

REGULAR REPORT

FROM THE COMMISSION

ON

SLOVAKIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the accession partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a 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.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union's priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Slovakia follows the same structure as the Opinion. It

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

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

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which Slovakia has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Slovakia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions¹ and in particular the report on the application of Slovakia for accession to the EU prepared by Mr. Wiersma were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

¹ European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs : A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

b) Relations between the European Union and Slovakia

The enhanced Pre-Accession Strategy

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In March Slovakia presented the first version of a National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

Recent developments in bilateral relations

Slovakia has made progress in the implementation of the Europe Agreement which is being implemented on schedule. While the number of trade issues with Slovakia is limited, their management has not demonstrated a clear understanding of and respect for the obligations under the Europe Agreement on the part of the Slovak authorities. Safeguard measures and export restrictions have been introduced in breach of the obligations and procedural requirements of the Europe Agreement.

The Association Council met in April 1998 following the Association Committee meeting held in September 1997. The system of subcommittees continues to function as a forum for technical discussions.

Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Slovak and European Parliaments met twice in November 1997 and May 1998.

Slovak trade with the EU has continued to grow and to increase its share of total trade. During the first five months of 1998 Slovak exports to the EU accounted for 53.8% of Slovak's total exports (Germany 27.3%, Austria 7.5%, Italy 7.3%).

Imports from the EU amounted to 48% of Slovakia's total imports (Germany 23.4%, Italy 6.2% and Austria 4.7%). Slovakia's trade deficit with the EU in 1997 amounted to 828 MECU, while in the first four months of 1998 it amounted to 121 MECU.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

Several trade issues have been resolved. For example, the Slovak Government reintroduced in July 1997 an import surcharge of 7% covering 80% of imported goods. This was gradually reduced and phased out ahead of schedule on 1 October 1998. Compulsory certification has

developed into a non-tariff barrier to trade but since July 1998 the number of products covered by mandatory certification requirements has been decreased.

The 1998 Phare programme consists of a national allocation (45.9 MECU), based on the Accession Partnership priorities, to support in particular Justice and Home Affairs, the strengthening of democracy, economic reforms and regional policy, as well as the participation in Community programmes and Tempus. An additional 5 MECU have been allocated for a cross-border co-operation programme.

In addition, funding will be provided under the Catch-up Facility², for projects in the amount of 7.5 MECU.

Under a new facility for large scale infrastructure projects, cofinanced by the European Investment Bank and the International Financial Institutions, 15 MECU will be provided.

Slovakia also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, nuclear safety, environment, small and medium sized enterprises, statistics, public administration reform and TAIEX.

B. Criteria for membership

1. Political criteria

Introduction

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

"Slovakia does not fulfil in a satisfying manner the political conditions set out by the European Council in Copenhagen, because of the instability of Slovakia's institutions, their lack of rootedness in political life and the shortcomings in the functioning of its democracy".

In the Accession Partnership on Slovakia "free and fair Presidential, national and local elections, effective opposition participation in parliamentary oversight committees and supervisory boards, and the adoption of legislative provisions on minority language use and related implementing measures", were mentioned as short-term political priorities.

² Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

Recent developments

Parliamentary elections took place in September 1998. Despite concerns about the possible implications of amendments to the election law adopted in May 1998, the elections were conducted in a free and fair manner. The high level of participation (84.2%) in the elections showed a clear commitment of the Slovak electorate to the democratic process.

The new parliament met on 29 October and appointed the Speaker and parliamentary committees. On 30 October a new four-party coalition government was formed. The leaders of the four coalition parties have undertaken in a joint letter to the Commission to speed-up integration to the EU, fulfil the Copenhagen criteria as soon as possible and focus on the short-term political priorities as defined in the Accession Partnership.

In a declaration by the Presidency on 30 September 1998 the Union reacted favourably to the electoral process, recalled its long-standing commitment to the process of integration of the Slovak Republic into European structures, indicated that the manner in which the elections were conducted constitutes a positive step in that direction and encouraged the future government and parliament to rapidly address those shortcomings that have so far hampered the Slovak Republic's accession process.

1.1 Democracy and the Rule of Law

The Parliament

Concerning the September 1998 elections, the preliminary assessment of the OSCE observation mission was that, although an atmosphere of political polarisation led to lack of confidence in the overall process by many Slovak citizens, the elections as such took place in correct and acceptable manner. However, the OSCE mentioned that the State Television failed to fulfil its obligation to give a balanced picture of the campaign and largely favoured the incumbent government.

The situation regarding the upcoming municipal elections is less clear. On 1 July 1998 the Parliament approved an Amendment to the Municipal Election Law and Municipal Establishment Act which institutionalises ethnic differentiation in the electoral system under the supposed aim of protecting minorities. The advantage of this somewhat unique and cumbersome approach via-à-vis other well tested systems for minority representation is unclear. The OSCE High Commissioner on National Minorities had indicated that the draft law violated a number of international principles and standards on free elections and individual human rights. He subsequently regretted that, contrary to the usual practice, his objections were not taken into account and that the Law had been adopted without the amendments required to ensure that it would conform to the international standards. On 7 August 1998 number of opposition deputies challenged the law at the Constitutional Court which, on 15 October, declared unconstitutional the most important contested provisions. The impact of this verdict on the conduct of the municipal elections is unclear.

Concerning other aspects of the functioning of parliament, the weaknesses identified in the Opinion have not been fully addressed. The committees of inquiry mentioned in the Opinion were abolished following a judgement of the Constitutional Court and progress could be

noted in the establishment of the new parliamentary committees responsible for monitoring the secret services (SIS) and the military intelligence services (VS). However, opposition representation on the SIS was not completed due to the absence of agreement by the parliamentary majority. A representative of the opposition was nominated to the Supervisory Board of the National Property Fund (NPF), but resigned on 14 September 1998. The functioning of these committees and boards was not fully satisfactory. For instance, the SIS did not present its 1997 report to the Committee and the NPF restricted the activities of the opposition representative and disregarded board resolutions taken at his initiative. This situation is reflected in the conclusions of the Joint EU - Slovak Republic Parliamentary Committees: while the 5th Committee in November 1997 had expressed satisfaction at progress reached, the 6th Committee, held in May 1998, expressed disappointment at the lack of further progress.

Finally, the Slovak Parliament chose not to follow the ruling of the Constitutional Court on the re-instatement of the mandate of two members of parliament. This weakens the respect for parliamentary mandates normally guaranteed in a fully functioning parliamentary democracy.

The Executive

A tendency towards further concentration of power in the hands of the incumbent Government continued.

As a consequence of the completion of the previous President's term of office on 2 March 1998, repeated rounds of votes took place in Parliament without reaching the necessary three fifths majority to elect a new President. In accordance with the provisions of the Constitution, while the post has been kept vacant, most presidential powers have been transferred to the Government, which immediately passed them on to the ex-Prime Minister. He used them controversially .

On March 3, the day in which the ex-Prime Minister was entrusted with such powers, three rather radical decisions were taken: i) the referendum on NATO entry and direct presidential elections, which had been re-launched by the President on 20 February, was cancelled, ii) 28 Slovak Ambassadors (out of a total of 42 in post abroad) were recalled, and iii) an amnesty was granted to all those who could possibly have responsibilities derived from the failed 1997 referendum as well as the unresolved case of the kidnapping of the former President's son in 1996. The EU Presidency reacted with a statement on behalf of the Union: "The decision by the Prime Minister to exercise the presidential powers to grant amnesties in these cases brings into question his commitment to commonly accepted principles of good governance and the rule of law. These actions do not make a positive contribution to Slovakia's efforts to prepare for EU membership". The statement was rejected by the Government.

The Slovak Constitution did not allow for the resignation or appointment of a new Government in the absence of a President. The risk of an institutional impasse was averted with the unanimous adoption of an amendment to the Constitution on 14 July 1998. This allows, in the case of vacancy in the Presidency, for the transfer of a number of presidential powers, previously untransferable, to the Speaker of the Parliament, including that of appointing a Government after the elections. It should be noted that the Speaker of the

Parliament made as well controversial use of these powers when, on August 20, he appointed 13 generals.

Although the office of President remains vacant, it is expected that once a new government is formed and the Slovak parliament resumes its sessions, a new President will be elected.

No progress has been made beyond the preparation of a draft Civil Service Law. The absence of such a law leaves the civil service insufficiently protected from political interference.

The Judiciary

There have been no major changes in this area since the opinion³. The number of judges decreased from 1198 to 1136.

The Constitutional Court continued to play the important role of balancing and preserving the powers of the different organs as defined in the Constitution. However the rulings of the court have not been followed in a number of important cases, and in particular in the follow up to the case, reported in the Opinion, of a Member of Parliament whose mandate was removed in December 1996 and of another, belonging to the SNS party, who was deprived of the seat to which he was entitled following the death of a Member of Parliament and in the case on the decision of the Ministry of the Interior not to include the question on the direct election of the President of the Republic on the ballot paper in the May 1997 referendum.

Anti-corruption measures

In its Opinion on Slovakia the Commission stated that the fight against corruption needed to be made more effective. In spite of some efforts undertaken there has been no major improvement. The following measures were taken:

- In August 1997 the Ministry of the Interior adopted, in agreement with the Ministry of Finance, a decree to prevent money laundering and suspicious banking operations.
- On 16 December 1997 Parliament adopted legislation amending the Criminal Code and defining bank and tax secrecy more precisely.
- The Ministry of Justice is currently preparing the ratification and implementation of the OECD Agreement on fighting corruption of foreign public officials in international business transactions. In addition, the Phare catch-up facility⁴ includes approximately 1 MECU to fight corruption through the strengthening of the Supreme Audit Office.

However, these measures can only be considered partial and do not provide a sufficient solution to the problem.

³ The bill establishing the organisation of the prosecutor's office and the status of its members was passed in October 1996, contrary to what was indicated in the Opinion.

⁴ Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparation in certain areas.

1.2 Human Rights and the Protection of Minorities

Slovakia has already acceded to most of the international human rights instruments. On 22 June 1998 Slovakia ratified the European Social Charter.

