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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 with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council decided that

“From the end of 1998, the Commission will make Regular Reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis* [...] “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

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

- addresses the question of Slovakia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period until 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides an overall assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Slovakia in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Slovakia's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Slovakia's economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report further includes a separate section examining the extent to which Slovakia has addressed the Accession Partnership priorities. This section also assesses the progress Slovakia has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various

stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

b) Relations between the European Union and Slovakia

Recent developments under the Europe Agreement, including bilateral trade

The implementation of the Europe Agreement has continued to run smoothly, and no significant trade problems have been noted. Slovakia has continued to contribute to the smooth functioning of the various joint institutions. The eighth meeting of the Association Council took place in March 2002, and Association Committee meetings were held in December 2001 and in July 2002. The system of sub-committees has continued to operate well as a forum for technical discussions. The Joint Parliamentary Committee, comprising representatives of the Slovak National Council and the European Parliament, held its 13th meeting in Bratislava in June 2002. The Joint Consultative Committee, comprising representatives of the Economic and Social Committee and of NGOs in Slovakia, held its 2nd and 3rd meetings in November 2001 in Brussels and in May 2002 in Bratislava.

In general, trade relations between the European Community and Slovakia remain good. In 2001, EC imports from Slovakia amounted to €8.1 billion and EC exports to Slovakia to €7.9 billion. As in the previous two years, Slovakia continued to enjoy a small, albeit decreasing, trade surplus with the EC. Machinery and electrical and transport equipment continued to dominate both exports to and imports from the EC. Exports to the EC accounted for 60 % of Slovakia's total exports and the EC's share in Slovakia's total imports was 49.8 %. These figures reflect a high degree of trade integration with the EC; bilateral trade flows between the EC and Slovakia have more than quadrupled since 1993.

Under the agreement resulting from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 72 % of EC agricultural imports from

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

Slovakia and 77 % of EC agricultural exports to Slovakia are duty-free or benefit from preferential rates (average trade figures 1998–2000).

Negotiations on a further round of liberalisation, covering more sensitive sectors, began at the end of 2001 and were concluded in June 2002. The result of this further round, which will take effect in January 2003, enhances the existing agricultural trade preferences between the parties and promotes the full or partial lifting of import duties either within tariff quotas or for unlimited quantities in sectors such as cereals, dairy products, beef and sheep meat. It also includes a commitment by the parties to remove export refunds for certain sectors.

In March 1996 the Council mandated the Commission to open negotiations on agreements on the reciprocal recognition, protection and control of wine names and spirits designations, including trade arrangements, with Slovakia. The negotiations were interrupted in 1997 due to a limited offer from the Slovak side, which was unacceptable for the Community. Negotiations resumed in January 2001 and are ongoing.

Negotiations concerning processed agricultural products have been concluded at technical level. The decision of the Council on the adaptation of the Protocol 3 of the Europe Agreement for processed agricultural products is currently under preparation.

A safeguard measure on sugar imports was introduced in May 2001 to remain in force until December 2004 in principle, although it is scheduled for review in February 2003. The safeguard measures (in the form of export quotas) on exports of certain cereals, initially due to run until December 2001, have been extended.

An Additional Protocol to the Europe Agreement on preferential conditions for trade of certain fish and fishery products between the EC and Slovakia was signed in December 2001 but has yet to entered into force.

Formal negotiations on a Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA) continued over the reporting period as Slovakia further aligned its legislation with the *acquis*. These negotiations led to the initialling of an agreement between the Commission and the Slovak authorities in July 2002.

An Association Council Decision was adopted in November 2001 concerning rules for implementing the provisions on state aid. As regards the request from the Slovak authorities for transition to the second phase of the Europe Agreement, Slovakia has made good progress in removing the remaining obstacles, especially concerning requirements related to capital movements. The main remaining outstanding issues are rights of establishment, in particular for lawyers.

A new antidumping investigation was initiated on imports of hot rolled coils from Slovakia (among others) in December 2001. The investigation on imports of tube and pipe fittings (iron or steel) led to the imposition of definitive anti-dumping duties in August 2002.

In March 2002, in response to protectionist taken by the US, which greatly restricted access to their market and created the risk of considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this Report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Slovakia jointly developed an Action Plan to strengthen Slovakia's administrative and judicial capacity, on which a common understanding was reached in April 2002. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for Slovakia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Slovakia with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Slovakia, i.e. to ensure that Slovakia's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

A revised version of the National Programme for the Adoption of the Acquis has not been prepared by Slovakia for the year 2002.

Community Assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities which are intended to help the candidate countries to meet the criteria for membership.

For the years 2000-2002 total financial assistance to Slovakia amounts to around €80.5 million annually from Phare, €18.6 million from SAPARD, and between 3.5% and 5.5 % of the overall ISPA budget.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current "pre-accession" focus was established in 1997, in response to the Luxembourg European Council's launching of the present enlargement process.

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This

support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €356 million to Slovakia during the 1992-1999 period, €78.8 million in 2000, and €80.5 million in 2001.² The **2002 Phare Programme** for Slovakia consists of an allocation of €37 million for the National Programme, complemented by €20.1 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities: Strengthening of the institutional and administrative capacity; Protection of minorities; Internal market; Agriculture; Statistics; Economic and Social Cohesion; Environment; Justice and Home Affairs; Participation in Community Programmes and agencies.

The Phare 2002 national allocation for Slovakia includes 12 million for cross-border co-operation programmes.

Slovakia also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX, the Small and Medium-sized Enterprises Facility, SIGMA and the nuclear safety programme.

Furthermore, Slovakia participates in several Community programmes such as Leonardo da Vinci II, Socrates II, Youth, Culture 2000, Media Plus, the Multi-annual Programme for Enterprises and Entrepreneurship, SAVE, Altener, Gender Equality, Combating Social Exclusion, Combating Discrimination, LIFE III, Fiscalis, and Customs 2002. Following the ratification and entry into force of the agreement, Slovakia's formal participation in the European Environment Agency started in January 2002. In order to streamline Community legal procedures and thereby facilitate Slovakia's future participation in Community programmes, a Decision has been adopted by the Association Council establishing the general principles for such participation.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as SME development, trade and investment promotion, the environment, energy, and land registration. Phare support for agriculture and SME development has contributed to the successful development sector strategies and essential institutional and financial mechanisms servicing enterprises in these sectors.

² These figures include an allocation for Cross-Border Cooperation (CBC) Programmes of €12 million in 2000, and €12 million in 2001 as well as an allocation for nuclear decommissioning of €20 million in 2000, and €25 million in 2001.

