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IMPROVED ECONOMIC ENVIRONMENT FOSTERS SLOVAKIA'S GROWTH AND FOREIGN INVESTMENT

The Slovak Republic has made impressive strides in its transformation to a market economy over the last six years, and after a slowdown for the period between 1990 and 2000, economic activity has picked up. Domestic reform, including economic restructuring and increase in foreign investment inflows, are improving Slovakia's economic prospects, according to a WTO report on the trade policies and practices of the Slovak Republic.

The WTO Secretariat report, along with the policy statement by the Government of the Slovak Republic, will serve as a basis for the second trade policy review of the Slovak Republic by the Trade Policy Review Body of the WTO on 21 and 23 November 2001.

Economic reform, including trade and investment liberalization, regained momentum, especially after the late 1990s. Real GDP per capita increased to US$3,500 in 2000, and social indicators have improved. However, unemployment remains high at 20%. Rural poverty and regional development are still key policy priorities, according to the report which stresses that the main source of growth is the private sector now accounting for 80% of GDP.

Annual GDP growth in Slovakia slowed to around 2% in 1999 and 2000. The previous high growth rates, averaging some 6% a year in 1995-98, had become unsustainable as the fiscal and external deficits widened, and monetary policy was tightened to support a fixed exchange rate. A currency crisis emerged in 1998, with confidence in Slovakia's reform sagging.

The report says that GDP growth was expected to pick up in 2001 but that growth prospects hinge critically on continued successful stabilization and structural reform, as well as on favourable external developments. Export growth has recently strengthened and external reserves have rebounded to an import cover level of three months in 2001, and are expected to rise further. Foreign investment jumped to 10 % of GDP in 2000 compared to 3,5 % in 1999.

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In this vein, external trade is vital to Slovakia's recovery. Export-led growth has been encouraged by greater access to imported inputs following trade liberalization. Merchandise trade increased sharply from 47% of GDP in 1995 to 64% in 2000. The European Union (EU) has replaced CEFTA countries, especially the Czech Republic, as Slovakia's major trading partner. In 2000, the EU accounted for 59% of Slovakia's merchandise exports and 49% of its imports. Manufactured products, especially machinery and transport equipment, accounted for some two thirds of Slovakia’s exports and imports in 2000.

Slovakia's broad trade policy orientation is towards greater liberalization. Its trade regime is relatively open, apart for agriculture, which receives special treatment. Its approach to trade liberalization combines multilateral, regional and bilateral initiatives.

The report notes that Slovakia's trade and economic reforms are being driven overwhelmingly by the objective of readiness for EU accession by 2004. Trade and economic policies are increasingly being harmonized with those of the EU. Negotiations on EU accession commenced in February 2000; Slovakia aims to complete them by end-2002. Screening of Slovakia's legislation was essentially completed in 1999, and its third National Programme for the Adoption of the Acquis was submitted in May 2001. As at mid-2001, 19 of the 29 chapters opened had been provisionally closed, but sensitive areas remained, such as agriculture. The European Commission views Slovakia as a “functioning market economy”, in which further macro economic and structural reforms are needed.

EU accession will further deepen Slovakia's European integration, and promote economic development. It offers renewed opportunities for comprehensive trade, investment and other economic reforms. But EU accession, and regional integration, should not detract from multilateral liberalization, including of agriculture, which will continue to be in Slovakia's economic interests. This would minimize any possible trade diversion from EU accession should agricultural assistance rise substantially to higher EU levels as seems probable. Any such trade diversion could undermine Slovakia's economic efficiency, especially if sectoral disparities widened between manufacturing and agricultural activities. It could also harm third countries, and reduce the benefits to Slovakia from trade liberalization by displacing imports from the most efficient suppliers.

The simple average MFN tariff was 6.1% in 2001, down from 8% in 1995. Tariff dispersion also narrowed. In 2001, preferential tariffs (excluding GSP) averaged 2%, (the average rate on EU imports was 2.4%). Tariff surcharges have been applied widely several times since 1995 for balance-of-payments reasons, the latest - from mid-1999 - initially at a rate of 7% but progressively lowered to 3%, and eliminated from 2001.