Civil and Political Rights

Basic civil and political rights continue to be respected in Slovakia. The Slovak authorities made efforts in the area of treatment of persons held in police custody, in line with the recommendations of the European Committee for the Prevention of Torture as well as in the treatment of refugees.

The NGO sector has continued to thrive in Slovakia, in spite of tensions with Government and the Phare Programme has featured amongst the main sources of support in this area. The Law on Non-profit Organisations (that was being examined at the time of the Opinion) and the Law on Non-investment Funds were adopted in 1997.

The Government exercised a high degree of control over the public radio and television networks as has been confirmed during the recent election campaign. Some disturbing cases of intimidation of journalists and media have been reported.

Economic, Social and Cultural Rights

There have been tensions in the social dialogue: The Wage Regulation Act on 2 September 1997 led to the interruption of the social dialogue and the Wage Agreement for 1998 was not signed. The situation worsened when the Government approved on January 1998 the creation of the Economic-Social Board, which unites Labour Unions not members of the Confederation of the Trade Unions, Government employers and several civic alliances. This has been considered by the main Confederation as a parallel Government-supported structure designed to challenge the Confederation.

Minority Rights and the Protection of Minorities

There has been no progress on the adoption of minority language legislation and no significant change in the protection of minorities.

In spite of the commitments made to the EU and the OSCE High Commissioner for National Minorities and in spite of the Constitutional Court ruling of August 1997⁵, which states that the non-existence of a law regulating the use of minorities languages is at variance with the Slovak Constitution, no significant progress has been made on this matter.

The Slovak Government issued in November 1997 a Memorandum on the issue and invited the OSCE, the Council of Europe and the European Commission to participate in expert discussions. These took place in March and May 1998. No tangible results have emerged from these discussions.

The legal vacuum on the use of minority languages, combined with the implementation of the State Language Law, has given rise to the following problems: In June 1997, the traditional bilingual graduation certificates were replaced by Slovak only certificates. In connection with the issue several teachers were harassed and two headmasters of grammar schools with Hungarian language instruction were dismissed on 15 March 1998. The Ministry of Education stated on 20 January 1998 that bilingual certificates will be issued when requested from parents of national minority children but such certificates will not have official validity and will have to be paid for.

It should be positively noted however that on 2 July 1998 the Parliament rejected the controversial Educational Act Amendment, which could have discriminated against ethnic minorities by prohibiting the teaching of subjects such as geography and history in languages other than Slovak.

Concerning the Hungarian minority, no progress has been made in the implementation of the Basic Treaty with Hungary because the two parties could not agree on the composition of the committee dealing with minority rights. The inclusion of representatives of the Hungarian minority in the new Slovak Government would give a positive signal to the Hungarian minority regarding their status in Slovakia.

The Roma minority continued to suffer discrimination and lack of protection by the police as mentioned in the Opinion. The Bureau of Legal Protection for Ethnic Minorities in Slovakia, reported continuing abuse of the Roma by the police and discrimination by officials in the areas of Moldava nad Bodvou. Harassment and lack of protection were the reasons given by the UK authorities for granting political asylum to some Slovak Roma.

On the positive side, several initiatives were taken by the Slovak Government in support of less favoured families (elimination of nursery school fees, special courses, etc.) which benefited the Roma. In November 1997, the Government approved a Plan for Solving Romany Problems. The programme outlines tasks for the state administration in the fields of education, employment, and housing with SKK 1,7 bn (ECU 42.1 mn) to be spent by 2002.

⁵ The Constitutional Court ruled in August 1997 that article 3 section 5 of the Language Law, stating that written communications intended for public-legal administration matters must be in the State Language, is contrary to the Slovak Constitution.

The programme needs further development. It has met with mixed reactions from the Roma and minority rights groups who point out that funds are not committed on the budget and that most of the main initiatives are postponed until after 1999.

1.3 General evaluation

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

Against this background, parliamentary elections took place in Slovakia in September 1998, which, in spite of concerns about the newly adopted electoral law and the behaviour of the state television, were evaluated by the OSCE as free, fair and efficiently conducted. Moreover, the high level of participation of the electorate reflected a high degree of democratic maturity amongst the population.

The acceptance of the results by all parties and the constructive attitude of the former opposition parties in preparing to form a new government indicate that a different political climate is emerging and that a window of opportunity exists for a new government majority to address the above mentioned shortcomings.

A new government is in place. As soon as it has had sufficient time to put its programme into practice the Commission will be able to assess its ability to overcome the weaknesses identified in the Opinion. The new Government now has an opportunity to demonstrate Slovakia's commitment to democratic principles, respect for human rights and the rule of law.

2. Economic criteria

2.1. Introduction

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

"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".

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion.

2.2. Economic developments since the Commission published its Opinion

Although economic growth remained among the highest in the region and the external trade deficit was lowered from its very high 1996 level, the overall macroeconomic situation worsened in 1997⁶. The government deficit deteriorated significantly, external deficits remained unsustainable high, and both inflation and unemployment increased, reversing some of the progress that was made in previous years. The country continues to be confronted with very similar economic difficulties in 1998... The core economic policy problems are that monetary and fiscal policies are not sufficiently co-ordinated, and that economic restructuring is proceeding too slowly.

Macroeconomic developments

In 1997, Slovakia recorded its fourth consecutive year of strong economic growth. After having been close to 7% for two years, real GDP growth slowed down only marginally in 1997 to 6.5%. It continued to expand by 6.1% in the first half of 1998. Overall economic developments are still driven by domestic demand, although its growth rate declined notably. This decline was mainly the result of a deceleration of the growth of government consumption and investment. Nevertheless, investment was still growing fast, further raising its already high share in GDP. Starting in the fourth quarter of 1997, private consumption growth weakened as a result of lower wage increases, after the introduction of new wage regulations for enterprises. The direct effects of the Russian crisis are expected to remain limited, given the small proportion of exports that goes to Russia (2.4%) and the confined exposure of Slovak banks.

While domestic demand growth slowed down, the contribution of external trade to economic growth improved as a result of the economic recovery in the European Union. The growth of real exports of goods and services accelerated to 16% in the first half of 1998, compared to 6% in 1997 and to a negative real growth rate in 1996. Demand for imports has been restricted by the introduction of a new 7% import surcharge in July 1997 and of checks at border crossings of the certification of imported goods in September 1997. Nevertheless, real imports grew rapidly in the first half of 1998. Consequently, the current account deficit increased to almost 11% of GDP in the first half of 1998. In compliance with the announced schedule, the import surcharge was lowered to 5% on 1 January 1998, to 3% on 1 April 1998, and eliminated on 1 October 1998.

⁶ In 1998, the Slovak Statistical Office has changed its methodology for recording external trade to apply international standards. However, as the revised figures for 1997 have not yet been published, a full comparison of trade figures between different years is not possible. The present report has used the currently available data. It is expected that the revised 1997 data will most probably contain a significant upward revision of the trade deficit. This revision might also lower GDP growth in 1997. Therefore, it seems likely that the revision will support the view that macroeconomic developments in 1997 were less favourable than in 1996.

Although inflation remains relatively low compared to other countries in the region, its gradual decline has been arrested since the end of 1996. This can mainly be explained by high domestic demand, some adjustment of administered prices, indirect tax increases and the introduction of the import surcharge. The average inflation rate in the first eight months of 1998 was 7.1%, compared to 6.2% in the same period of the previous year.

Slovakia: Main economic trends		1994	1995	1996	1997	1998 latest	
Real GDP growth rate	per cent	4.9	6.9	6.6	6.5	6.1	Jan-Jun
Inflation rate							
annual average							
December-on-December	per cent	13.4	9.9	5.8	6.1	6.9	Jan-Sep
per cent		11.6	7.2	5.4	6.4	5.9	Sep-on--Sep
Unemployment rate, end-year							
ILO definition							
registered ¹	per cent	13.7	13.2	11.1	11.6	12.1	Jan-Mar
per cent		14.6	13.1	12.8	12.5	13.8	Aug
General government budget balance	per cent of GDP	NA	NA	NA	NA		
Current account balance	per cent of GDP billion ECU	4.8 0.6	2.3 0.3	-11.2 -1.7	-6.9 -1.2	-10.9 -1.0	Jan-Jun Jan-Jun
Foreign debt							
debt/export ratio ²							
gross foreign debt	per cent billion ECU	4.8 3.6	53 4.4	72 6.1	9.0 8.7	9.6 10.3	Jun Jun
Foreign direct investment inflow							
net inflow according to EBRD	per cent of GDP	1.7	1.1	1.1	0.3		
balance of payments data	million ECU	198	148	157	45	202 ³	

Source: Commission services, national sources, EBRD

¹ From December 1997 the National Labour Office has changed its unemployment definition.
² The unemployment rate based on the old definition was 13.4% in December 1997.
³ Gross hard currency debt as a percentage of exports of goods and services
⁴ EBRD Projection for 1998

In 1997 and 1998 the number of registered unemployed has been constantly higher than in the corresponding period of the previous year. In August 1998, the number of unemployed stood at a four-years high. This reversed the earlier trend by which fast economic growth had a beneficial impact on unemployment and the unemployment rate had declined from a peak of 15.2% in January 1995 to 12.0% in October 1996. The official registered unemployment rate probably overestimates actual unemployment: the internationally comparable ILO unemployment rate was 11.6% in 1997 and 12.1% at the end of the first quarter of 1998.

As a result of disappointing corporate profit tax revenues, and of higher expenditures for highway construction, public sector wages, interest payments, and social security benefits, the general government deficit is estimated to have surged from 1.3% of GDP in 1996 to about 5% in 1997⁷. Members of the opposition at the time questions the accuracy of the statistics claiming that the deficit was higher than reported; The 1998 budget foresees a central government deficit of only 0.7% of GDP, compared to 1.8% in 1997. Because the Ministry of Finance changed the way it reports the state budget execution – principal payments on the state debt are now excluded in line with international practices – comparisons between 1997 and 1998 are not possible. Nevertheless, the results for the central government budget from the first eight months of 1998 indicate that the 1998 budget deficit will be significantly higher

⁷ The general government deficit includes the deficits of the central government, the social security system and local governments, and extra-budgetary investment in infrastructure and housing.

than targeted. Moreover, a large deficit has been emerging in health care.