For example, in Slovakia, Phare has played a particularly important role in the following:

- To support to civil society, an allocation of €2.5 million was made available to local NGOs, which received small grants for projects in various areas including transparency in public procurement, the fight against corruption, EU integration, regional dialogue, the environment, etc.
- A grant scheme supporting ethnic minorities, notably the Roma population, has been successfully implemented, with a total of 186 grants (worth €1.86 million) approved for a wide range of areas including education, culture, community activities, media, institutional development of minority NGOs, human rights advocacy, Roma voter representation in parliamentary elections, etc.
- A pilot project (€450 000) aimed at improving the situation of the Roma population in the Spis region was launched targeting community development in five Roma settlements and pre-school education for Roma children (ten kindergartens with Roma assistants).
- In the justice and home affairs field, Phare continued to support the reinforcement of effective border control management, co-operation between justice and police aimed at combating organised crime, and the strengthening of the judiciary and the General Prosecution Office
- Support to the SME sector (€1 million) continued to focus on three major priorities in 2001: a) revolving financial support schemes - support loan programme, micro-loan scheme and seed capital, b) counselling and training measures, and (c) SME support policy measures.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects on institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High Level Working Groups are being established for each country to oversee this process, along with other key procedural steps in the run up to accession.

The Commission adopted the Slovak **SAPARD** Programme in November 2000. The indicative allocation for SAPARD in the Slovak Republic for 2002 is 19.2 million € at 2002 prices (allocation 2001: 19 million € at 2001 prices).

The programme focuses on three major priorities: improvement of agricultural production, including the food industry, by supporting investments in farm holdings, upgrading agri-food enterprises to EC standards and increasing competitiveness; support to sustainable rural development with a view to increasing job opportunities and

developing ecologically sound management of natural resources; development of human resources.

The *Multi-annual Financing Agreement (MAFA)*, which sets out the rules for implementing SAPARD, and the *Annual Financing Agreement (AFA)*, which sets out the Community financial commitment to the Slovak Republic for the year 2000, were signed in March 2001.

The Annual Financing Agreement (AFA) between the Commission and Slovakia for the 2001 allocation was signed in September 2002 and will enter into force when Slovakia notifies the Commission of the completion of all requisite national formalities.

The following structures are responsible for the implementation of SAPARD: the National Fund, located within the Ministry of Finance, administers SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of the SAPARD Agency; the Director-General of the section for structural policy and rural development of the Slovak Ministry of Agriculture (department of regional policy and rural development) is the Management Authority for the SAPARD programme. The SAPARD Agency is responsible for the implementation of the measures as defined in the programme.

In April 2002, the Commission provisionally conferred management authority for the SAPARD programme, on a fully decentralised basis, to the SAPARD Agency under the Slovak Ministry of Agriculture. This decision includes approval of five measures (investments in agricultural enterprises; improvement of processing and marketing of agricultural and fish products; Diversification activities in rural areas (for investments not involving infrastructure); forestry and land consolidation) covering 83% of the amount available for Slovakia.

A Monitoring Committee has been established by the Managing Authority and has met twice.

A national strategy for programming **ISPA** environment projects was drawn up by the Slovak authorities in 2000. The overall aim of this strategy is to preserve the present quality of the environment and restore damaged and contaminated areas, in order to comply with the Community *acquis*. Legislative reform, institutional restructuring and environmental investment programmes are planned. As regards the transport sector, the original ISPA strategy drawn up in 2000 was updated in January 2002. The general principles behind this strategy remain unchanged. Priorities include: modernisation and establishment of transport infrastructure in the multi-modal corridors, in line with European norms; development of international road links and their interconnection with the European Road network; integration of passenger transportation systems; and promotion of combined road/rail transport.

For the years 2000 and 2001, the full (mid-range) allocation for Slovakia has been committed, i.e. €0.5 million (€2.5 million in 2000 and €48.5 million in 2001). The allocation for 2002 will be between €38.1 million and €59.9 million.

Four environmental projects were approved in 2001: one technical assistance measure for the preparation of ISPA environment projects (total ISPA funding of €1 million), and three investment projects covering sewage networks and the upgrading of waste water treatment plants in Komarno (€4. million), Zvolen (€5.5 million) and the Dolny Turiec

region (€ million). Two transport projects were approved in 2001: the modernisation of the Bratislava-Cífer railway between Bratislava and Trnava (€8.4 million) and the construction of a motorway section on the D61 in Bratislava (€7.2 million). The viability of some of the environment projects currently being prepared will depend on the ability of the Slovak authorities to bring the implementation structures for these projects into line with the reform of the national water management system.

Delays have occurred in the implementation of ISPA projects due to the poor quality of tender documents prepared by the Implementing Agency for Environment Projects. In the transport sector the first substantial works contract was signed and implementation has begun. Most outstanding tenders for environment projects are currently in preparation. As regards decentralisation of ISPA management (EDIS), the Slovak Government has adopted the requisite legislation. A technical assistance project targeting the National Fund, the Ministry of Environment, the Ministry of Transport and the Office of Government was launched in July, with the aim of preparing the Slovak authorities for EDIS approval by the beginning of 2003.

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further, through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999, a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational

throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

For Slovakia, five twinning projects are being financed under the 2001 National Programme covering sectors such as market surveillance systems in consumer and health protection, energy, transport, regional policy (development of the institutional framework and administrative capacity for the programming and implementation of the Structural Funds) and Public Internal Financial Control.

Negotiations

Since the opening of the accession negotiations, substantive discussions have been held on the individual chapters of the *acquis*. Negotiations on the remaining chapter (Institutions) were opened in April 2002.

By the end of September 2002, the following 27 chapters had been provisionally closed: free movement of goods, free movement of persons, freedom to provide services, free movement of capital, company law, fisheries, transport policy, taxation, economic and monetary union, statistics, social policy and employment, energy, industrial policy, small and medium-sized enterprises, science and research, education and training, telecommunications and information technologies, culture and audiovisual policy, regional policy and co-ordination of structural instruments, environment, consumers and health protection, co-operation in the fields of justice and home affairs, customs, external relations, common foreign and security policy, financial control and institutions.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”³

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

“The position of Slovakia raises a number of problems from the point of view of the conditions set by the Copenhagen European Council.

Two of the main features of the way institutions in Slovakia operate are that the government pays insufficient respect to the powers devolved by the Constitution to other bodies and too frequently disregards the rights of the Opposition. The constant tension between the government and the President of the Republic is one example of this situation. Similarly, the way in which the government recently ignored decisions by the Constitutional Court and the central referendum committee on the voting which took place on 23 and 24 May 1997 directly threatens the stability of the institutions. The frequent refusal to involve the opposition in the operation of the institutions, particularly where Parliamentary scrutiny is concerned, underlines this trend.

Against this background, the use made by the government of the police and the secret services gives cause for concern and substantial efforts will have to be made to provide better guarantees of the independence of the judicial system and of satisfactory conditions for its operation. The fight against corruption also needs to be made more effective.

Improvement is also required in the treatment of the Hungarian minority, which still does not benefit from the general law on the use of minority languages which the Slovak authorities have undertaken to introduce and for which there is provision in the Constitution. The position of the Roma (gypsies) also requires attention from the authorities.

In view of the points set out above, while the institutional framework defined by the Slovak Constitution corresponds to that of a parliamentary democracy with free and fair elections, the situation with regard to the stability of the institutions and their integration

³ In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles were emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

into political life is unsatisfactory. Despite recommendations made by the European Union on the occasion of a number of approaches and statements, there has been no appreciable improvement.”