Agricultural policy is heavily influenced by EU accession requirements as Slovakia strives to introduce CAP-consistent measures. Agricultural support is a high government priority for food self-sufficiency. Agricultural assistance (measured on a PSE basis) fell substantially to 1% in 1996, before surging to 27% in 1998, and 22% in 2000. Transfers to farmers totalled Sk 15.6 billion in 2000, mainly funded by taxpayers and consumers.

Unlike agriculture, Slovakia's industrial sector is restructuring due to greater import competition from trade liberalization. Several industries, such as motor vehicles and primary plastics, have improved performance based on new export markets and foreign investment.

Slovakia's accelerated economic transition has intensified its preparations for EU accession. This will provide renewed opportunities and benefits to Slovakia and its trading partners.

Nevertheless, Slovakia will need to continue balancing the requirements of EU accession with its participation in the multilateral trading system. Liberalization efforts offer most economic benefits to Slovakia and its trading partners when they are mutually reinforcing, and regional initiatives, like EU accession, do not undermine MFN liberalisation. The most effective means of ensuring this would be for Slovakia to extend regional preferences on a non-discriminatory basis and to secure them multilaterally.

Vigorous pursuit of multilateral trade liberalization will continue to be in Slovakia's longer term economic interests, including post-EU accession when the likelihood of increased agricultural assistance may generate trade diversion concerns. Slovakia's trading partners could also facilitate its successful transition by ensuring non-discriminatory access to their markets.

Note to Editors

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals. Significant developments which may have an impact on the global trading system are also monitored. For each review, two documents are prepared: a policy statement by the government of the member under review, and a detailed report written independently by the WTO Secretariat. These two documents are then discussed by the WTO's full membership in the Trade Policy Review Body (TPRB). These documents and the proceedings of the TPRB's meetings are published shortly afterwards. Since 1995, when the WTO came into force, services and trade-related aspects of intellectual property rights have also been covered.

For this review, the WTO's Secretariat report, together with a policy statement prepared by the Government of the Slovak Republic, will be discussed by the Trade Policy Review Body on 21 and 23 November 2001. The Secretariat report covers the development of all aspects of the Slovak Republic trade policies since the previous review, including domestic laws and regulations, the institutional framework, trade policies by measure, and developments in selected sectors.

Attached to this press release is the Overview to the Secretariat report and parts of the government policy statement. The Secretariat and the government reports are available under the country name in the full list of trade policy reviews at http://www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm. These two documents and the minutes of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

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Since December 1989, the following reports have been completed: Argentina (1992 and 1999), Australia (1989, 1994 and 1998), Austria (1992), Bahrain (2000) Bangladesh (1992 and 2000), Benin (1997), Bolivia (1993 and 1999), Botswana (1998), Brazil (1992, 1996 and 2000), Brunei Darussalam (2001), Burkina Faso (1998), Cameroon (1995 and 2001), Canada (1990, 1992, 1994, 1996, 1998 and 2000), Chile (1991 and 1997), Colombia (1990 and 1996), Costa Rica (1995 and 2001), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996 and 2001), the Dominican Republic (1996), Egypt (1992 and 1999), El Salvador (1996), the European Communities (1991, 1993, 1995, 1997 and 2000), Fiji (1997), Finland (1992), Gabon (2001), Ghana (1992 and 2001), Guinea (1999), Hong Kong (1990, 1994 and 1998), Hungary (1991 and 1998), Iceland (1994 and 2000), India (1993 and 1998), Indonesia (1991, 1994 and 1998), Israel (1994 and 1999), Jamaica (1998), Japan (1990, 1992, 1995,1998 and 2000), Kenya (1993 and 2000), Korea, Rep. of (1992, 1996 and 2000), Lesotho (1998), Macao (1994 and 2001), Madagascar (2001), Malaysia (1993 and 1997), Mali (1998), Mauritius (1995 and 2001), Mexico (1993 and 1997), Morocco (1989 and 1996), Mozambique (2001), New Zealand (1990 and 1996), Namibia (1998), Nicaragua (1999), Nigeria (1991 and 1998), Norway (1991, 1996 and 2000), OECS (2001), Pakistan (1995), Papua New Guinea (1999), Paraguay (1997), Peru (1994 and 2000), the Philippines (1993 and 1999), Poland (1993 and 2000), Romania (1992 and 1999), Senegal (1994), Singapore (1992, 1996 and 2000), Slovak Republic (1995 and 2001), the Solomon Islands (1998), South Africa (1993 and 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 and 1994), Switzerland (1991, 1996 and 2000 (jointly with Liechtenstein)), Tanzania (2000), Thailand (1991, 1995 and 1999), Togo (1999), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 and 1998), the United States (1989, 1992, 1994, 1996, 1999 and 2001), Uganda (1995), Uruguay (1992 and 1998), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