The government is facing increasing difficulties in financing its deficit. Interest rates on domestic financial markets are very high because market liquidity is squeezed by the ongoing restrictive monetary policy, which was itself necessary to counter excess domestic demand. The government's high financing needs crowd out credit to the private sector. Moreover, international financial markets became more reluctant to finance transition economies with weak banking sectors after the financial crisis in south-east Asia and Russia. The worsening of Slovakia's credit ratings reduced its access to international financial markets. Nevertheless, in the first half of 1998, the government issued eurobonds in dollar, yen and mark for a total amount of nearly ECU 900 million. The issue had been postponed several times and its coupon rate was finally significantly higher than for previous Slovak issues. The ratio of gross external debt to exports, which used to be low in Slovakia, has almost doubled since 1995, and is now close to 100%. The structure of foreign debt is increasingly short term, which could cause problems if the observed reluctance to invest in emerging markets after the Russian crisis continues.

Until 1 October 1998, Slovakia had a fixed exchange rate against a basket of 60% DEM and 40% USD, with a fluctuation margin of plus/minus 7%. On that day, the National Bank of Slovakia decided to let the koruna float, because it was no longer able to defend the currency against mounting domestic devaluation pressures.

Structural reforms

Privatisation has continued through direct sales, often at preferential rates, with the possibility of spreading the payments to the National Property Fund over a period of up to 10 years. A large majority of enterprises is now in private hands, and the share of GDP generated by the private sector has increased to more than 80%. An important number of privatisations have lacked transparency and fairness. Additional examples of unannounced sales of shares of listed enterprises at sharply reduced prices, often to unknown buyers, have been recorded since the publication of the Opinion.

Despite the advanced state of privatisation, the government still exerts considerable influence over the economy. A group of "essential" enterprises has been excluded from privatisation. Besides the usual state owned enterprises, such as public utilities, post and railways, this group also comprises enterprises in the armaments and machinery sectors, the financial sector, telecommunications, pharmaceuticals, and agro-industry. The majority of these would benefit from privatisation and independent management for their further development. The controversial Enterprise Revitalisation Act, which was approved after the publication of the Opinion, is another illustration of the outgoing government's practice to intervene in the enterprise restructuring process. Under this Act, debts to the budget and banks can be rescheduled or cancelled through a secretive and untransparent procedure, with important political involvement.

Two thirds of Slovakia's biggest enterprises posted lower profits in 1997 than in 1996. At the same time, most foreign enterprises were able to increase their profits. Enterprises do not face sufficient financial discipline in the form of "hard budget constraints" - there is still an expectation by enterprise managers that the government or the banks will bail them out when they incur losses. The other reasons for the lack of restructuring in domestic enterprises are

the continued involvement of the state, a weak banking sector, and insufficient foreign direct investment.

Slovakia had no effective bankruptcy legislation before 1998. The 1993 law included conciliation procedures and exemptions that obstructed a quick and just procedure. In February 1998, the Bankruptcy Law was amended to make it more effective.

So far, Slovakia has not been able to attract significant amounts of foreign direct investment (FDI). The few important enterprises with foreign ownership tend to do better than domestically owned enterprises. In order to increase FDI inflows the Government has introduced new tax reductions for foreign investors and a contact point for multinational firms.

Slovakia: Main indicators of economic structure <i>(all data for 1997 unless otherwise indicated)</i>		
Population	<i>million</i>	5.4
GDP per head as % of EU-15 average	<i>PPS-ECU per cent</i>	8 900 47
Share of agriculture in: gross value added employment	<i>per cent (1995) per cent</i>	6.0 18.6
Investment-to-GDP ratio	<i>per cent</i>	3.9
Gross foreign debt/GDP	<i>per cent</i>	5.1
Exports of goods & services/GDP	<i>per cent</i>	5.6
Stock of foreign direct investment ¹	<i>billion ECU ECU per head</i>	0.9 1.68

Source: Commission services, national sources, EBRD
¹ *FDI stock converted at end-1997 exchange rate of 1ECU=\$1.10421*

The high and volatile real interest rates, which resulted from the restrictive monetary policy and pressures on the exchange rate, created additional difficulties for the weaker banks, especially for those institutions that depend on the interbank market for their financing. IRB, the third largest bank, encountered serious liquidity problems, and had to be put under forced administration by the National Bank of Slovakia in December 1997. Because the main private shareholder (vsz Steel group) refused to increase the capital, the bank was recapitalised in June 1998 by the state-owned Slovak Insurance Company, which became the majority shareholder.

After a significant reduction in 1996, the proportion of bad loans in the three biggest banks, which are fully or partly state-owned, increased again in 1997 and the first quarter of 1998, to reach 39% of total loans. At the end of the first quarter of 1998, five banks did not fulfil the capital adequacy requirements.

Capital markets remain fragmented and illiquid, and the legislative framework needs to be developed further. The unequal treatment of minority shareholders in listed companies in the privatisation process also reduced the attractiveness of the stock exchange, especially for foreign investors. As a result, the official share index (SAX) has declined from an all time high of 405 in February 1994 to less than 100 in October 1998. Because of the lack of foreign involvement, the stock exchange was largely unaffected by the Russian crisis.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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.

The price system and trade and foreign exchange regimes have been mostly liberalised, and allocation decisions are largely decentralised since the privatisation process is almost completed. An independent judicial system is in place, which has proved on several occasions that it is able to protect property rights. In general, there are no significant legal barriers to market entry.

However, on various occasions, the Slovak authorities have been favouring non-market-based mechanisms for price formation and resource allocation. Examples of this are the continued use of non-competitive and secretive sales in the privatisation process, the refusal to sell a number of state-owned enterprises that would benefit from privatisation for their further development, and political involvement in the enterprise restructuring process through the Enterprise Revitalisation Act. The authorities also made repeated use of protective administrative measures to reduce imports, instead of making the necessary macroeconomic adjustments.

About one fifth of prices - mainly energy, some public services and rents - are still administered and kept below market prices, which distorts relative prices. The continued subsidies on household energy consumption have negative effects on energy efficiency, and lead to higher demand and to unnecessarily high imports of energy. The curbs on rents, in their turn, increase the concentration of economic activity in certain regions, and reduce private investment in residential construction. Moreover, the more restrictive Price Law that was introduced in 1996 can be used to apply controls on normal or seasonal price fluctuations, thus distorting the role of market price signals.

The continued lack of transparency and fairness in the privatisation process remains problematic. The treatment of various economic agents is unequal and distorts the level playing field on domestic and foreign markets. The possibility for new owners to reduce their payments to the National Property Fund through investment has distorted investment decisions and has led to excessive and inefficient capital expenditures in these enterprises.

Although the inflation rate is still among the lowest in the region and economic growth among the strongest, the underlying macroeconomic situation worsened since July 1997. The continuation of high external deficits, in combination with a rapid deterioration of public finances, has significantly reduced the degree of macroeconomic stability. High and volatile interest rates, which were needed to counter the expansionary fiscal policy, have significantly reduced and distorted the planning horizon of economic agents.

Before 1998, there was no effective bankruptcy legislation. In February 1998, the Bankruptcy Law was amended to address this. Although the changes are appropriate, it is still too early to judge if the relevant institutions will be able to implement the law effectively.

The Slovak financial sector still has considerable restructuring problems to resolve. Banks have a high proportion of non-performing loans and the sector is dominated by a limited number of state-owned banks. Consequently, banks are not able to play their mediation role to the full extent. Because of the precarious situation of the government budget, the state will not be able to cure the solvency problems of the state-owned banks. Therefore, there is a need to prepare a rapid sale of the banks to strategic, most probably foreign, investors. Selling to domestic industrial groups, as happened with the initial privatisation of IRB, does not fundamentally improve the financial sector's capacity to restructure. Capital markets remain illiquid and fragmented, and progress is still needed in their regulation.

Overall, a sufficiently convincing track record of consistent economic reform is missing. No significant progress has been made on the establishment of a medium-term economic policy framework.

Although Slovakia has implemented most of the reforms necessary to establish a market economy, the outgoing government continued to intervene in price formation and resource allocation, using intransparent or non-market-based mechanisms. Macroeconomic stability has deteriorated while the problems in the financial sector are damaging overall economic efficiency. The introduction of bankruptcy legislation was a positive development, but will need to be confirmed by sustained implementation. Therefore the functioning of the Slovak market economy still needs to be improved.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

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. In addition, 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.

The existence of important fiscal and external deficits has diminished macroeconomic stability in Slovakia. High and volatile interest rates have reduced the stability and predictability of the macroeconomic environment in which economic agents have to make their production, consumption and investment decisions. Uncertainty is further increased by the lack of a medium-term framework to assure the consistency of macroeconomic and structural policies. The lack of consistency of economic policies is one of the most important causes of continued and worsening macroeconomic and structural problems in Slovakia.

Nevertheless, the Slovak economy has a number of important assets to be able to face competitive pressure and market forces in the single market. Despite rapid increases in wages in past years, wage costs remain relatively low and the labour force is highly qualified. Slovakia is upgrading its infrastructure to exploit its location at the crossroads of important North-South and West-East trans-European network (TEN) corridors. Investment in the energy sector is also high. The high investment in infrastructure is contributing to the high overall

investment ratio, which was almost 39% of GDP in 1997, the highest in the region. Although these investments in infrastructure are necessary, the timing of their implementation needs to be adjusted to avoid excessive government budget deficits.

Progress on enterprise restructuring has been limited. There are indications that profits have been declining in 1997. The speed of enterprise restructuring is hampered by the continued involvement of the state, a weak banking sector, and insufficient foreign direct investment. Although measures have been introduced to promote FDI, it will only increase significantly when the authorities refrain from untransparent or inequitable intervention in the economy.

In a number of important industrial sectors (steel, petrochemicals) there is little domestic competition, with the bulk of production often concentrated in one enterprise. The concentration of production and exports in a few enterprises makes the Slovak economy vulnerable to conditions in these enterprises and to the difficulties they may face in competing in the single market. In some cases this risk is mitigated as these enterprises are technically advanced and are capable of supplying quality basic products, at competitive prices. Nevertheless, efforts will have to be made to diversify towards lighter assembly industries and services, which are more in line with Slovakia's natural endowments. However, the present capacity of Slovakia to innovate and diversify production is hampered by limited expenditure on research and development. Imports of skills and technology from abroad remain limited because of insufficient foreign direct investment.