In 1999, the Commission's Regular Report concluded that:

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

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

In its 2001 Regular Report, the Commission found that:

“In its 1999 Regular Report, the Commission concluded that Slovakia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovakia continues to fulfil the Copenhagen political criteria.

Significant progress was achieved with regard to the structure and functioning of the administration. The legal framework for the decentralisation of public administration was adopted, and so was the civil service law. Due implementation of the legislation is now required to ensure that the public administration adequately fulfils the key role it has to play in a functioning democracy based on the rule of law and in support of the accession process.

Important steps were taken to strengthen the independence of the judiciary. In particular, the constitutional amendment abolished the four-year probationary period for judges and provided for setting up a Judicial Council. This amendment now needs to be implemented by primary legislation and at a practical level to guarantee the judiciary's professional impartiality and political neutrality.

Further progress can be noticed in the fight against corruption, notably in translating and implementing the government policy into concrete actions and transposing international obligations. Corruption, however, remains a serious cause for concern. In order to continue improving the fight against corruption Slovakia should rigorously carry on the implementation of the action plans, strictly enforce existing legislation and complete planned legislation as well as strengthen administrative capacities and co-ordination among the bodies involved.

The constitutional reform also created the basis for the strengthening of Slovakia's institutional structure in the field of human rights. However, there is a need to address police behavior, notably with regard to reported cases of ill-treatment.

Significant efforts in further developing and putting into practice approaches to protect minority rights were taken in the reference period, notably in implementing relevant Government strategies. Positive steps were achieved towards enhancing the use and protection of minority languages. As regards the Roma minority, the implementation of the Roma strategy, adopted subsequently in 1999 and 2000, should be further enhanced and the appropriate financial means at national and local level should be made available. In this context it will be important to improve efforts to fight against widespread discrimination.

The short term priorities of the 1999 Accession Partnership related to the modernisation and decentralisation of the public administration were fulfilled. Important steps were taken in strengthening the independence of the judiciary, which constituted a short term priority, as well. Despite further positive measures, tangible improvement of the situation of the Roma minority, another short term priority, was achieved only to a limited extent. So were the medium term priorities for the political criteria of the 1999 Accession Partnership, calling for continued implementation of minority language legislation and strengthening policies and budgetary means towards the Roma minority.”

The section below provides an assessment of developments in Slovakia, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding Slovakia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovakia's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

The process of consolidation of democratic institutions noted in the three previous Reports has continued. EU accession remained high on the political agenda. Parliamentary elections took place in September 2002. The elections were conducted in a free and fair manner. The voter turnout was 70%, as compared to 84% in the last parliamentary elections in 1998. Seven parties (ten in 1998) passed the 5% electoral threshold.

1.1. Democracy and the rule of law

Slovakia has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1999 Regular Report and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

During the reporting period, the Parliament has continued to make steady progress in implementing last year's constitutional reform. In December 2001, it adopted the Act on the Ombudsman and, subsequently, elected the first office-holder for this post. In February 2002, the Act on the Organisation of the Constitutional Court was amended, strengthening the competencies of this institution. The constitutional provisions to widen

the self-administration of the judiciary were transposed by the adoption of the Act on the Judicial Council in April 2002. Furthermore, the Parliament agreed on provisions to facilitate the transposition of EC legislation by introducing the possibility of issuing Government decrees in certain circumstances.

In April 2002, the Parliament complemented last year's Security and Defence Strategy by adopting the Act on State Security. This Act was widely supported by the Opposition, confirming Parliament's broad support for the country's integration into the EU.

The Opposition has continued to refuse to take seats offered to it after the last parliamentary elections in 1998 in six Parliamentary Committees and Supervisory Bodies, thus hampering their proper functioning.

Despite the ongoing fragmentation of the parliamentary groups, with the number of independent MPs quadrupling, the broad ruling coalition has managed to maintain a certain level of political stability, as reflected in the above-mentioned adoption of key pieces of legislation. Overall, in the reporting period the Parliament has adopted 232 laws.

The legal uncertainties surrounding the validity of two contradictory presidential amnesties, as reported in past years, have remained.

The executive

Slovakia has started to implement the legal framework for public administration reform, reported on last year.

With regard to the development of "self-administration", which is a key element of public administration reform in Slovakia, in December 2001 the first elections for the regional parliaments and regional governments took place. Voter turnout was extremely low (under 25%). The elections were widely won by the Opposition.

The Law on the Public Service and the Law on the Civil Service, aiming at creating a professional, impartial, politically neutral, efficient and flexible civil and public service, entered into force in April 2002. The key institution responsible for the implementation of the latter, the Civil Service Office, was set up in March 2002. Its functions range from recruitment, training and information to preparing secondary legislation. According to the original schedule, the Office, jointly with a number of other ministries, was to have developed secondary legislation for the implementation of the Civil Service Law prior to its entry into force. However, the creation of the Office was delayed, because the Government took a long time to agree on a candidate for the post of chairperson. As a result, the necessary secondary legislation is not fully in place, which has hampered implementation of the Civil Service Law. Out of the planned office staff of 60 persons, so far only half of them have been recruited. It is important to remedy this situation, so that the Civil Service Office can play its vital role in implementing the Civil Service Law. Moreover, the recruitment of new civil servants in general has been delayed, as the relevant steering committees could not be set up in time due to legal obstacles. An amendment to the Civil Service Law, however, has remedied this situation.

Furthermore, the necessary management tools and co-ordination mechanisms need to be developed, in particular the new salary scheme needs to be transposed into carefully

designed implementing regulations to ensure adequate criteria and transparent procedures for the attribution of individual salaries. Also, there is a need to structure and intensify training activities in the public sector.

In a positive development, codes of ethics for civil servants and employees in the public administration were adopted.

The Law on Free Access to Information has been further implemented. In the year 2001, altogether 8 101 requests were submitted to different ministries. Whereas awareness among the population has been increased, uniform treatment by administrative bodies of documents considered to be secret appears to remain a problem.

The Government has continued to implement the results of the state audit approved in 2000. Amongst others, more than 100 ministerial departments and five budgetary organisations were abolished and a further eight organisations have had their public funding cut off.

The Government's plan to increase the number of staff dealing with EU integration has largely been implemented according to schedule. Out of the additional 833 staff foreseen for 2002, so far around 500 have been recruited. In August 2002, the Government decided to further increase staff in this sector by around 700 people in the year 2003.

Following the elections, representative bodies were appointed. Work started towards building up regional administrations and electing specialist committees. There were complaints about over-politicisation of this process, at the risk of losing well-qualified staff from the existing regional offices. As pointed out in last year's Regular Report, a first set of functions has been transferred to the regions, including the management of civil registers, cultural institutions, education and some social services. The ambitious schedule envisages the completion of the transfer by the beginning of 2004. However, despite the legal changes reported on last year, the transfer of functions has not yet satisfactorily gone hand in hand with fiscal decentralisation, jeopardising the timely and proper functioning of a democratic, efficient and sustainable self-administration.

The judicial system

Over the past year, Slovakia has taken considerable further steps to strengthen the independence and the efficiency of the judiciary.