TRADE POLICY REVIEW

SLOVAK REPUBLIC

Report by the Secretariat – Summary Observations

The Slovak Republic has made impressive strides in its transformation to a market economy since its previous Trade Policy Review in 1995. Economic reform, including trade and investment liberalization, regained momentum, especially after the late 1990s. Real GDP per capita increased to US$3,500 in 2000, and social indicators have improved. However, unemployment remains high at 20%. Rural poverty and regional development are still key policy priorities.

The restoration of macroeconomic balance has also contributed to Slovakia's recent development. Domestic reform, including economic restructuring, has improved Slovakia's economic prospects. The private sector now accounts for over 80% of GDP and has become the main source of growth.

Annual GDP growth in Slovakia slowed to around 2% in 1999 and 2000. The previous high growth rates, averaging some 6% a year in 1995-98, had become unsustainable as the fiscal and external deficits widened, and monetary policy was tightened to support a fixed exchange rate. A currency crisis emerged in 1998, with confidence in Slovakia's reform sagging, in part because of the Russian financial crisis.

In late 1998, the Slovak authorities acted by moving to a floating exchange rate system, tightening fiscal policies, and by re-emphasizing economic reform. The budgetary position remains frail, with the deficit expected to be in the order of 3.9% in 2001. Monetary policy now targets inflation directly, and inflation is expected to fall to 6.9% in 2001 from 12% in 2000.

Slovakia's economic recovery now looks promising. GDP is expected to grow at over 3% in 2001, rising thereafter to 4-5% a year. Reflecting the improved economic environment, inflows of foreign investment have risen sharply. Export growth has also strengthened and external reserves have rebounded to an import cover level of three months in 2001, and are expected to rise further. However, growth prospects hinge critically on continued successful stabilization and structural reform, as well as on favourable external developments.

External trade is vital to Slovakia's recovery. Export-led growth has been encouraged by greater access to imported inputs following trade liberalization. Merchandise trade increased sharply from 47% of GDP in 1995 to 64% in 2000. The European Union (EU) has replaced CEFTA countries, especially the Czech Republic, as Slovakia's major trading partner. In 2000, the EU accounted for 59% of Slovakia's merchandise exports and 49% of its imports. Manufactured products, especially machinery and transport equipment, accounted for some two thirds of Slovakia’s exports and imports in 2000.

Slovakia's broad trade policy orientation is towards greater liberalization. Its trade regime is relatively open, apart for agriculture, which receives special treatment. Its approach to trade liberalization combines multilateral, regional and bilateral initiatives.

Slovakia is an original member of the WTO and an observer to the plurilateral Agreement on Government Procurement. Slovakia grants at least MFN treatment to all WTO Members and several other countries with which it has bilateral agreements calling for such treatment. All tariffs are bound, virtually all at the applied rate, thereby creating a more predictable trading regime. During the period under review, Slovakia has continued to undertake obligations within the multilateral framework.

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Tariffs on products covered by the Information Technology Agreement (ITA) are to be phased out by 2002. Slovakia is also to phase out tariffs (over five years from 2000) on products covered by the Pharmaceuticals Initiative. It extended its initial GATS commitments on services by participating in the 1997 WTO negotiations on basic telecommunications and on financial services. Slovakia has regularly notified trade policy developments to the WTO.

Slovakia's trade and economic reforms are being driven overwhelmingly by the objective of readiness for EU accession by 2004. Trade and economic policies are increasingly being harmonized with those of the EU. Negotiations on EU accession commenced in February 2000; Slovakia aims to complete them by end-2002. Screening of Slovakia's legislation was essentially completed in 1999, and its third National Programme for the Adoption of the Acquis was submitted in May 2001. As at mid-2001, 19 of the 29 chapters opened had been provisionally closed, but sensitive areas remained, such as agriculture. The European Commission views Slovakia as a “functioning market economy”, in which further macro economic and structural reforms are needed.