The diversification and restructuring effort is hampered by a lack of investment capital. So far, Slovakia has not been able to attract significant amounts of foreign direct investment, while the financing capacity of the domestic financial sector remains limited by the bad-debt problem and high interest rates. Most new owners of privatised enterprises typically lack the financial means that are needed for restructuring, since they already had to invest to acquire the control of the company. Consequently, investment for restructuring has to be financed exclusively from retained earnings of the enterprises, which is only possible for firms that are already profitable. Only the biggest of these profitable enterprises might be able to finance their restructuring efforts on the international capital markets. However, as a result of the decreased credit ratings that Slovakia received in 1998, the cost of foreign financing has increased.

Slovakia has re-oriented its exports towards west European markets, after the loss of its traditional export markets resulting from the break-up of the Soviet trade bloc and the dissolution of the federation with the Czech Republic. In 1998, Germany became its most important trade partner, replacing the Czech Republic. The high growth rates of trade with the Union in recent years are not only an indication that at least a number of Slovak enterprises are sufficiently competitive to export to the EU, but also that they are able to produce goods that comply with the rules and regulations of the single market.

Progress in improving Slovakia's competitiveness has been mixed. The reduced degree of macroeconomic stability and the lack of a consistent medium-term economic policy framework are distorting the planning horizon of economic agents. The pace of structural reforms remained slow and the situation in the banking sector worsened. Sustained implementation of two recent initiatives – the amendment of the inefficient bankruptcy legislation and opening to foreign direct investment – are needed to accelerate enterprise restructuring. Provided that the macroeconomic difficulties and the remaining structural

problems are tackled swiftly and in a transparent and market-based way, Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium term

2.4. General Evaluation

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

Between publication of the Opinion and the recent elections, Slovakia made very little progress on the problems identified in the Opinion. Internal and external macroeconomic imbalances were not sufficiently tackled to sustain macroeconomic stability. The pace of structural reforms continues to be slow and the situation in the banking sector deteriorated. The continued lack of transparency in the privatisation process and the lack of foreign direct investment have negatively affected enterprise restructuring. Two recent initiatives – the amendment of the inefficient bankruptcy legislation and a more positive attitude towards foreign direct investment – could accelerate enterprise restructuring in the future. However, no progress was made on the establishment of a medium-term economic policy framework.

Slovakia should decisively commit itself to take on the remaining macroeconomic and structural problems in ways compatible with the transparent functioning of a market economy. In particular, priority should be given to tackling imbalances in the government budget and the current account, solving the problems in the banking sector, and creating the necessary environment to generate market-induced enterprise restructuring. To guarantee the consistency of macroeconomic and structural policies, Slovakia needs to establish its medium-term economic policy priorities.

3. Ability to assume the obligations of membership

This section aims at up-dating the Commission's Opinion of 1997 as concerns Slovakia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Slovakia's application for EU-membership, the Commission concluded that

“Slovakia is firmly committed to take on the *acquis*, particularly concerning the internal market, even if further progress is still required to ensure the effective application of the *acquis*”

The presentation below of the different subject matters follows the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on the progress made since July 1997. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

3.1. Internal Market without frontiers

As explained in the Opinion, the Union's internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

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

General Framework

The current Slovak law on public procurement does not contain all of the fundamental principles of the EC public procurement system. It is not being correctly implemented as is reflected by the excessive recourse to direct purchasing.

Slovakia has made substantial effort to adopt and comply with the *acquis* in the area of intellectual property rights: in November and December 1997, Slovakia adopted the Act on Collective administration of the Rights, and the Copyright Act, both effective 1 January 1998, which are in line with the *acquis*.

In the field of industrial property rights, the existing Patent law needs to be amended in order to implement certain aspects of the Munich convention to which Slovakia has applied for membership. On 13.9.97 Slovakia acceded to the Protocol of the Madrid Convention. Although the Industrial Property Office has achieved good results in its administrative procedures, enforcement remains a concern.

In the area of Company Law there has been no further progress since 1997.

A new Act on the Protection of Personal Data in Information Systems entered into force on 1 March 1998. This law corresponds broadly to the *acquis*. However, further alignment is necessary.

The four freedoms

Free Movement of Goods

The current practices in the area of standards and certification are unsatisfactory and remain a major obstacle to the free flow of goods. Standards are still binding and used as a regulatory instrument. Adoption of harmonised standards has already started in limited areas.

Despite important preparatory work, the draft law on technical requirements and on conformity assessment which implements the basic principles of the Community ‘New Approach’ legislation, has not been adopted. There is a lack of a functional separation between legislation, standardisation, certification and accreditation functions is one of the main obstacles for the correct implementation of the principles of the New Approach.

The slow progress on the adoption of the appropriate framework legislation prevents the effective implementation of specific sectoral directives in the areas covered by the New Approach. Nonetheless some progress has been made in some of these sectors. Since 1997 the construction products directive and the directives on medical devices have been partially transposed into Slovak law by two separate framework laws. There has been no progress in the sectors relating to legal metrology, gas appliances, pressure equipment and the ATEX directives.

Since 1997 steady progress has been made in the transposition of a number of directives in the motor vehicle area. A detailed framework law on chemicals has equally been adopted.

There has been no progress in aligning the 1996 basic framework law on foodstuffs, with the *acquis*. A new law on medicines and medical devices has been approved and entered into force on 1 June 1998. This law covers most of the Community directives on marketing, manufacturing and distribution authorisations and on labelling and advertising of pharmaceuticals. Legislation partially implementing the *acquis* on cosmetics entered into force in 1998.

Free Movement of Capital

Since the Opinion an amendment to the Foreign Exchange Act of 5 February 1998 (effective from April 1998) introduced further relaxation of the rules for the admission of securities to the Slovak capital markets, for investment by residents in foreign securities and for foreign currency operations.

The amendment also abolished the foreign currency surrender requirement for residents. The elimination of barriers in trading foreign securities on the domestic market, including their purchase and sale by local entities, only applies to securities issued in Member States of the OECD. The relaxation allowing foreign banks to own their buildings does not extend to the land on which they stand.

Free Movement of Services

On the broader reform of the financial sector several measures have been adopted including the introduction of annual and consolidated accounts for banks, measures to combat money laundering and, increased capital requirements for insurance companies. In addition, supervision is being progressively strengthened.

In the banking sector an amendment to the banking act which entered into force in February 1998 aims at removing the two-level licensing procedure and the discrimination of non-residents in the area of acquisition of bank equity capital.

In the field of payment systems, efforts have been made but should be continued in view of the implementation of the real-time gross settlement system.

Since mid-1997 no progress has been made in approximating Slovak legislation to that of the securities market and insurance *acquis*.

Free Movement of Persons

- a) *Free movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications*

Since mid-1997 there were no major developments in the field of mutual recognition of professional qualifications.

- b) *Abolition of checks on persons at internal frontiers*

No progress can be reported in this area. On visas, see 3.7

Competition

As regards anti-trust, the current legislation is largely aligned with the *acquis*. However, improvements and fine-tuning are still needed for block exemptions and certain procedural issues.

Concerning state aid, despite some minor developments, state aid policy remains an outstanding problem. Several draft laws have been prepared, but not adopted.

The Enterprise Revitalisation Act, which the Commission regards as potentially distorting and non-transparent, is still in force and proceedings have been initiated for 34 projects.

A major flaw in the state aid system of the Slovak Republic is the lack of transparency. This could be resolved by improving the inventory and annual reporting. The Slovak Republic has made progress in the collection of complete regional statistical data.

Conclusion

Progress has been made towards meeting the relevant short-term priorities of the Accession Partnership in the field of intellectual property rights. On the other hand, no significant progress took place in the areas of public procurement and financial services.

Correct implementation of the new data protection provisions will have to be ensured. Implementation and enforcement in all internal market areas needs to be improved. Enforcement (including Border Enforcement) in the field of intellectual and industrial property rights remains a major concern.

In the sectors covered by the *acquis* on industrial goods, the short-term Accession Partnership priorities have not been fulfilled. More specifically regarding the ‘New Approach’ legislation, although there has been progress in a number of specific sectors since last year, overall progress has been hampered by the failure to adopt framework legislation and to establish the corresponding institutional infrastructure.

In the field of financial services, some legislative progress has been achieved in the banking sector. There is a continued need to establish a supervisory authority in the securities field and to strengthen existing supervisory authorities in the banking and insurance sectors, as well as to ensure their independence.

Slovakia has made little progress in meeting the short-term priority of the Accession Partnership in the state aids field. Considerable effort needs to be made to adopt state aid legislation and further progress is needed in the antitrust field.

3.2. Innovation

Information Society

The Strategy for the Implementation of the Information Society Policy, as well as a Report on the Implementation Global Information Networks were considered by the government in April 1998. The general accessibility of computer and Internet information services in Slovakia continued to increase. By 31 December 1997 the number of Internet host servers increased to 14520 compared with 7938 in 1996.

Slovakia participates in the joint high-level committee on information society and supports the development of the information society.

Education, Training and Youth

Some developments concerning the use of minority languages in the educational system over the period of observation have been problematic (1.2).

The Community Programmes Socrates, Leonardo and Youth for Europe III have been opened for Slovakia's participation in March 1998. In the field of mutual recognition of diplomas no major progress can be reported.

Research and Technological Development

Slovakia has officially requested the start of negotiations for full association to the 5th Framework Programme in June 1998. Two rounds of exploratory talks aimed at preparing the negotiations were held.

Research is mentioned as a priority in the Slovak National Programme for the Adoption of the *Acquis*.

Telecommunications

Since 1 January 1998 all telecommunications services with the exception of voice services have been liberalised. Similarly, the use of alternative infrastructure for the provision of non-reserved services has been liberalised. These steps represent a significant alignment with community regulations with regard to liberalisation. However, liberalisation of telecommunications services also requires enforcement of a full set of conditions to safeguard competition, such as regulatory independence, tariff rebalancing and the prevention of market distortion by dominant suppliers. The exclusive rights of Slovak Telecom for providing public telecommunications infrastructure and supplying public voice service expire on December 31, 2002.