In April 2002, the Act on the Judicial Council was adopted and, subsequently, all its 18 members elected. The Judicial Council will decide, *inter alia*, on the assignment and transfer of judges, elect and recall chairpersons of “disciplinary senates”, and submit to the President of the Slovak Republic proposals for nominations for appointing and recalling judges. It will also nominate candidates for the posts of the President and Vice-President of the Supreme Court, comment on budget drafts for the judiciary (as part of the budget of the Ministry of Justice) and for the Supreme Court. It will also advise on draft legislation concerning the organisation of the judiciary.

The Act on Higher Court Officials was adopted by the Slovak Parliament in June 2002. According to this Act, these officials are entitled to carry out specific court duties in civil and criminal proceedings within the scope set out by the law. In the first stage, 200 higher court officials are to be employed. The introduction of the function of Higher Court

Officials is expected to reduce the workload of judges and thus to further speed up court proceedings.

An amendment to the Act on Judges and Lay Judges was adopted in April 2002. According to the Act, the function of a judge is incompatible with any other function in public bodies or the private sector, with business activities, or any other gainful activity. The amendment also lays down the obligation to present a property declaration on a yearly basis.

The provisions of the Act on the Public Prosecution Services and the Act on Prosecutors and Candidate Prosecutors, which entered into force in May 2001 and introduced, *inter alia*, a new more transparent promotion procedure and a permanent disciplinary commission, are being gradually implemented. The Prosecutor General has issued instructions concerning the procedures for recruiting candidates for the post of prosecutor. The Council of Prosecutors of Slovakia was elected, and established the commissions responsible for selection and disciplinary measures. For the first time, all prosecutors filed a property declaration in accordance with the obligation introduced by the Act on Prosecutors and Candidate Prosecutors. The Act on Professional Training of the Staff of the Prosecution Offices was approved by the Parliament in July 2002.

In a further positive development, a Code of Ethics for Judges was adopted in October 2001, laying down the basic principles of judicial integrity. However, surveys indicate that the public perceives there to be a high level of corruption in the judiciary. There is still concern about the level of professional impartiality and political neutrality amongst some parts of the judiciary.

In February 2002, the Parliament passed an amendment to the Act on the Organisation of the Constitutional Court of the Slovak Republic. The aim of the amendment is to extend the competencies of the Constitutional Court by widening access for individuals to this Court. The Court was further granted the authority to suspend the effect and enforceability of statutory regulations in the event of human rights and freedoms being jeopardised or economic damage being imminent. Based on the amendment, the Court has already awarded pecuniary satisfaction to individuals whose fundamental rights have been violated. In accordance with the constitutional amendment of last year, the number of judges at the Court has been increased from 10 to 13.

An amendment to the Act on Judicial Executors and Execution Proceedings was adopted by Parliament with effect from February 2002, aiming at increasing the effectiveness of execution proceedings and eliminating delays. This is an important step forward in improving the execution of judgements.

The Code of Criminal Procedure was amended in June 2002, aiming at accelerating the formal investigation as well as the criminal procedure. The amendment introduces a new alternative form of resolving matters in criminal proceedings (i.e. conciliation). This new institution should speed up court proceedings and decision-making while at the same time securing the rights of the parties involved, whose consent is required for conciliation. The amendment also aims at simplifying the pre-trial procedure by removing the existing overlaps between the functions of the police authorities and the investigators, and by strengthening the role of the prosecutor in criminal proceedings. This should contribute to ensuring the accountability and transparency of the investigation procedure.

The Court Management System, which allows the random allocation of civil and commercial cases, started to be implemented in the reporting period through pilot projects. This pilot phase has demonstrated that the system improves the efficiency of the court's administrative proceedings and reduces the delays in first-instance proceedings. Modernising current equipment and providing new equipment to courts were needed is also necessary.

These developments are most welcome, and represent considerable progress. Due attention should now be given to ensuring their proper implementation, including by making the necessary funds available. In particular, it will be important that the newly established Judicial Council can play its role to the full.

The judicial system in Slovakia comprises three tiers: District Courts, Regional Courts (Courts of Appeal) and the Supreme Court. At present, there are 55 District Courts and 8 Regional Courts. Regional Courts function both as courts of appeal to the District Courts and, in certain cases, as courts of first instance. The Supreme Court of the Slovak Republic is the highest judicial authority in the country, working as a court of cassation, and as a court of appeal in cases dealt with at first instance by a regional court. Finally, the Constitutional Court is an independent authority, set up to protect compliance with the constitution.

The length of proceedings, in particular in civil and commercial cases, remains a cause of concern, although last year's amendment to the Code of Civil Procedure, extending the first-instance competencies of the district courts and limiting appeals to regional courts, has contributed to alleviating this situation. The heavy caseload has remained. The number of judges has slightly increased from 1 278 to 1 295. In 2001, the number of cases filed reached approximately 900 000, thus staying at about the same level as reported last year. The duration of judicial proceedings, with an average length of almost 14 months in civil cases, remains an issue for concern. The average length of criminal proceedings was around 4 months.

In April 2002, the Parliament adopted the Act on Private Arbitration. It substantially expands the types of matters that may be subject to arbitration. Arbitration can now also be used by foreign entities. The application of this Act is expected to contribute to reducing the workload of courts.

As regards the institutional framework for the training of judges, the Ministry of Justice is currently the responsible authority. Following the aforementioned adoption of the Act on the Judicial Council in April 2002, this body will determine the content of the training of judges in agreement with the Minister of Justice. So far, training has been organised by many different bodies. No comprehensive training structure yet exists for the judiciary or the prosecution service. It is important to develop a modern training system, capable of providing appropriate initial and continued training, including on EC law, as well as management training. Comprehensive training needs to be provided for the judiciary, prosecution service and the administrative staff working in the judicial system.

Based on the Slovak Constitution, the Codes of Criminal and Civil Procedure provide for the possibility to grant *legal aid* in criminal and civil proceedings.

Anti-corruption measures

Surveys indicate that corruption remains cause for serious concern in Slovakia.

In the last Regular Report, the Commission acknowledged the anti-corruption efforts of the Slovak Government but indicated that a number of important measures had not yet been undertaken and should not be further delayed. In this reporting period, additional legislative steps and individual measures have been carried out to tackle this issue.

Implementation of the National Programme for the Fight against Corruption has continued. According to the Government, three quarter of the 1 500 concrete actions have been carried out or addressed to a large extent. Since many of the proposed actions were criticised as being too vague, a number of tasks were reformulated in co-operation with the respective ministries. The co-ordination of measures amongst the relevant ministries and bodies concerned has continued, however, to be weak.

Further progress has been achieved on increasing transparency in the field of public procurement, public enterprises, and party financing.

In November 2001, the Parliament passed an amendment to the Public Procurement Act, which is designed to further limit the scope for corruption in the handling of public finances. In addition, an “Analysis of and Proposal for Systemic Measures to Increase Transparency in Public Procurement” was approved by the Government.

In July 2002, the Slovak Parliament adopted an amendment to the Act on Public Enterprises, imposing stricter obligations on management. Inter alia, managers have to make a property declaration, and their family members are not entitled to be involved in business activities linked to the public enterprise.