Liberalization at the regional level has increasingly dominated Slovakia's trade initiatives. Preferential tariff cuts within regional arrangements exceed multilateral reductions. EU industrial products receive duty-free treatment, and preferential access is given to agricultural products. Slovakia's customs union with the Czech Republic provides for free trade, subject to certain exceptions on foodstuffs. Slovakia also has a free-trade agreement with EFTA member States, other CEFTA parties, as well as bilaterally with the Baltic States, Israel, and Turkey. Slovakia expects it will need to adopt the EU's preferential agreements upon accession.

In 2000 preferential duties averaged about one third of Slovakia's MFN levels. Preferential rates differ between products and across trading partners. Only a small and declining share of Slovakia's imports (26% in 2000) originate exclusively in non-preferential sources.

EU accession will further deepen Slovakia's European integration, and promote economic development. It offers renewed opportunities for comprehensive trade, investment and other economic reforms. But EU accession, and regional integration, should not detract from multilateral liberalization, including of agriculture, which will continue to be in Slovakia's economic interests. This would minimize any possible trade diversion from EU accession should agricultural assistance rise substantially to higher EU levels as seems probable. Any such trade diversion could undermine Slovakia's economic efficiency, especially if sectoral disparities widened between manufacturing and agricultural activities. It could also harm third countries, and reduce the benefits to Slovakia from trade liberalization by displacing imports from the most efficient suppliers.

Slovakia's GSP scheme for developing countries exempts many "sensitive" products, such as fertilizers, carpets, and most footwear, equivalent to over half of tariff items. Reduced margins of preference (50%) apply to "less sensitive" products, covering a further 29% of tariff items. All least developed country imports are duty free. On average, Slovakia's GSP tariffs are generally much higher than preferential duties provided to its regional trading partners. Slovakia intends to adopt the EU GSP scheme prior to accession.

Foreign investment jumped in 2000 to 10% of GDP (3.5% in 1999). As an OECD member, Slovakia provides, with few exceptions and transitional provisions, equal treatment of foreign and domestic investors. Only foreign branches in the energy sector are restricted. No screening procedures or foreign equity limits apply, except in a few service industries, such as air transportation. Slovakia has progressively extended incentives, such as tax holidays, to attract foreign direct investment. The latest changes were approved in May 2001. It is unclear whether the benefits of such incentives outweigh their costs.

The simple average MFN tariff was 6.1% in 2001, down from 8% in 1995. Tariff dispersion also narrowed. In 2001, preferential tariffs (excluding GSP) averaged 2%, (the average rate on EU imports was 2.4%). Tariff surcharges have been applied widely several times since 1995 for balance-of-payments reasons, the latest - from mid-1999 - initially at a rate of 7% but progressively lowered to 3%, and eliminated from 2001. Indirect taxes do not discriminate against imports.

Substantial tariff escalation exists, especially on "food, beverages and tobacco" and "textile and clothing", with relatively high tariffs of up to over 100% applying to foodstuffs. Most agricultural goods are protected by relatively high tariffs. The MFN average tariff on these goods was 13%, around three times that for non-agricultural products (WTO definitions).

All tariffs are ad valorem. However, tariff transparency is undermined by duty exemptions, higher seasonal rates on certain flowers, fruits and vegetables, as well as by the existence of many different rates, often involving fractional duties.

The new Customs Law of 2001, aligning Slovakia's customs procedures with those of the EU, improved customs efficiency, aided by further computerization using ASYCUDA and the introduction of a comprehensive risk analysis control system.

Remaining formal non-tariff barriers are relatively few. Import quotas exist only on some products, such as shoes (imported from China) and sugar, including from the Czech Republic until end-2002. Quotas on beer and non-alcoholic beverages are expected to be eliminated at end-2001. Quotas were also removed on coal, fuels and other products. The coverage of automatic import licences was reduced to certain products for statistical and monitoring purposes, such as foodstuffs and tobacco products, or for security reasons, like on explosives and firearms. Imported cars older than ten years are prohibited for health and environmental reasons.