Mobile telephony has been competitively provided since January 1997 by two GSM operators. The subject of interconnection is not addressed in the current law and should be the subject of future legislation.

One of the important outstanding issues which is delaying the process of adopting the new telecommunications laws relates to the organisation and scope of the National Regulatory Authority.

There have been no decisions on the privatisation of Slovak Telecom. Slovakia has taken steps to align with the *acquis* concerning liberalisation. The conditions to safeguard competition, however, are not ensured.

Audio-Visual

An amendment to the Act on Audio-visuals entered into force in May 1998. It recommends a minimum, percentage of European Union and Slovak audio-visual works in broadcasting programmes.

Conclusion

The Slovak Government has given attention to policy development in the areas of the information society and research and technological development. Progress had been made in aligning telecommunications legislation as far as liberalisation aspects are concerned but further efforts are needed in regard to ensuring competition in the sector. Further efforts are required in the alignment of audio-visual legislation.

3.3. Economic and Financial Affairs

Economic and Monetary Union

Slovakia has made little additional progress in its preparation for participation in the Economic and Monetary Union.

Restructuring of the banking sector has been limited, partially as a result of political reticence to proceed with it in a transparent manner. Unrecoverable loans stand at the high level of about a third of total loans.

Central bank legislation, is still not fully compatible with Community rules. The former government tried unsuccessfully to reduce the independence of the Central Bank.

In October 1998, the National Bank of Slovakia dropped the fixed exchange rate system and decided to let the koruna float. Mounting devaluation pressures had generated losses of international reserves.

Taxation

Since 1997 the Slovak Republic has continued the process of aligning its value added tax (VAT) legislation to that of the Community *acquis* specifically in response to the scope of the reduced rate for VAT.

The Opinion noted significant discrepancies between the Slovak excise system and Community requirements, particularly concerning the lack of a warehousing system. Apart from a change in the rates as regards hydrocarbon fuel and lubricators rates, no further alignment has taken place.

Conclusion

Substantial efforts are still required to align Slovakia's VAT legislation to that of the Community. The Slovak excise scheme differs in a number of important respects from Community requirements. Further efforts are needed in legislative alignment and a timetable for future compliance should be established.

Statistics

Since 1997 progress has been made in harmonising the Slovak statistical system with EU requirements:

In March 1998, the Law on Personal Data Protection in Information Systems, which guarantees the protection of data collected on individuals, came into effect in the Slovak Republic.

The administrative structures to implement and enforce the *acquis* in this area are largely in place. Co-operation between the Statistical Office of the Slovak Republic and other institutions needs to be strengthened.

Special attention needs to be paid to the upgrading of the quality and coverage of the business register, the harmonisation of economic accounts and the compilation of Government Finance statistics, the improvement of agricultural statistics and the harmonisation of external trade.

3.4. Sectoral Policies

Industry

For the period 1998 – 2003 the main objectives of Slovakia's industrial policy are speeding up industry's adjustment to structural change, support for a favourable business environment, improvement of the use of new technologies and equitable regional development. Agencies have been created to implement the country's industrial policy, such as the National Agency for the Promotion of the Development of SMEs, the Post-Privatisation Fund, the Slovak National Agency for Foreign Investment and the Export-Import Bank.

The Slovak Republic bases its industrial policy on the strategy paper 'The Industrial Policy of the Slovak Republic', which was updated for the period 1998 – 2003.

The main objectives of Slovakia's industrial policy as set out in the policy documents are in line with the EU's approach to industrial policy. However, a number of issues have arisen since the Opinion, which raise questions concerning the implementation of these policies.

Slovakia has introduced an act on the revitalisation of national industry which foresees government support for companies in difficulty. The criteria for awarding this support could be in breach of the EU's competition rules and opens options for discretionary government intervention in individual cases.

Privatisation has been conducted in a way that has left many of the newly privatised companies badly undercapitalised and without the necessary know-how to develop new products and markets. These problems have become more acute in the course of the last year. There has also been a problem with the lack of transparency in some of the privatisation deals.

The low level of foreign direct investment has deprived Slovak industry of new capital and know-how. Over the last year Slovakia has made some efforts to improve the country's attractiveness for foreign direct investors, for example by introducing tax incentives. However, these measures are probably not sufficient to increase foreign direct investment.

The domestic banking system is not able to play its role in the provision of finance for industry. Banks, as already mentioned, are burdened with bad debt and have neither the capital nor the expertise to effectively play their role as a source of finance for industry.

Conclusion

Overall, progress has been made in defining an industrial policy but implementation will require close monitoring. Significant efforts are needed to better integrate competition aspects into industrial and enterprise restructuring policies, to conduct remaining privatisation in a transparent manner and to promote foreign direct investment.

Agriculture

Agricultural situation

The share of agriculture in GDP (4,4% in 1997) as well as that of employment in agriculture (5,8% in 1997) have been on a downward trend since the Opinion.

Agricultural policy

The structural transformation process continued in 1997 although co-operative farms remained dominant. The privatisation of the food industry was almost complete at the end of 1997.

Slovakia has introduced some non tariff barriers in response to an increasing agri-food trade deficit.

As in previous years, 1997 budget subsidies were allocated mostly in the form of direct payments. In 1997, market interventions, guarantee prices and export refunds increased.

In the area of veterinary and phytosanitary legislation, several implementing regulations were adopted. Certain changes in the subsidy policy, such as support for investment in technological renovation and modernisation, aimed at improving the competitiveness of Slovak agriculture were introduced. The agricultural act was adopted, as well as the act on storage deposit certificates and the act on goods deposit certificates.

Conclusion

There was progress in meeting the short-term priorities of the Accession Partnership concerning the alignment of legislation in the veterinary and phytosanitary area. The structural transformation process continued, albeit at a slow pace. The government has a tendency to resort to trade restrictions in the face of sectoral difficulties. Further steps should be taken in order to create the administrative structure needed to implement the future agricultural pre-accession instrument and to ensure the necessary capacity to implement CAP.

Fisheries

There were no significant changes in fisheries.

Energy

Slovakia has continued to adapt its energy sector to EU competition rules and to the requirements of the internal energy market. In Autumn 1997 the Government updated the energy policy to 2005. However, this strategy does not include a clear policy on energy pricing, nor reference to adjustment of the currently non-cost based and cross-subsidised energy prices (particularly for households). The Energy Law, which entered into force in July 1998 was an important step towards approximation with the electricity directive. However, important decisions on matters such as market opening have been postponed. Slovakia continues to prepare its networks for the internal energy market. Concerning gas, a fifth transit line for imports from Russia as well as a link to Austria is being built.

Concerning nuclear power, the National Programme for the Adoption of the *Acquis* does not fully cover the nuclear energy sector and is not coherent with the Accession Partnership's medium term priority stipulating that the Slovak government should focus on the implementation of a realistic programme for the closure of the Bohunice plant. The Bohunice Nuclear Power Plant units 1 and 2 are expected to be licensed for long term operation in 1999 after a major upgrading programme. This plan is neither in line with the Accession Partnership nor with a Slovak Government Decree from 1994, which provides for the shutdown of the units 1 and 2 as soon as Mochovce comes into commercial operation. An extensive upgrading programme of the units 3 and 4 is expected to be launched and implemented between 2000 and 2006. The Mochovce power plant unit 1 has entered its critical phase in June 1998 according to schedule. Mochovce-unit 2 is expected to be on-line in March 1999.

10% of the price of electricity goes to the State Decommissioning and Radioactive Waste Fund. There is enough storage capacity on the Bohunice site to temporarily store all the spent fuel generated during the operation and up to the end of the design lifetime of the reactors.

However, longer term solutions have to be found. Only the A1 reactor fuel is expected to be shipped back to Russia. A radioactive waste treatment plant is under construction at the Bohunice site. A new Law on peaceful use of nuclear energy has entered into force.

Conclusion

Slovakia needs to work further on preparing for the internal energy market, including the adjustment of monopolies, access to networks and energy pricing; emergency preparedness including the building up of mandatory oil stocks; state interventions in the solid fuels sector; and the development of energy efficiency and fuel quality standards.

Nuclear safety continues to require particular attention. In this respect the upgrading programme of the units 3 and 4 of Bohunice needs to be actively pursued and a realistic programme for a rapid closure of units 1 and 2 implemented. Slovakia has to ensure the proper operation of the Safety Authority, focusing particularly on its independence. Longer term solutions for nuclear waste need attention.

Transport

In May 1997 the Ministry of Transport adopted regulations on vehicle traffic. Further efforts are needed with regard to access to the market in domestic road haulage, particularly in light of the financial capacity of national carriers. In the future, work will also be needed to achieve satisfactory levels of road safety.

The new law on Civil Aviation, which integrates the basic Community rules, entered into force in July 1998. Additional implementing legislation is required with regard to air transport safety and slot allocation.

At the beginning of October 1997 the Government approved a long-term programme of railway development. In consideration of the critical financial situation of the state-run Slovak Railways (SR), planned investments will be reduced and carried out over a longer period up until 2010 instead of 2005. This will affect in particular the upgrading of the Bratislava - Cadca and Kúty - Štúrovo international corridors. No plans have been made for restructuring (SR) or for the preparation of legislation which will implement Council Directive 91/440.

As regards transport infrastructure, one of the main priorities of Slovakia is the development of the 4 Pan-European corridors which cross its territory. Budgetary constraints led the Slovak Government in August 1997 to approve a new way of financing highway construction through bank loans with Government guarantee. Slovakia is actively participating in the Transport Infrastructure Needs Assessment (TINA).

Conclusion

Further legislative harmonisation is necessary on rail, air, road transport, land transport safety and combined transport.

Small and Medium Sized Enterprises

Only limited progress has been made in this area. A medium-term policy for the support to the SME sector, which was approved by the Government at the end of March 1998. It highlighted the scarcity of capital including an oversubscription of the government programmes of soft loans and the complexity of the current support system..

An Act on the establishment of the Slovak Chamber of Crafts is a positive development. The Slovak Republic aims at participation in the Third Multiannual Programme for SMEs of the European Union as of 1998.