In March 2002, the Civil Service Office has been set up, being mainly responsible for the implementation of the Civil Service Act and playing an important role in the fight against corruption within the civil service.

As regards the financing of political parties, the Government assigned to the Deputy Prime Minister for the Economy the task of drawing up a reform proposal, comprising, *inter alia*, measures to define an appropriate regulation for membership fees, tax breaks for donors and for efficient supervision of party financing.

Progress has been made on implementing the Law on Free Access to Information, thus contributing to increased transparency within the administration and reinforcing the fight against corruption (see above under *the executive*).

Codes of Ethics, respectively for judges, civil servants, employees in the public administration, and elected representatives of self-government units were adopted.

The measures taken to reform the judicial system, reported on above, represent a further positive step in the fight against corruption.

Strict enforcement of the aforementioned measures is necessary to ensure that the provisions have a positive impact.

Meanwhile, plans to create the function of a special prosecutor for combating corruption and organised crime have been abandoned. Instead, it was decided to reinforce the existing structure of the prosecution service to enable it to fight against corruption. As a consequence the General Prosecutor's Office has drawn up a plan for the reorganisation of this office from January 2003.

The 2001 Regular Report referred to the case of the former Head of the Department of the Government Office for European Integration, responsible for Phare co-ordination. The Slovak police has confirmed the assessment of the Slovak Supreme Audit Office that there was no evidence of fraud or misuse of funds. The Government has issued a report, acknowledging institutional weaknesses and insufficiencies in the management of pre-accession funds. The report shows, at the same time, a notable increase in the awareness and commitment of the Slovak authorities as regards the importance of sound financial management in the context of preparations for accession. This is, for instance, reflected in the new allocation of responsibilities and resources and new procedures.

There are indications that awareness of the dangers of corruption among the population are increasing. According to the Government, the number of people feeling compelled to pay bribes has further decreased. This tendency, however, is not uniform across all sectors. The perception remains that corruption continues to be widespread in Slovakia, and that levels of tolerance in this regard are high. The most affected areas appear to be the health care sector, education, police and judiciary, whereas positive trends can be seen in areas like customs and taxation. Inadequate salaries, cumbersome and formalistic procedural rules, lack of internal control, and lack of technical support all contribute to creating a climate conducive to corruption. In 2001, 51 people (as compared to 197 in 2000), were convicted of corruption.

Despite a high degree of alignment of legislation, corporate crime is a specific problem and the business climate is characterised by legal uncertainty attributable to the still weak functioning of the judiciary - both in terms of technical capacity and the prevalence of corruption - and a certain instability of the legal framework. Bankruptcy procedures, despite a recent amendment to the Bankruptcy Act, are considered by the business community to be a particularly weak element of the Slovak corporate system. More effective measures against corrupt practices are required if the needed improvements to the business environment are to be realised.

In a regrettable development, in May 2002 the Parliament rejected a proposed new Law on Conflict of Interest, which would have extended, *inter alia*, the scope of conflict-of-interest legislation to a broader circle of public officials and judges, as well as to prosecutors, heads of district governments and regional offices, representatives of local governments, Parliamentarians, managers of state-run companies and National Property Fund members. Further improvements in this important area, including asset monitoring, are necessary to remedy the current shortcomings.

The Civil Code, amended in June 2002, has created the legal conditions for ratifying the Council of Europe Civil Law Convention on Corruption. Slovakia is a party to the Council of Europe Convention on Money Laundering, Search, Seizure and Confiscation from the Proceeds from Crime and to the Criminal Law Convention on Corruption, as well as to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It has signed but not ratified the Council of Europe Civil Law Convention on Corruption. Slovakia continues to participate actively in the

monitoring of anti-corruption measures adopted by the OECD Working Group on bribery in international commercial transactions, and participates in the Council of Europe Group of States against Corruption, GRECO (*see also Chapter 24 - Co-operation in the field of Justice and Home Affairs*).

A GRECO evaluation mission visited Slovakia in September 2000. Several of the recommendations resulting from this expert mission have in the meantime been implemented or are in the process of being implemented, notably the reform of the judiciary, of the licensing system and of the investigation procedures, raising awareness about corruption among the population and media and extending the powers of the Supreme Audit Office. Slovakia is strongly encouraged to continue to follow up these recommendations.

1.2. Human rights and the protection of minorities

Slovakia continues to respect human rights and freedoms. This was the conclusion of the 1999 Regular Report and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Slovakia has ratified the major human rights conventions (*see Annex*). In July, Slovakia signed Protocol No 13 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty in all circumstances. The Revised European Social Charter still remains to be ratified.

As previously reported, Slovakia has signed but not yet ratified Additional Protocol No 12 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, which prohibits discrimination on any grounds. The Slovak Constitution contains a general anti-discrimination provision. However, specific anti-discrimination legislation transposing the EC anti-discrimination *acquis* remains to be adopted. In June 2002, the Parliament rejected two relevant draft laws (*see also Chapter 13 – Social policy and employment*).

In December 2001, the Parliament adopted the Act on the Ombudsman and subsequently, in March 2002, elected the first office-holder, an opposition candidate. According to the Act, the Ombudsman is to help protect fundamental rights and freedoms in cases where public administration bodies have violated the legal system or the rule of law. A budget of approximately €0.6 million has been allocated to the Office of the Ombudsman, with a total staff of 30 people planned. The Office is still in the process of being set up and staff are being recruited. It is, therefore, not yet fully operational.

Civil and political rights

Additional steps have been taken to further improve the protection of civil and political rights, although some issues remain a source of concern.

Degrading treatment by the police continues to be reported. Persons belonging to the Roma community are at particular risk of being the victim of such treatment. In a number of cases, members of the police have reportedly used pressure to discourage the victims from filing charges of police brutality. The Ministry of the Interior is continuing its efforts to remedy this situation. A new internal instruction aims at strengthening control

activities with a view to preventing and disclosing cases of alleged unlawful conduct of members of the police corps. Moreover, a new Police Code of Conduct has been approved by the Ministry of Interior in February 2002. Further efforts are needed to address this problem, including through training, and by reinforcing mechanisms for redressing police misconduct.

In June 2002, a Department for combating *trafficking in human beings* and sexual exploitation has been set up within the Office for the fight against organised crime, thus upgrading the special branch referred to in last year's report. The amended Criminal Code has introduced the offence of trafficking of human beings. Slovakia continues to be a country of origin, transit, and destination for the trafficking of women and children.

There are indications that the duration of *pre-trial detention* remains excessively long in certain cases. Concerns have been expressed about cases of excessive use of force by the police against people in custody.

Prison conditions generally meet international standards but in a number of cases there are reports about overcrowded prisons.

As regards *legal aid*, it is reported that counsels for the defence in criminal proceedings often do not properly defend the rights of the accused persons, as payment by the State for legal aid provided by the counsels is very low and frequently not transferred to them promptly.

In the field of *asylum*, a new Asylum Act was adopted by Parliament in June 2002, providing, *inter alia*, for the long-awaited establishment of an independent body to act as the second instance in the asylum procedure.