Tariff quotas apply on many goods, especially foodstuffs, beverages and tobacco. "First-come, first-served" global MFN tariff quotas apply to 24 agricultural product categories to provide "minimum and current" market access following tariffication of non-tariff measures. High in-quota and out-of-quota rates apply on many products, of up to 70% and 125%, respectively. Many quotas are substantially under-utilized; average utilization rates fell from 45% in 1998 to 34% in 2000. Temporary MFN tariff quotas with zero in-quota rates also apply on products considered in short supply. Preferential tariff quotas exist in regional trading agreements. On overlapping products, MFN agricultural tariff quotas include preferential quota imports.

Many "sensitive" agricultural imports from the Czech Republic are monitored jointly under the customs union arrangements. On foodstuffs, auto-limitation agreements also exist between respective producer associations.

Slovakia is harmonizing standards, technical regulations, and conformity testing procedures with mainly the EU. Testing and standardization processes have been simplified. From 2001, Slovakia's standards became voluntary, unless specified in a technical regulation. At end-May 2001, there were 23,199 standards; 62% were national standards, 27% European standards, and the rest international, mainly ISO and IEC. Slovakia intends to have harmonized 80% of standards with EU norms by 2002. EU requirements are applied where different from international norms. Self-declared certification by manufacturers and importers has been introduced. Several mutual recognition agreements exist, including with the Czech Republic and Poland, and between CEFTA members.

Slovakia maintains strict quarantine and other SPS regulations affecting food imports. For example, imports of potatoes, and fruits such as apples and pears, are subject to rigorous surveillance,

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based on pest risk assessments. Imports of GMO food and meat treated with growth-promoting hormones are banned.

Slovakia is strengthening competition legislation along EU lines, with greater independence given to the Antimonopoly Office. Anti-competitive agreements, such as fixing prices, are banned, as is abuse of a dominant market position by suppliers not subject to "substantial" competition. Mergers are prohibited if they create or strengthen a firm's dominant market position which may reduce competition.

The State Aid Office was established in 2000 to monitor and control state aid to manufacturing. State aid that restricts competition is prohibited, subject to sectoral exemptions - steel, shipbuilding, automotive, man-made fibre and mining industries - where it is allowed for certain purposes, such as industrial restructuring, within set limits. State aid was estimated by the Office at Sk 15.2 billion in 1999 (up from Sk 6.8 billion in 1998). The main beneficiary sectors were transport and communications.

Anti-dumping and countervailing legislation, administered by the Ministries of Finance and Economy, respectively, was adopted in mid-1997. So far, no actions have been taken. Each ministry must request the Antimonopoly Office's opinion on the effects on competition of such action. This explicitly recognises the anti-competitive effects of anti-dumping and countervailing actions, and may help limit their misuse. However, the Office's exact role on these issues is unclear.

Safeguard legislation, also introduced in 1997 and administered by the Ministry of Economy, has been used twice. Additional tariffs on imported pig meat, applied in May 1999, were terminated on schedule within 200 days. A four-year quota applies to sugar. Although the Antimonopoly Office must provide an opinion to the Ministry, its precise role is ambiguous. Of 17 requests provided, ten were on industrial products. No safeguard action has been taken on industrial products, even on flat rolled iron products from Russia and the Ukraine where the Office recommended additional duties.

An independent Office of Public Procurement was established in 2000 to administer and supervise public procurement, thereby improving transparency. No price preferences apply to domestic suppliers. Tender methods are stipulated in the legislation. In 2000, 46% of procurement contracts were let by open tender. Procurement decisions may be appealed to the Office, including by foreign firms, and to the courts.

Slovakia has comprehensive legislation protecting intellectual property rights and belongs to all major related multilateral agreements. It recently ratified the WIPO treaties on Internet Protection and joined the Patent Law Treaty. New copyright legislation, effective August 2000, is to comply with EU requirements and provide added protection for digital technologies and databases. Parallel imports are not restricted.

Patents, industrial designs, and utility models are protected. New legislation is to apply from end-2001. Semi-conductor topographies are protected by separate legislation, effective June 2000. Revised trade mark legislation is due from 2002. Stronger protection of geographical indications, including for alcoholic beverages, is expected from 2003. Greater powers for customs to seize and destroy illegal imports have strengthened enforcement, seen as inadequate by some trading partners.