3.5. Economic and Social Cohesion

Employment and Social Affairs

Unemployment has increased over the period from 11.2% at the end of the second quarter of 1997 to 12.1% at the end of the first quarter of 1998 (ILO definition).

An Act on Work Safety and Health was adopted in 1997. The enforcement of the legislation is inadequate.

Regarding equal opportunities, an amendment to the Labour Code relating to equal access to work entered into force in July 1998. Equal pay is regulated by an amendment to the Labour Code which entered into force in April 1998. The Government adopted a national action plan for women in 1997 and a gender centre was set up to undertake research and disseminate information.

The former government did not show sufficient respect for the autonomous character of the social partners, hampering social dialogue (1.2)..

Whilst the Slovak Republic is well advanced in some areas of labour law, substantive progress remains to be made to ensure alignment with EU standards. Efforts to implement the legislation, already underway in the context of the draft Labour Inspection Act, need to be continued.

Neither current labour law provisions nor draft amendments to the Labour Code are in line with the parental leave directive.

Conclusion

Since 1997 there has been some progress in the alignment of the Labour Law (particularly in the field of equal opportunities) and in the area of Safety and Health at the workplace. No progress can be observed, however, in respect to the enforcement of this legislation. Social Dialogue has been hampered.

Regional Policy and Cohesion

The Opinion concluded that the Slovak Republic did not have the capacity to participate in EU structural policy and that significant reforms were still necessary in this field. These notably concerned the strengthening of the institutional structure, budgetary procedures. The Slovak Republic has made little progress in addressing these issues.

The "Plan on State Regional Policy" was approved in November 1997. This plan sets out several general principles for the Slovak Republic's regional policy and foresees the adoption of a strategy, a regional development law, a national regional development agency and a fund. In April 1998 the Slovak government approved the establishment of the National Agency for Regional Development, as well as a net of regional development agencies. These are however not operational yet.

Conclusion

While the government recognised the need to adopt legislation in the regional development field, concrete progress in adopting the legislation and setting up appropriate structures has been limited, despite the fact that this constituted one of the short term objectives under the Accession Partnership.

3.6. Quality of Life and Environment

Environment

The following pieces of legislation have been adopted: the act on the state fund for the environment, the act on the earth's ozone layer, the act on access to information about the environment and nuclear safety act covering emergency planning. Substantial additional efforts will have to be made for approximation with other EU radiation protection requirements.

The Slovak authorities state that all environment legislation under preparation will be adopted by the year 2000. On the basis of progress so far this would appear unrealistic. Moreover the legislative programme lacks essential parts of the *acquis*. Unclear competencies, overlapping responsibilities between different bodies and the absence of a co-ordinated approach towards approximation within the administration are reasons for the slow progress.

Slovakia has not undertaken major investments to reduce SO₂ emissions in the last five years and the country's basic water infrastructure falls short of what is required by the *acquis*.

In the field of nuclear safety, there is a need to reinforce technical capabilities of the Safety Authority, with a view to ensuring its continued functioning as an independent body.

Substantial investments are needed in the environment field. Slovakia should work in close cooperation with the International Financial Institutions in that regard.

Conclusion

Only modest progress in legislative alignment has been achieved. All sectors require considerable reinforcement of activities both on the level of transposition and implementation. The implementing bodies have not been considerably strengthened since the Opinion, and the Accession Partnership short-term priority has not been adequately addressed..

Taking into account past progress, full transposition and compliance with the *acquis* may take longer than foreseen in the Opinion. A coordinated approach towards environmental approximation and the necessary investments is lacking.

Consumer Protection

Slovakia amended the Act on Consumer Protection on 1 April 1998. The amendment specifies the rights of the consumer when making complaints and extends the obligation to provide information from retailers to producers, suppliers and importers. The legal basis of consumer complaints has been extended. One further amendment to the Act on Consumer Protection creates the basic prerequisites for the transposition of the Directive concerning Price indication. There is no legislation regulating Comparative Advertising. Legislation on Doorstep Sales, Timeshare, Distance Selling and Consumer Credit still has to be implemented.

Slovak legislation concerning general Product Safety is not in compliance with Community legislation and there is no legislation, which directly regulates Dangerous Imitations.

In view of the fact that consumer protection is a medium term priority in the Accession Partnership and that there has been only limited transposition. Slovakia will need to make a substantial effort to align legislation and reinforce the institutional structures strengthen consumer organisations.

3.7. Justice and Home Affairs

In its July 1997 Opinion, the Commission had stressed that Slovakia had to prove its commitment to carrying out the reforms needed, particularly with regard to visa arrangements, border controls, controlling immigration and combating organised crime and corruption. In addition, some laws (like those on asylum) would have to be more elaborated in order to conform to the *acquis*.

Immigration / Border control

Though there has been no general revision of the laws regarding foreign nationals, there have been isolated examples of progress, such as the new passport law, which entered into force on 1 January 1998 and gives every citizen the right to a passport. With regard to visa policy, progress remains very limited. A working party has been set up to prepare the necessary changes, but these have not materialised, despite the urgency of the matter.

The effectiveness of border controls, considered one of the medium-term priorities of the Accession Partnerships, does seem to be improving in quantity terms: arrests for illegal entry rose from 2182 in 1997 to 3408 for the first half of 1998 alone.

Asylum

Asylum legislation needs to be more detailed, particularly with regard to access to the procedure, because Slovakia has moved from being mostly a transit country to being a country of destination as well. Between 1993 and the end of 1997, 406 of the 1742 asylum seekers with a request pending were granted refugee status.

Police

The decree applying the money-laundering law voted through in 1995 was published almost two years late, on 1 July 1997. In addition, the government's May 1998 decision to request no identity or origin details for funds used to purchase treasury bills goes against every effective policy to combat money-laundering.

The government itself recognises the alarming rise in organised crime evident in the 120% increase in offences of this kind being investigated. Although some decisions to set up new legal facilities (such as witness protection) have been made, there does not seem to be enough political will to wage a determined battle against organised crime. In this connection, Slovakia must acquire enough (and suitably trained) staff .

Drugs

On 1 June 1998, legislation on narcotics and psychotropic substances was adopted. It constituted the framework for the legal growing and selling of these products. On the operational front, a joint police/customs anti-drug unit has been set up.

Judicial cooperation

With regard to the civil law, in June 1998 the minister of justice put forward a bill regarding accession to the Convention on the Civil Aspects of International Child Abduction (the Hague, 25 October 1980).

With regard to the criminal law, the government approved the draft ratification of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (17 December 1997).

Conclusion

Despite the progress made with legislation, a number of adjustments are still needed. Actual implementation of legislation has moreover seen very limited progress. Although no short-term priorities were set out in the Accession Partnerships, an effort in combating organised crime would have been timely. It matters all the more that a genuine effort should be made with the medium-term priorities, particularly border controls and the implementation of asylum and migration legislation (including bringing visa policy closer to that of the Community). The battle against organised crime, particularly money laundering, and the improvement of police services need to be intensified.

Slovakia now has to demonstrate clear political will to carry through a genuine implementation of the *acquis* in justice and home affairs because any delay would be damaging in a domain which is so vital to the implementation of the rule of law.

3.8. External Policies

Trade and International Economic Relations

In order to align its foreign trade relations with the external relations of the EU, Slovakia signed a Free Trade Agreement with Turkey which entered into force in September 1998. The Slovak Turkish inter-governmental mixed commission, which aims at promoting trade and economic relations between the two countries, had its first meeting in June 1998. Together with the Czech Republic, Slovakia conducted the initial round of consultations about a free trade agreement with Morocco.

While not pursuing an FTA with Russia, Slovakia has maintained close relations with this country. In particular, Russia and Slovakia have signed bilateral agreements on economic co-operation, tourism, a space exchange programme, scientific-technological co-operation in the field of agriculture and educational co-operation and exchange.

Slovakia has supported the expansion of the Central European Free Trade Area (CEFTA), has been enlarged by an accession agreement with Bulgaria signed in July 1998, which will enter into force on 1 January 1999.

Development

In 1998 Slovakia extended preferential customs rates to the least developed countries within its generalised scheme of preferences.

Customs

Since 1997 the Slovak Republic has concentrated its efforts in the area of customs on legislative alignment. The Slovak customs administration is currently working, with the help of experts from the member states, on improving the accessibility and compatibility of the customs code. So far seven of the implementing provisions of the 1996 customs code have entered into force. A law on the exemption of goods designed for educational, scientific and cultural purposes from import duties entered into force on the 1 January 1998. Slovak customs now applies its own integrated tariff.

With a view to strengthening the administrative capacities an Act on State Service of Customs Officers entered into force on 1 July 1998.

Conclusion

Slovakia has made generally satisfactory progress in customs legislation. Although the full legislation framework is not yet in place, positive developments include the efforts to modernise the operational approach, such as the use of risk analysis and on-site control of companies.

Further attention has to be paid to the compatibility functioning of the customs regimes economic impact, including customs warehouses, inward and outward processing and the setting up of simplified procedures and of an integrated customs information system.

Common Foreign and Security Policy

The Slovak Republic continues to align itself with the CFSP *acquis*. Slovakia has continued to participate actively in the multilateral dialogue between the EU and the associated countries. It participates in the regular meetings of the political directors, European and associate European correspondents in the CFSP working group. Slovakia joined several declarations and joint positions of the EU.

Slovakia is continuing its preparation for membership of NATO. Within the Partnership for Peace Programme the Slovak Republic and NATO planned 226 activities in 1997-1998. The Slovak Republic is an Associated Partner of the WEU and support of the strengthening of the organisation. It provides financial support for the WEU operation in Albania. The Slovak Republic participates in a number of UN peace operations. The joint army unit of Slovakia and Austria is planned to fulfil a peace mission on the Golan Heights.

There continues to be some outstanding bilateral issues with Hungary concerning the implementation of the Basic Treaty and the Gabčíkovo dam.

3.9. Financial Questions

Financial Control

With regard to external financial control, the Parliament approved, in May 1998, a report of the Supreme Audit Office, which revealed many violations of laws related to the use of Government expenditure and in doing so the need to improve public financial control.