In March 2002, the Government adopted a second Action Plan to prevent all forms of discrimination, *racism, xenophobia*, anti-semitism and other forms of intolerance. It foresees, *inter alia*, training of professional groups (such as the police, judges, prosecutors, soldiers and civil servants), activities in the educational sector, the strengthening of governmental bodies dealing with the fight against racism, enhancing co-operation between state institutions and NGOs in preventing discrimination and adopting anti-discrimination related legislation. The Slovak criminal code penalises a number of acts committed on racist grounds. Meanwhile, there continue to be reports of racially motivated violence, in particular directed against persons belonging to the Roma community, and the alleged failure of the law enforcement authorities to take action in a number of these. In some cases, the police have been reported to coerce Roma to refrain from bringing charges.

As regards *freedom of expression*, a parliamentary motion to repeal the existing provisions of the Criminal Code that make defamation of the State President, the Government and the Constitutional Court an offence, was narrowly defeated in November 2001. In January 2002, however, the Constitutional Court suspended these provisions on the grounds that they could endanger freedom of speech. It ordered further examination of a Parliamentarian's complaint that the paragraphs are unconstitutional. As a result, these provisions are temporarily ineffective.

The *freedom of religion* is enshrined in the Constitution of the Slovak Republic, and no particular problems have been reported in this regard. Some religious organisations, however, complain about not receiving public financial support as they are not registered.

In order to be registered, the signatures of at least 20 000 permanent residents adhering to this religion are necessary.

Economic, social and cultural rights

Some progress has been made in this area, but a number of issues continue to merit attention.

It appears that no budgetary allocation has been set aside this year for the implementation of the policy paper on *equal opportunities* between women and men, reported last year. NGOs suggest that the paper is of a purely declaratory nature. Despite the positive changes introduced in the new Labour Code and reported about last year, various sources state that women are often still marginalised and face unequal treatment as regards working conditions, remuneration, professional training and career opportunities (*see Chapter 13 - Social policy and employment*).

Out of 150 Members of the last Parliament, 19 were women. Two out of the twenty members of Government are women. As a result of the parliamentary elections of September 2002, 22 women are now members of the Slovak parliament.

The advisory body for the promotion and protection of the *rights of children*, mentioned last year, is now operational and preparing, inter alia, a National Action Plan for Children and related legislative tasks.

In November 2001, Slovakia became a party to the Optional Protocol to the Convention on the Rights of the Child on the sale of children, child prostitution and child pornography.

The integration of *socially vulnerable and disabled persons* in society remains a matter of concern. The 2001 National Programme for the Development of Living Conditions for Citizens with Disabilities has been gradually implemented. Greater accessibility has been achieved for new public buildings. Relevant legislation has been amended in the areas of employment, social security and education. Socially vulnerable and disabled persons, however, reportedly continue to face discrimination in access to higher education, employment, and social services provided by the Government.

Living conditions in institutions for mental patients give cause for concern. Conditions are very poor with overcrowding, shortage of sanitary facilities, medication, and staff. It is important to ensure that all institutions for the mentally ill provide decent living conditions and that degrading treatment of those in care is prevented.

The involvement of *trade unions* in social dialogue has been satisfactory. However, there are some concerns that implementation of legislation in this field is not duly enforced in all cases.

The revised European Social Charter has still not been ratified by the Parliament. Slovakia has not undertaken to be bound by the Additional Protocol providing for a system of collective complaints.

Minority rights and the protection of minorities

The recognised minorities in Slovakia (numbering more than ten) have continued to be comparatively well integrated in Slovak society, with the exception of the Roma minority. Considerable further steps were taken to implement the Roma strategy with a view to addressing the difficult situation the Roma community is facing.

A new census was conducted in May 2001, the results of which were published at the end of the year. 520 528 people (9.7 per cent) declared themselves to be Hungarian, 89 920 (1.7 per cent) Roma, 44 620 (0.8 per cent) Czech, 24 201 (0.45 per cent) Ruthenian, and 10 814 (0.20 per cent) Ukrainian origin. Estimates put the Roma minority, however, at up to 10% of the overall population.

Implementation of the basic treaty with Hungary has continued. As regards the issue of creating a faculty for Hungarian teachers at the university in Nitra, mentioned in last year's report, the autonomous administrative bodies of this university have not taken a decision on the matter yet.

Despite further efforts across all sectors, the situation of the Roma minority has remained difficult.

The office of the Government Plenipotentiary for Roma affairs has been strengthened, enabling it to function more effectively than in previous years. A regional office was opened in October 2001 in Eastern Slovakia, where the vast majority of Roma live. This is a positive development. The new Plenipotentiary, appointed last year, has significantly improved communication with the Roma community, the public and media, *inter alia*, by establishing an informal Advisory Board with a large number of representatives from the Roma community and civil society. The Office, in co-operation with other institutions, has started codifying the Roma language.

As a follow-up to the two stages of the Roma strategy, the office drafted "Priority tasks for the Roma community in 2002", which were approved by the Government in April 2002. The focus is put on education, support for housing and technical infrastructure, public opinion, establishment of a social-cultural centre for Roma and sociological research on the Roma community. The new strategy also includes a "complex development programme for Roma settlements", which is ambitious in scope, covering infrastructure, education and training, support for enterprises and social work. Finally, there is a pilot programme for social field-workers, aiming at establishing the position of specialised social worker in municipalities.

The Act on Public Service was amended in June 2002, introducing into the school system the position of assistant teacher and pre-school education. These measures are of special importance in facilitating the integration of children of Roma background into the standard educational system.

An Inter-Ministerial Commission for Roma Community affairs was established at the end of last year, with the aim of better targeting and co-ordinating activities of the individual sectors, making more efficient use of financial means and supporting the co-ordination role of the Plenipotentiary office. This Commission plays, however, only an advisory role and has no decision-making power. Meetings have taken place, so far, only very rarely.

Co-ordination among the relevant ministries and bodies, dealing with Roma issues, remains very weak, and some of these institutions are not properly staffed. Co-ordination problems between ministries hamper, in particular, the proper implementation of the Roma strategy. Given that municipalities and regional self-governments, as a result of last year's public administration reform, have acquired new competencies in such areas as regional development, education and social protection (*see the section above on the executive*), implementation is increasingly carried out at this level. It appears that in a number of cases the discriminatory attitudes of local communities towards the Roma make proper implementation of the projects very difficult, underpinning and perpetuating the segregation of the Roma minority in some parts of the country. On the other hand, a number of municipalities have taken local initiatives of their own in order to improve living conditions by practical measures on the ground, e.g. in housing.

Overall, despite the further positive steps taken, the majority of persons belonging to the Roma community continue to be exposed to social inequalities, and continue to experience widespread discrimination in education, employment, the criminal justice system, and access to public services. The gap between good policy formulation and its implementation on the spot, as observed in last year's report, has remained. Efforts need to be continued and reinforced to remedy this situation.

Housing conditions, notably in the so-called "settlements" mostly in the Eastern part of Slovakia, remain a matter of concern. Access to basic utilities such as water and electricity is frequently missing. The often unresolved land ownership issue prevents municipalities from vigorously tackling this problem. Solutions are being found in selected locations, either with the support of foreign donors, or due to efficient partnerships between municipalities and NGOs.