Slovakia does not levy taxes, charges or other fees on its exports. It maintains export quotas on mainly agricultural and iron and steel products to stabilize the domestic market. Automatic export licences apply for statistical and monitoring purposes to certain products, such as raw leather and pharmaceuticals.

Export subsidies, especially on dairy products and malt, totalled Sk 535 million in 2000, up from Sk 491 million in 1999. Slovakia's multilateral export subsidy commitments provide only limited constraint on their use; subsidies paid in 2000 represented 65% of its committed levels.

Exporters benefit from finance, insurance, and guarantees provided by the state-owned Eximbank in accordance with OECD rules. Soft "green loans" also assist exports of agricultural produce, such as fruit and vegetables. Several schemes assist export promotion and marketing. Exporters may benefit from tariff suspensions and duty drawback schemes, as well as from six customs-free zones.

Agricultural policy is heavily influenced by EU accession requirements as Slovakia strives to introduce CAP-consistent measures. Agricultural support is a high government priority for food self-sufficiency. Agricultural assistance (measured on a PSE basis) fell substantially to 1% in 1996, before surging to 27% in 1998, and 22% in 2000. Transfers to farmers totalled Sk 15.6 billion in 2000, mainly funded by taxpayers and consumers.

Farm assistance is increasingly being delivered by direct support payments (about 90% in 2000), mainly related to inputs, area planted/animal numbers or farm income. Although Slovakia's has met its committed levels of domestic support, its agricultural PSE assistance - as measured by the OECD - substantially exceeds its AMS levels.

Farm assistance is delivered by way of tariffs, price support, supply control measures, credit and input subsidies as well as direct outlays, including export subsidies. Assisted products include sugar, dairying, poultry, and pigmeat. The Government believes that agriculture should be fully integrated into the EU's CAP at similar support levels. However, increased agricultural assistance may undermine economic efficiency by widening disparities in Slovakia's assistance structure. It may also increase Slovakia's agricultural surpluses and subsidized exports.

Unlike agriculture, Slovakia's industrial sector is restructuring due to greater import competition from trade liberalization. Several industries, such as motor vehicles and primary plastics, have improved performance based on new export markets and foreign investment.

Privatization remains a key policy objective to achieve a more competitive economy, including in essential services. Since 1999, the privatization programme has been revitalized and made more transparent. Natural (or strategic) state-owned monopolies are no longer excluded from privatization, except for posts, railways, forestry, and water supply. Maximum private ownership limits apply to a few state-owned enterprises, such as of 34% in telecommunication, banking, and insurance markets. Weak institutions, poor commercial regulations and corporate governance, hampered restructuring as did non-commercial privatizations subject to political interference. Improved commercial laws, including revised bankruptcy and securities regulation, now facilitate more efficient enterprise restructuring, although commercial courts remain overburdened.

Priority areas for divestment have included financial and telecommunication services and key utilities, such as electricity and gas. The banking sector has been restructured, including through capital injections of Sk 18.9 billion into the three largest state-owned banks, and a state carve out of their non-performing loans totalling Sk 105 billion. Privatization of these banks is to be completed by end-2001. Bank supervision by the National Bank has also been strengthened, and compliance improved.

Foreign bank and, since April 2000, insurance branches are allowed. The state-owned insurance company is to be privatized. Compulsory third party motor vehicle insurance is to be demonopolized from 2002. New insurance companies can no longer offer both life and non-life policies from April 2000.

Regulatory authorities are being established in key services to facilitate privatization, and safeguard competition. 51% of Slovakia Telecom was recently divested overseas, and a new independent regulatory body, the Telecommunications Office, created in July 2000. The sector is to be further liberalized from 2003 when the state monopoly over basic telecommunications using the public fixed network is due to end. The Telecommunications Act of 2000 provides licensed entrants from 2003 with non-discriminatory access to the public network within a reasonable time at a price based on justified costs. Universal services are also stipulated.