With regard to internal financial control, there is no central authority to ensure harmonisation of procedures and to check quality of internal financial control carried out by the various budget spending ministries and other agencies. A new state treasury system is needed and the control systems need to be improved. A plan has been adopted for the gradual improvement of the audit system in the state administration.

Conclusion

The Slovak Republic will have to undertake a major reform of the control system, in particular with a view to the management of pre-accession funds and Structural Funds in the future.

3.10 General Evaluation

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

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

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

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but 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.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that further progress is still required to ensure the effective application of the *acquis*.

4.1. Administrative structures

The situation of the Slovak public service has not improved since the Opinion. The long awaited civil service law has not been adopted. Low civil service remuneration has contributed to a high turnover of staff. In addition instead of a sound human resources development policy, there has been substantial political interference in nominations and promotions. In 1998 the total number of staff in the public state administration amounts to 31.396 of which 11.396 at the central level, 2.790 at regional level and 17.210 at district level. In addition 15.349 persons were employed at local administrations.

The number of EU integration and accession related structures in the Slovak administration has multiplied since the Opinion. There are 23 working groups for the implementation of the internal market legislation, 29 sectoral negotiation working groups, 15 European Integration Departments and legal departments in the ministries as well as ministerial Phare-units. Some rationalisation is necessary. The European Integration Department at the Office of the Government employs 11 staff, whereas 200 persons are working at European Integration Departments at the line ministries and other state bodies. The Institute for Approximation of Law has 21 staff members. These figures show an increase in the number of public officials involved in approximation issues. Furthermore the National Phare Co-ordinator's Office has 11 employees and another 155 persons are working in Phare units in ministries and agencies, supported by 73 local and 29 foreign experts.

Administrative weaknesses and lack of co-ordination can be noticed on all three levels involved with the approximation process:

At the first level of legislative departments and European Integration Units within the Ministries and other Central Governmental bodies there is a lack of interministerial co-ordination. Furthermore some line ministries have not been able to prepare and develop a policy base for their sector in the field of legal approximation.

The Institute for Approximation of Law, the second level in the approximation process, is responsible for screening legislation for compatibility with the *acquis* and subsequently submitting it to the Legislative Council of the Government. Management and co-ordination within the Institute are weak. The Institute is not able to provide clear and transparent information on progress made in the different fields of the approximation of legislation. Furthermore it does not seem to have sufficient expertise and know-how to make full use of the different assistance projects (approximation and training) and other tools (TAIEX etc.) at its disposal. It is questionable whether the Institute has sufficient resources in terms of numbers and qualifications of staff.

The National Council (Parliament) is the third level in the approximation process. Officials of the division of approximation of law at the Chancellery check the contents of the EU compatibility clause provided by the Institute for Approximation of Laws. Each bill is then discussed at the Committee on Constitutional and Legal Matters of the National Council, and

is also assessed for compliance with EU legislation. The Parliament and its supporting services do not appear to have the capacity to discharge this function effectively.

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

Uniform application of EU Law

The number of judges has slightly decreased from 1198 to 1136. Progress has been made regarding the training of judges by the Ministry of Justice and the Slovak Association of Judges in European Community Law since the Opinion. In June 1998 the first two year training course in Community Law for 50 judges in office was completed. A second course started in September. It will take time for the judges to be trained given scarce training resources. Community Law is included in the initial training for future judges on an ad hoc basis. It needs to be integrated as a compulsory component in the curriculum. In addition the Judiciary needs modernisation and to expand its use of information technologies and related training. Awareness of these needs has risen substantially since the Opinion and has resulted in efforts to systematically improve and extend training activities in general. Special attention has been paid in recent months to training in bankruptcy legislation following the adoption of substantial changes in this field. Modernisation of the Courts and improvements in training of judges are subjects addressed in the twinning projects with the Ministry of Justice.

Key areas for implementation of the *acquis*

Single Market: Despite substantial progress in legislative alignment in the area of intellectual and industrial property rights, the administrative capacity to enforce the legislation has not improved. The various aspects of public procurement policy in Slovakia are still managed by the Ministry of Construction and Public Works together with other ministries and governmental agencies. There is a tendency for these bodies to use direct purchase rather than open tendering. No independent authority has been created.

In the field of free movement of goods, the implementing authority is the Slovak Office of Standards, Metrology and Testing which employs 56 staff. As pointed out above, the lack of a functional separation between legislation, standardisation, certification and accreditation functions hamper the correct implementation of the principles of the New Approach. No substantial progress to adapt the administrative capacity to Community principles in this field has been made. Concerning banking supervision the Supervisory Department in the Slovak National Bank needs to be strengthened in fields such as the methodology for the evaluation and validation of the bank's internal control systems, the use of the reporting systems on credits (cross-validation of non-performing loans situations, registry for defaulting borrowers, rating systems in combination with the obligation to file financial reports) and the creation of refinancing facilities for specific credits. An independent securities commission has not been created. The ability of the Insurance Supervisory Authority has not improved. The issues of supervision of the banking and insurance sector as well as the stock exchange are addressed in a Institution Building/Twinning project due to start at the beginning of 1999.

Recent legislation foresees that State supervision over the protection of personal data in information systems shall be performed by a Commissioner appointed by the Government on

a proposal by the President of the Statistical Office. No progress has been made in regard to this office.

Competition / State Aids: The Antimonopoly Office of the Slovak Republic has the competence to investigate and prosecute competition-related violations, to issue decisions, to demand corrective measures and to impose sanctions. The regular number of staff in the Antimonopoly Office is 72, but currently only 65 persons are employed. There is a shortage of qualified lawyers. In 1997 the office dealt with 18 cases related to agreements restricting competition, 27 cases related to the abuse of a dominant position and 68 concentration cases. In less than half of the cases a decision was issued in 1997. Some were solved outside the administrative proceedings.

State Aids (Art. 92 and 93 of the Treaty) are not dealt with by the Antimonopoly Office, but fall under the competence of the Ministry of Finance. The Ministry has not yet established an independent body responsible for ex ante control and ex post monitoring of state aid.

Agriculture: With a view to eventual adoption of CAP, a market information centre (ATIS) is being established, as is a network to collect and process agricultural information compatible with FADN (Farm Accountancy Data Network).

The control of the application of legislation in the veterinary and phytosanitary sectors is carried out by several institutions. Veterinary and phytosanitary inspection, including border inspection, needs to be strengthened.

In the field of rural development policy, only very initial steps for the establishment of an institutional base for programming, planning and implementing the structural programmes, within the framework of pre-accession assistance, have been taken. Much more effort is needed in order for Slovakia to be ready to fully benefit from EU assistance in this field.

Environment: Progress in implementation and enforcement is moderate. A broad approach towards approximation including implementation issues and financial planning is still missing, mainly because so far no staff has been allocated to the European Integration Unit within the Slovak Ministry of Environment. On the other hand, the technical infrastructure for implementing environmental legislation as far as data collection and monitoring are concerned, is quite well developed. The number of staff at the Ministry remained unchanged since the Opinion (291).

The recently adopted Act on the revolving state fund for the environment could be seen as a first step in integrating the legal, institutional and financial aspects of the approximation exercise. As the act only entered into force in April 1998, it is too early to assess its impact. Slovakia should also work towards the strengthening of environmental authorities on regional and local level. In the field of nuclear safety, there is need to reinforce the capacities of the Safety Authority.

Employment and social policy: The enforcement mechanisms for the *acquis* in the field of safety and health at the work place are weak. In some cases the labour inspectors are inadequately trained to identify breaches of legal requirements or irregularities, to combat non-compliance by employers and to enforce sanctions. They also lack, particularly in SMEs,

the help of workers' representatives in identifying problems, since in many cases relevant structures do not exist within the enterprise. In total 514 staff are employed at the Office of Labour Protection dealing with occupational safety, of which 179 are labour inspectors in 8 regional inspectorates, 70 technical inspectors in 3 regional workplaces and 45 inspectors working in the area of science and research.

Telecommunications: The Slovak Telecommunications Office regulates those components of the system of telecommunications which are not under the direct control of the Ministry. Its functions include granting approvals for telecommunications equipment and determining their conditions of operation. In 1997 in accordance with a new organisation of the territorial administration of the Slovak Republic, a Regional Telecommunications Office was established in every regional capital.

Indirect taxation: The trend described in the Opinion of staff leaving to the private sector has increased and has resulted in the weakening of the administrative capacity of the tax administration. This can be illustrated by the fact that only about 70% of VAT is actually collected by the tax authorities. There are 60 employees at the tax department of the Ministry of Finance and 5.400 staff at the Central Tax Directorate and various tax offices.

Transport: 301 staff are employed in the ministry of Transport, Post and Telecommunications. The lack of language skills and the high turnover of staff limit the administrative capacity with respect to the *acquis*.

Regional policy cohesion: Little progress was made to create an appropriate institutional, administrative and budgetary framework to carry out regional policy activities. Although an important decision to create a National Agency for Regional Development was taken in April 1998, this new structure is far from being operational.

Consumer protection: The institutional structures to ensure the application of legislation are still not effective enough. The consumer organisations need further strengthening.

Justice and Home Affairs: While training of judges has improved in quantity and quality, the police are still incapable of effectively combating organised crime due to deficiencies in guidance, training and equipment. The infrastructure at the border points, particularly at the eastern border, is far from being in compliance with standards in EU Member States. The staff figures for the Border Protection Services (Border Police: 1.100; Border Guards: 1.600) seem sufficient, but more training and modern equipment are needed. Migration services are only beginning to improve their capacity to deal with refugees and asylum seekers. Most of the related Institution Building needs are addressed by six twinning projects with Member States under preparation. The Ministry of Interior and the connected services employ 3.293 persons, whereas the Ministry of Justice has 297 staff members. There are 1136 judges in office.

Customs: Progress in computerisation of the customs authorities has been very limited. The upgrading of infrastructure at the border points is progressing slowly. The available assistance programmes have not been fully utilised.