Access to public and social services has been slightly improved. NGO-run training courses have given Roma the opportunity to visit state and public institutions. However, Roma clients are not always given adequate service at district labour offices, and continue to face discrimination in daily contact with the lower levels of the state administration. Access to health care remains of particular concern. There have been few concrete developments as regards the position of Roma advisers in the public administration. There are only a small number of trained Roma advisers in Slovakia, two at regional offices, and two at district offices. No legislation has been adopted to establish the position of Roma adviser, nor has the Government disbursed funds to support this proposed policy.

The under-representation of Roma students in the education system has persisted, hand in hand with over-representation in schools for retarded children. Many good initiatives such as pre-school preparatory classes or the employment of Roma assistant teachers are still at the pilot phase, but have already achieved promising results. It is necessary that these initiatives gain more state support, including financial support, and become less dependent on support by foreign donors.

As set out above, persons belonging to the Roma community run a particular risk of being the victim of racially motivated violence, notably at the hands of "skinheads". In 2001, the police recorded 40 racially-motivated crimes, with Roma being the largest group of victims. The Ministry of the Interior has established a commission to co-operate with NGOs in investigating racially-motivated attacks.

Financial means from the state budget have been continuously increased, but remain limited, making it still difficult to translate good policy approaches into sustainable projects. The budget for the Plenipotentiary's office, however, has been doubled to around €1.2 million, which is very welcome, albeit still insufficient.

Strengthened implementation of the Roma strategy, including adequate financial support at national and local level, as well as appropriate training of the people involved, is therefore urgently needed. The frequent lack of pre-school education, teacher training which does too little to make people able to cope with the specific needs of the Roma children, poor housing conditions, and high unemployment have largely contributed to a situation which further deepens social exclusion. These issues need to continue to be tackled as a priority. The number of well-trained Roma advisors to the local authorities and the number of social workers at each level of public administration should be increased and accompanied by suitable legislative and financial support. The adoption of comprehensive anti-discrimination legislation would be a major step forward.

Concerning the implementation of the Law on the Use of Minority Languages, there continues to be limited availability of concrete data. The impression noted in the last two Reports, that in many areas national minorities do not make use of the rights granted under the law due to lack of information, remains valid.

As noted in previous years, the Slovak Republic is a party to the Council of Europe Framework Convention on National Minorities. In November 2001, the Committee of Ministers of the Council of Europe concluded⁴ that Slovakia had made valuable efforts to support national minorities and their cultures, and improvements had been achieved in recent years in inter-community relations in particular between the Hungarian minority and other parts of the population of Slovakia. The Committee added that legal guarantees pertaining to some articles of the Framework Convention needed to be strengthened, and, in a number of areas where satisfactory legal guarantees exist, further efforts were required to ensure their full implementation. Despite efforts by the Government, there remained problems in the implementation of the Framework Convention as concerns Roma, in particular discrimination encountered by persons belonging to this minority in various fields as well as their treatment by some law-enforcement officials and the extremely wide socio-economic differences between some of the Roma and the majority population.

1.3. General evaluation⁵

Whereas the 1997 Opinion and the 1998 Regular Report concluded that Slovakia did not fulfil the political criteria, the 1999 Regular Report came, for the first time, to a positive evaluation in this respect. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Slovakia continues to fulfil the Copenhagen criteria.

⁴ Resolution RES CMN (2001)5 of 21 November 2001.

⁵ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Progress was achieved with regard to the structure and functioning of the administration, notably by setting up a Civil Service Office and building up decentralised, regional administrations. Delays have occurred in implementing the Civil Service Law. The proper functioning of the self-administration may be hampered, as the transfer of competencies from state to regional level is not going hand in hand with fiscal decentralisation.

Further important steps were taken to strengthen the independence of the judiciary. In particular, further key legislation was adopted and a Judicial Council was set up. The new legislation and institutions should be used to the full, so as to guarantee the judiciary's professional impartiality and political neutrality.

Some progress can be noticed in the fight against corruption, which remains a cause for serious concern, notably by further implementing the relevant action plans and drawing codes of ethics for the public sector. These efforts must be continued.

Slovakia continues to respect human rights and freedoms.

In particular, legislation and administration was reinforced to fight trafficking in human beings. A new Asylum Act was adopted, providing, *inter alia*, for the establishment of an independent body to act as the second instance in the asylum procedure.

Considerable efforts were made in further developing and putting into practice approaches to protect minority rights. In particular, the Office of the Government Plenipotentiary for Roma affairs was strengthened and the relevant strategy enhanced and financial means increased. These efforts must be continued and reinforced as a matter of priority, to effectively combat discrimination and improve the living conditions of the Roma community. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

2. Economic criteria

2.1. Introduction

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

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

In its 2001 Regular Report, the Commission found that:

“Slovakia is a functioning market economy. Provided that it makes further substantial efforts in medium-term fiscal consolidation and in developing and fully implementing the announced structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.”

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

2.2. Summary of economic developments since 1997

Since the crisis in 1998, Slovakia has restored macroeconomic stability, although imbalances have re-emerged. After the macroeconomic situation had become unsustainable in 1997-1998, the government implemented a restrictive fiscal stance and managed to more than halve the current account deficit in 1999-2000. Concomitantly, real GDP growth dropped to 1.3% in 1999 but has steadily been accelerating since. Inflation has been reduced well into the single-digit range. Unemployment has risen significantly, mainly as a consequence of the temporary growth slowdown, accelerated enterprise restructuring and shortcomings in the functioning of the labour market. Starting in 2001, fiscal policy has become increasingly expansionary again and considerable trade and current account deficits have re-emerged. Slovakia has already implemented a number of structural fiscal reforms, but many necessary measures, especially on the expenditure side, still lie ahead. The severity of the current account deficit is mitigated by the way it is financed, a recent increase in foreign currency reserves, and, at least in 2001, by the high underlying growth in investment spending taking place in a fundamentally improved structural environment. However, investment has since moderated and consumption has become the dominant factor behind growth, with corresponding implications for the composition of imports and the sustainability of the current account deficit.