The transport sector is also being reformed. Bus subsidies on routes over 100 kilometres are being terminated. The heavily indebted state-owned Slovak Railways is being restructured into two enterprises in 2001. Freight and passenger services are to be privatized by 2005. Passenger subsidies are to be progressively reduced and rationalised for loss-making routes. The policy to establish a state-owned national air carrier ceased in January 1999. Cabotage rights, extended on reciprocity grounds, apply to shipping services in Slovakia.

Slovakia's accelerated economic transition has intensified its preparations for EU accession. This will provide renewed opportunities and benefits to Slovakia and its trading partners.

Nevertheless, Slovakia will need to continue balancing the requirements of EU accession with its participation in the multilateral trading system. Liberalization efforts offer most economic benefits to Slovakia and its trading partners when they are mutually reinforcing, and regional initiatives, like EU accession, do not undermine MFN liberalisation. The most effective means of ensuring this would be for Slovakia to extend regional preferences on a non-discriminatory basis and to secure them multilaterally.

Vigorous pursuit of multilateral trade liberalization will continue to be in Slovakia's longer term economic interests, including post-EU accession when the likelihood of increased agricultural assistance may generate trade diversion concerns. Slovakia's trading partners could also facilitate its successful transition by ensuring non-discriminatory access to their markets.

TRADE POLICY REVIEW BODY

SLOVAK REPUBLIC

Report by the Government of the Slovak Republic -- Part II

Developments in foreign trade and investment flows

The Slovak foreign trade went through several development phases. At the very beginning it was marked by the economic transition process, disintegration and collapse of the East-European markets, and general economic recession of the global economy. In the following period there was a dynamic growth of the Slovak economy and foreign trade, which however, led to an increase in macro-economic imbalances and to significant deepening of the trade deficit.

The trade deficit started to develop already at the end of 1995 and fully demonstrated itself in the course of 1996 – 1998, when the current account deficit of the balance of payments reached 9.4% of GDP on average. This development caused pressure on the currency and culminated by forced change in the foreign exchange regime and subsequent weakening of the Slovak koruna exchange rate; this meant a de facto devaluation in October 1998. Consequently, the regime of fixed nominal exchange rate of the Slovak koruna against the basket of currencies within the fluctuation band was abolished and replaced by a floating regime.

The Government of the Slovak Republic, with the aim of establishing macro-economic stabilization, stabilization of the Slovak currency exchange rate and creating conditions for development of the micro-sphere, started to implement a set of measures focused especially on lowering the deficit of the trade balance of the current account of the balance of payments and lowering the deficit of public funds. The implementation of these measures brought in 1999 a decrease in the deficit of foreign trade of goods and services to 34.8% of the 1998 level. A similar trend continued also in 2000. This was followed by a significant reduction of the current account deficit of the balance of payments. This favorable development was caused mainly by a fast growth in exports of goods, which in 2000 reached close to 30%.

In the period from 1996 to 2000 the average annual export growth reached 16.8% and import growth 21.4%. This increase was influenced mainly by the application of the Association Agreement with the EU and the CEFTA Agreement. Nearly 80% of imports and over 90% of exports in 2000 were to these territories. In this period, the share of Slovak exports to the EU market was increasing; in 2000 it represented 59.07%.

With the aim of improving the quality of the business environment and removing barriers for investments in 2000, the Government adopted a document entitled “Improvement of the legal, regulatory and tax framework for promotion of businesses and investments.” The Government also adopted other measures defining the statute of important foreign investor, tax benefits, contributions to newly created jobs, incentives for newly established entities and for building industrial zones and parks.

One of the key reasons for the slow restructuring of the Slovak economy for many years has been a very low influx of FDI, which lagged behind significantly the levels of neighboring countries. This trend was turned around by adopting a Strategy for promoting entry of FDI to the Slovak Republic, which resulted in FDI in 2000 exceeding the total volume of FDI for the period 1996 – 1999. Increasing volumes of FDI influx play a vital role in achieving the revitalization and sustainable long-term development and growth of the Slovak economy. Implementation of the strategy for promoting entry of FDI into the Slovak Republic is governed by the Slovak Agency for Investments and Trade Promotion (SARIO, a.s.).

