3,8	4,4	4,3	3,4	3,7
- M2	9,2	10,4	11,8	10,9	12,3
Total credit ²¹	9,5	10,8	12,2	12,3	12,5
Average short-term interest rates	% per annum				
- Lending rate	16,9	13,9	18,7	21,2	21,1
- Deposit rate	9,0	9,3	13,4	16,3	14,4
ECU exchange rates	(1ECU/euro=..Slovak koruna)				
- Average of period	38,86	38,92	38,11	39,54	44,12
- End of period	38,98	39,95	38,43	43,21	42,40
	1995=100				
- Effective exchange rate index	100	100,7	105,8	103,6	93,3
Reserve assets ²²	Mio ECU/euro				
-Reserve assets (including gold)	2.593	3.108	3.261	2.769	2.955
-Reserve assets (excluding gold)	2.509	2.728	2.922	2.451	2.642

²⁰ 1999 data are from national source.

²¹ 1999 data refers to July 1999.

²² 1999 data refer to August 1999.

External trade²³	Mio ECU/euro				
Trade balance	-147	-1.806	-1.815	-2.099	-1.035
Exports	6.559	6.955	7.278	9.562	9.568
Imports (FOB)	6.705	8.761	9.092	11.661	10.603
	previous year = 100				
Terms of trade	:	:	:	:	:
	as % of total				
Exports with EC-15	37,4	41,3	41,7	55,7	59,4
Imports with EC-15	34,8	37,3	39,4	50,1	51,7

Demography	per 1000 of population				
Natural growth rate	1,6	1,7	1,3	0,8	0,7
Net migration rate (including corrections)	0,5	0,4	0,3	0,2	0,3
	per 1000 live-births				
Infant mortality rate	11,0	10,2	8,7	8,8	8,3
Life expectancy :	at birth				
Males:	68,4	68,9	68,9	68,6	69
Females:	76,3	76,8	76,7	76,7	77

Labour market (ILO methodology)	% of labour force				
Economic activity rate	59,8	60,1	59,9	59,9	60,0
Unemployment rate, total	13,1	11,3	11,8	12,5	16,2
Unemployment rate of persons < 25 years	24,8	21	21,7	23,6	32,1
Unemployment rate of persons >= 25 years	10,8	9,3	9,7	10,1	12,9
Average employment by NACE branches	in % of total				
- Agriculture and forestry	9,2	8,9	9,2	8,2	7,4
- Industry (excluding construction)	30,3	31	30,2	30,2	29,5
- Construction	8,6	8,5	9,1	9,3	8,9
- Services	51,9	51,6	51,5	52,3	54,2

Infrastructure	in km per 1000 km²				
Railway network	75	75	75	75	75
	km				
Length of motorways	198	215	219	288	295

Industry and agriculture	previous year = 100				
Industrial production volume indices ²⁴	108,3	102,5	102,7	103,6	96,6
Gross agricultural production volume indices ²⁵	102,3	102,0	99	94,1	97,5

²³ Data reported for the year 1997 are processed according to the old methodology. 1997 ones according to the new methodology are as follows: imports = 10,335 Mio ECU, exports = 8,500 Mio ECU, balance = -1,835 Mio ECU; Trade with the EU: imports:43.8% and exports: 47.1%.

²⁴ 1995-98: calculated from goods production; 1999: industrial production index (IPI)

²⁵ 1996-99: comparable 1995 prices

Standard of living	per 1000 inhabitants				
Number of cars ²⁶	189,0	197	211	222	229
Telephone subscribers	301	322	340	359	378
Number of Internet connections ²⁷	:	:	:	2,65	7,20

E= estimates

²⁶ Passenger cars.

²⁷ Source: United Nations.

Methodological Notes

Inflation

Consumer price index: the EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, 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 (CC). 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. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs which are based on national CPIs but adapted to the HICP coverage. Since 1996 the data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Exchange rates: against the ECU (euro). European Commission data is used for ECU rates, and the European Central Bank for euro rates.

Note on methodology:

General government deficit / surplus: 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.

Gross foreign debt: of the whole economy, and includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. Total credit

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.

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

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average).

Reserve assets: 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.

External trade

Imports and exports (current prices): data 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 incurred in the course of transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays 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. 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 ECU/euro are recalculated on the basis of an average exchange rate in corresponding period by exchange rate information of the European Central Bank. 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 1998 and 1999 data are processed by Decree No.167/97 (Digest); 1998 data does not include the imports (by the Ministry of Finance of the SR) realised in the framework of decreasing of some countries indebtedness towards the SR. 1999 data are preliminary.

Imports and exports with EC-15: data declared by Slovakia

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: {population (X+1) - population (X) - Deaths (X) + 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 a 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 LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

- Labour force: employed and unemployed persons according to 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. Professionals in military service and persons on maternity 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:
 - have no work,
 - are actively seeking a job and
 - 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 LFS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

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

Since the first quarter of 1997 the conscripts on compulsory military service are included in the LFS. Professionals in military service and persons on maternity leave are included.

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 goods production (1995-1998) include estimates for enterprises and for tradesmen. Since 1999 Industrial production index is calculated on the basis of data on industrial products; data on industrial services; for enterprises with 20 and more employees and selected enterprises up to 19 employees; data are adjusted from the influence of different number of working days.

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, demography, standard of living (except Internet connection): National sources.

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