Financial control: There are 69 employees working in the financial control area at the Ministry of Finance. The Supreme Audit office has 146 staff and another 150 persons are

employed at the Financial Police. The relevant administrative structures for an effective financial control are not yet in place. Detailed plans for the creation of proper control systems and upgrading staff quality have not been prepared. The 1998 National Programme for the Adoption of the *Acquis* does not address these issues.

4.3 Twinning

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Slovakia is participating actively in twinning.

4.4 General Evaluation

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

C. Conclusion

The recent elections offer an important opportunity for Slovakia to address the political weaknesses outlined in the Opinion and to take steps to ensure that it will in future meet the Copenhagen political criteria.

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

Slovakia needs to accelerate the pace of approximation particularly in the area of internal market, environment and justice and home affairs. A concerted effort is needed to set up and strengthen the corresponding institutional and administrative capacity.

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

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions; the financial means available to

help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession partnership, the timetable for implementing its priorities and outlining human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership Assessment

The short term priorities for 1998 included in the Accession Partnership (AP) are:

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

Economic reform : establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; implementation of policies aimed at tackling internal and external imbalances and sustaining macroeconomic stability; progress on structural reforms, and on market-driven enterprise, finance and banking restructuring, and to continue the process of conversion of energy intensive heavy industries.

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

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

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

Progress on the short term accession partnership priorities can be summarised as follows:

- **Political criteria** : Free and fair national elections took place in September 1998. However, the Office of the President remains vacant. There are concerns about the recently adopted municipal election law and its implications for free and fair local elections. The participation of the opposition in the parliamentary oversight and supervisory committees was not fully satisfactory. No progress was made on the adoption of minority language legislation.

- **Economic Reform :** While some effort was made to implement policies aimed at tackling external and internal imbalances, a medium term economic policy and joint assessment framework was not established. Little progress was made in structural reform, in financial sector and bank restructuring and in continuing the process of conversion of energy intensive industries.
- **Reinforcement of institution and administrative capacity :** No progress was made in adopting civil service legislation, in institutional strengthening in the environment area and in setting up structures for regional and structural policy. Only limited progress was made in the development of a public administration strategy and in strengthening veterinary and phytosanitary structures.
- **Internal market :** While progress was made in alignment of intellectual and industrial property legislation, no progress was made in alignment in the areas of standards and certification, state aids, public procurement and agriculture.
- **Environment :** Only limited progress was made in transposition of legislation and detailed approximation programmes and implementation strategies have not yet been worked out.

Slovakia has not adequately addressed any of the short term Accession Partnership priorities. In regard to the political priorities, while free and fair elections were held, a President has not been elected, the parliamentary oversight committees cannot be considered to have functioned optimally and there was no progress in the adoption of legislative provisions on minority languages. The economic reform priorities were partially addressed with efforts being made to maintain macroeconomic stability but there was little progress in structural reform. Concerning the internal market priority, while intellectual and industrial property legislation was adopted, insufficient attention was paid to address other priorities, particularly as concerns standards and certification legislation and institutional structures. The environment priority was not satisfactorily addressed.

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

A first version of the National Programme for the Adoption of the *Acquis* (NPAA), adopted by the Slovak Government, was presented in March 1998. The National Programme for the Adoption of the *Acquis* is composed of 29 chapters corresponding to the 29 negotiation teams in the relevant ministries or central state bodies established to prepare for future accession negotiations. There is an introduction covering the political and economic criteria. The annex contains tables on each of the chapters showing the planned legislation and implementation arrangements, the related time-schedules as well as the financing provisions.

The National Programme for the Adoption of the *Acquis* covers the Accession Partnership priorities but does not adequately cover the whole *acquis*. It is not consistent in quality between chapters, with some sections not reflecting a full understanding of the *acquis*. National legislation is referred to in some sections without necessary links to the *acquis* being drawn. Attention paid to implementation and enforcement of the *acquis* is inadequate and the National Programme for the Adoption of the *Acquis* does not adequately address the issue of reinforcement of administrative capacity. The National Programme for the Adoption of the

Acquis does not provide sufficient information on institution building. Training and staff needs are not accurately assessed. Budgetary needs are as well clearly underestimated. Finally, the time schedule for both adopting and implementing the *acquis* seems quite unrealistic.

The Slovak Government is revising the National Programme for the Adoption of the *Acquis*. On the basis of the revised text, the Commission will take a position on the National Programme for the Adoption of the *Acquis* which it will communicate to the Council during the second semester of 1999 on the occasion of the re-examination of the Accession Partnership.

Annex
Statistical data

STATISTICAL DATA

	1993	1994	1995	1996	1997
Basic data	in 1000				
Population (end of period)	5336	5356	5368	5379	5388
Total Area	in 1000 hectares				
	4904	4904	4904	4903	4903
National Accounts	in Bn Slovak Koruna				
Gross Domestic Product at current prices	369.1	440.5	516.8	575.7	653.9
Gross Domestic Product at current prices	in Bn ECU				
	10.2	11.6	13.3	14.8	17.2
Gross Domestic Product at current prices	in ECU per capita				
	1900	2200	2500	2800	3200
Structure of Production	in % of Total Gross Value Added				
- Agriculture	4.9	:	6.0	:	:
- Industry	32.0	:	28.0	:	:
- Construction	4.9	:	4.7	:	:
- Services	58.2	:	61.3	:	:
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	:	:	69.8	72.6	71.6
- household and NPISH	:	:	49.6	50.3	50.0
- general government	:	:	20.3	22.4	21.7
- Gross fixed capital formation	:	:	27.4	36.9	38.6
- Exports of goods and services	:	:	63.0	58.0	56.4
- Imports of goods and services	:	:	61.2	70.0	63.5
Gross Domestic Product	% change over the previous year				
	-3.7	4.9	6.9	6.6	6.5
Gross Domestic Product per capita	in Purchasing Power parities				
	6400	6800	7400	8200	8900
Inflation rate	% change over the previous year				
Consumer Price Index	23.2	13.4	9.9	5.8	6.1
Balance of payments	in millions of ECU				
-Exports of goods	4656	5669	6568	6949	7752
-Imports of goods	5436	5577	6743	8747	9058
-Trade balance	-779	92	-175	-1798	-1306
-Services, net	232	557	413	30	64
-Income, net	-32	-101	-11	-37	-109
-Net current transfers	84	57	71	158	153
-of which government transfers	3	5	13	7	9

-Current account balance	-495	604	298	-1646	-1198
-Reserve assets (incl. gold)	825	1777	2939	3109	3264
-Reserve assets (excl. gold)	373	1375	2560	2729	2925

Public Finance	in % of Gross Domestic Product				
General Government Deficit/Surplus	:	:	:	:	:
Gross foreign debt	:	11.3	19.6	21.6	:

	1993	1994	1995	1996	1997
Financial indicators					
Monetary Aggregates					
in Bn ECU					
- M1	3.1	3.2	3.9	4.3	4.3
- M2	6.9	7.8	9.1	10.3	11.8
- Total credit	:	:	:	:	12.2
Average short-term interest rates					
% per annum					
- Lending rate	14.4	14.6	16.9	13.9	18.7
- Deposit rate	8	9.3	9	9.3	13.4
ECU exchange rates					
(1ECU=..National currency)					
- Average of period	36.03	38.12	38.86	39.38	38.11
- End of period	37.04	38.47	38.86	39.95	38.43
- Effective exchange rate	:	:	:	:	74.74
Foreign Trade					
in millions of ECU					
Imports	5409	5560	6705	8760.8	9050.8
Exports	4663	5627	6559	6954.9	7753.7
Balance	-746	-67	-146	-1805.9	-1298.1
corresponding period of the previous year = 100					
Terms of trade					
:					
as % of total					
Imports with EU-15	20.6	26.2	34.8	37.3	39.5
Exports with EU-15	24.1	28.4	37.8	41.3	45.0
Demography					
per 1000 of population					
Natural growth rate	3.9	2.8	1.6	1.7	:
Net migration rate	0.3	0.9	0.5	0.4	:
per 1000 live-births					
Infant mortality rate	10.6	11.2	11.0	10.2	8.7
at birth					
Life expectancy : Males	68.4	68.3	68.4	68.8	68.9
Females	76.7	76.5	76.3	76.7	76.7
Labour market					
in % of labour force					
Economic Activity rate (ILO methodology)	62.1	59.9	59.8	60.0	59.5
Unemployment rate (ILO methodology) : Total	12.2	13.7	13.2	11.1	11.6
< 25 years	25.7	27.6	24.8	20.6	:

	> 25 years				
Average employment by NACE branches (LFS)	in % of total				
- Agriculture and Forestry	:	:	:	8.9	8.6
- Industry	:	:	:	31	30.4
- Construction	:	:	:	8.5	8.9
- Services	:	:	:	51.6	52.1
Infrastructure	in Km per 1000 Km ²				
Railway network	75	75	75	75	75
Length of motorways	in km				
	:	:	198	215	:
Industry and Agriculture	previous year = 100				
Industrial production volume indices	96.3r	104.9r	108.3	102.5	102.7
Gross agricultural production volume indices	92.0	102.6	102.4	102.7	99.2

Methodological Notes

Gross domestic Product per capita in PPS : Revised data using the new PPP results from the 1996 International Comparison Project.

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

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

Monetary aggregates : are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

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

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

Imports and exports (current prices) : The 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 licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs(freight, insurance etc.). *Trade Classification:* Merchandise trade flows are using the commodity classification according to the Combined Nomenclature.

Imports are recorded on FOB basis and are captured with the date the commodities are released into circulation in the country. Exports are recorded on FOB basis and are captured with the date on which the commodities cross the state border. The value of exports is given in FOB., i.e. the price of the goods decreased by direct trade costs abroad. That price, converted by a valid exchange rate into the Slovak crown, gives a base for the calculation of customs duty, value added tax and other charges and fees.

Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

Imports and exports with EU-15 : Source: Data declared by the republic of Slovakia. Data for years 1993 and 1994 refer to trade with EU-12 only.

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

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

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

The unemployed : all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

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

The unemployment rate is recalculated on economically active persons (excluding women on additional maternity leave).

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

Industrial production volume indices : Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E). The total industrial production includes estimates for enterprises and for tradesmen. The indices are in constant prices of December 1995.

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

Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : New Cronos.

Reserve assets and Financial indicators : Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).