Promotion of foreign investment is closely linked with export promotion, which was done by the Foreign Trade Promotion Fund established by Act No.379/1996 Coll.l. This Fund fulfilled this role until the end of 2000. In 2001 it was transformed and the activities taken over by SARIO, with its major shareholders being the Government Office of the Slovak Republic, Ministry of Economy of the Slovak Republic and Ministry of Finance of the Slovak Republic.

Influx of foreign capital, especially its significant increase in the recent period, has had a positive impact on the Slovak economy and was capitalized through the foreign trade exchanges in a significant way. Links between companies with foreign participation and local industry have contributed to increased export performance of the economy.

Regarding the structure of foreign capital influx into the Slovak economy the continuing trend can be positively viewed as the dominant position was taken over mainly by FDI (76.9%) instead of financial credits, which prevailed in the period of 1996 – 1998 (80% of the total medium- and long-term resources).

From the view of FDI influx, a significant role is played by entry of foreign investors into large companies (Slovak Telecom, VSŽ Košice and Slovnaft). The Slovak economy still lacks strategic foreign investors in technologically more demanding sectors of the processing industry contributing to transfer of new technology, increased productivity and expansion of sales networks.

Further development of Slovakia's SMEs is of crucial importance; the state programs for promotion of investment in this field are implemented through the Slovak Guarantee and Development Bank and National Agency for Development of Small and Medium Enterprises. SMEs recorded a positive development since creation of the Slovak Republic, where currently in some parameters it achieves comparable levels to those in the EU countries. SMEs currently employ 56% to 58% of employed population by regions, they create value added of more than 56% of that created in the national economy and they contribute a significant portion of exports to countries with advanced market economies.

With regard to restructuring of the corporate sphere, the solution of inter-company indebtedness and improved payment discipline, and the amendment to the Act on Bankruptcy and Compensation have had a great importance. The amendment, which entered into force in August 2000, enhances the rights of creditors and improves their ability to enforce debts, creates conditions for lowering tied up capacities in inefficient companies and their freeing up for competitive entities, by which the efficiency of implementing the law would significantly increase.

Competition is a natural mechanism operating in the market economy as a regulator of effective behavior of businesses, and at the same time it leads to optimum use of resources of the economy, and effect on consumers. The goal for legal protection in competition in Slovakia is the protection and promotion of effective competition, as well as creating conditions for its further development. Within economic competition, an important contribution is made by the National Quality Program (until 2003) adopted by the Government and developed in compliance with the EU concept. The Government of the Slovak Republic, in order to achieve the goal of securing intensive economic growth and continuous improvement of the living standards of the population, securing its health, security and environmental requirements in cooperation with the institutions of public and private sectors, pursues quality in the field of production, trade and consumption by increasing general awareness and quality management, increasing the quality of SMEs, as well as in the services sector, organization of prestigious quality contests, and by providing a system of protection of public health.

In connection with Art. 64 of the Europe Agreement, the Ministry of Finance of the Slovak Republic prepared in 1999 a draft law on state aid. This draft was adopted on 24 August 1999 by the National Council of the Slovak Republic as Act No. 231/1999 Coll.l. on State Aid, which entered into force from January 1, 2000. The main goal of this Act is to prohibit state aid that would prevent, disturb, limit or represent a threat of limiting, competition as a result of giving advantage to certain businesses, production of certain types of products or provision of certain types of services. Based on this law, the Office for State Aid was established, as a body of state administration for review, assessment and approval of state aid, control and record keeping of provided state aid. The provider of state aid – with the exception of minimum state aid according to §3 of Act on State Aid – is obliged prior to provision of state aid, to apply to the Office for approval of state aid. The establishment and functioning of the Office for State Aid therefore allows for higher transparency in providing state aid, as all the forms of state aid are subject to approval by the Office.

An important element of economic transformation in the Slovak Republic was the transfer of state property to private ownership. This process had several forms and phases. In the transformation and privatization process, the decisive role was played by so-called small and large privatization. However the transformation process also included restitutions and liquidation of state enterprises. Currently the continuation of the privatization process is one of the priorities of the Government. The condition is transparency in all transformation steps, following the rules of competition and a corresponding legislative environment. Approval and assessment of privatization projects in the process of privatization is governed from the methodology aspect by the Ministry for Administration and Privatization of the National Property of the Slovak Republic

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