| Main Economic Trends | | | | | | | | |
|-----------------------------------------|-------------------------------------------|--------|--------------------|--------|-------|---------------------|---------|----------------------------|
| Slovak Republic | | 1997 | 1998 | 1999 | 2000 | 2001 | Average | 2002 latest |
| Real GDP growth rate | per cent | 5.6 | 4.0 | 1.3 | 2.2 | 3.3 | 3.3 | 3.9 Q1 |
| Inflation rate | per cent | 6.0 | 6.7 | 10.8 | 12.3 | : | : | : |
| - annual average | | | | | | | | |
| - December-on-December | per cent | 6.3 | 5.7 | 14.1 | 8.4 | 6.4 ^c | 8.2 | 2.0 ^c |
| Unemployment rate | | | | | | | | |
| - LFS definition | per cent | 11.8 | 12.5 | 15.9 | 19.1 | 19.4 | 15.7 | 19.4 Q1 |
| General government budget balance | per cent of GDP | -5.7 | -4.7 | -6.4 | -12.8 | -5.6p | -7.0p | |
| Current account balance | per cent of GDP | -9.3 | -9.7 | -5.7 | -3.6 | -8.8 | -7.4 | |
| | million ECU/€ | -1,725 | -1,893 | -1,088 | -772 | -1,960 ^b | -1,488 | -859 Jan.-May ^b |
| Gross foreign debt of the whole economy | per cent of exports of goods and services | 53.7 | 65.0 | 67.8 | 45.6 | : | : | |
| - debt export ratio | | | | | | | | |
| | million ECU/€ | 5,603 | 7,553 ^a | 7,707 | 6,978 | : | : | |
| Foreign direct investment inflow | per cent of GDP | 0.8 | 2.6 | 1.6 | 10.9 | 6.3 | 4.4 | |
| - balance of payments data | | | | | | | | |
| | million ECU/€ | 154 | 504 | 306 | 2,317 | 1,414 ^b | 939 | 229 Jan.-May ^b |

Sources: Eurostat. National sources. OECD external Debt Statistics

^a series break as a result of some technical changes to the definition.

^b Source: Website of the National Bank.

^c National CPI.

Since 1998, Slovakia has made very good progress in improving the structural underpinning of its economy but the process is not yet finished. The restructuring and privatisation of the inherited, largely insolvent public banking sector, which started in 1999, has basically been completed. In parallel, most remaining non-financial state-owned enterprises have been privatised. Measures have been taken to create an enabling environment for sound private sector development and to promote enterprise restructuring, although further steps are necessary. The legal framework has been considerably improved. However, the capacity to implement it effectively is lagging behind. Crucial improvements in the functioning of the labour market are also still missing.

Slovakia's per capita income as a percentage of the EU average has remained constant and substantial disparities in general living conditions and unemployment continue to exist within the country. Per capita income in purchasing power standards as a percentage of the EU average stood at 48% in 2001. In 1999, its regional distribution varied from 39% in the East Slovakia region to a very high 95% in the Bratislava region. The economic activity rate increased slightly from 69% in 1999 to 70.4% in 2001, while the employment rate declined from 58% to 56.7%. Unemployment rose to 19.4% of the labour force in the first quarter of 2002 from 11.8% in 1997 (labour force survey data). Over the same period, the unemployment rate among persons younger than 25 increased from 21.7% to 38.9%, the male unemployment rate from 10.9% to 20.1%, and the female unemployment rate from 12.8% to 18.6%. Long-term unemployed accounted for 58.3% of all unemployed in 2001, compared with 47.6% in 1999. Given the strong correlation between unemployment and social conditions, the latter may have somewhat deteriorated over recent years. However, judging from the limited available data, the social safety net seems to be providing a cushion against most social hardships.

| Main Indicators of Economic Structure in 2001 | | |
|----------------------------------------------------------|--------------------------|--------------------|
| Population (average) | Thousand | 5,380 |
| GDP per head ^a | PPS | 11,100 |
| | per cent of EU average | 48 |
| Share of agriculture ^b in: | | |
| - gross value added | per cent | 4.6 |
| - employment | per cent | 6.3 |
| Gross fixed capital formation/GDP | per cent | 31.9 |
| Gross foreign debt of the whole economy/GDP ^c | per cent | 33.4 |
| Exports of goods & services/GDP | per cent | 75.9 |
| Stock of foreign direct investment | Million € | 2,801 ^d |
| | €per head ^a | 521 |
| Long term unemployment rate | per cent of labour force | 11.3 |

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

^b Agriculture, hunting, forestry and fishing.

^c Data refer to 2000.

^d Data refer to 1999.

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.

A relatively broad-based coalition government largely maintained political consensus on macroeconomic stabilisation and structural reforms throughout its four years in office. The government steered a steady reform course, although political considerations occasionally caused some reform deceleration. The government managed to bolster its economic policy efforts by agreements with international financial institutions, in particular a Staff Monitored Programme with the International Monetary Fund and an Enterprise and Financial Sector Adjustment Loan with the World Bank. Important commitments have also been made in the Pre-Accession Economic Programme (PEP) submitted to the Commission in 2001 and updated in 2002. It reflects good progress in institutional capacity building. Nevertheless, the methodology and co-ordination for budgeting and medium-term fiscal planning need to be further advanced, as intended by the government.

Real GDP growth has steadily been accelerating after the government's stabilisation policy had caused a temporary slowdown. By 1997-1998, the relatively fast growing Slovak economy had run into unsustainable external imbalances, which had predominantly been caused by delays in structural reforms, a sizeable but largely unproductive increase in investment spending and by unsustainable fiscal expansion. This led the government to complement the already tight monetary policy with a fiscal stabilisation package. The restrictive effect of this policy mix was alleviated by strong external demand but still induced a growth slowdown to 1.3% in 1999. Since then, GDP growth has been accelerating and reached 3.3% in 2001. The external contribution to growth became negative and was replaced by a broad-based revival of domestic demand. Real fixed investment grew by 9.6%, spurred by increased profitability and a reduced corporate income tax rate. Private consumption expanded by 4% and was stimulated by an incipient employment increase, higher real wages, a personal income tax cut, and the redemption of privatisation bonds. Public consumption grew by 5.1%. In the first quarter of 2002, growth accelerated further to 3.9% and was predominantly driven by household and government consumption, which grew by more than 5%, whereas fixed investment had a slightly negative and external demand a small positive impact.

Starting from levels close to 10% of GDP, the current account deficit more than halved in 1999-2000, but doubled again in 2001. In the period from 1996 to 1998, the current account deficit had reached unsustainable levels of close to 10% of GDP. The following restrictive policy mix, coupled with strong external demand, more than halved the deficit to below 4% of GDP. However, in 2001, the current account deficit surged back up to 8.6% of GDP as a result of a strong revival of domestic demand and the concurrent slowdown in Slovakia's major export markets. Nevertheless, Slovakia can still easily finance its current account deficit and, in addition, has recently considerably increased its foreign currency reserves as a consequence of very high privatisation revenues from

foreign direct investors. Moreover, at least in 2001, the current account deficit was to a considerable extent driven by an expansion of investment, which should be much more productive now than in the pre-1999 period – as suggested by several structural improvements discussed below. However, consumption has become stronger as well and is now dominating economic growth, with corresponding implications for the size and composition of imports and the sustainability of the current account deficit.

Unemployment has risen sharply over the reference period. Enterprise restructuring and the temporary economic slowdown caused unemployment to mount from 11.8% in 1997 to 19.4% in the first quarter of 2002 (labour force survey data). It has stayed at this high level in spite of accelerating growth as an array of structural shortcomings has been hampering the labour market's capacity to reabsorb the redundant workforce. Employment started to increase in 2001 (by 1%). In the first quarter of 2002, employment was 0.2% higher than in the same period of 2001.

Inflation has been reduced to the single-digit range again, with its hikes over the reference period being mainly caused by administered price adjustments. Primarily as a consequence of price deregulation, consumer price headline inflation rose from an annual average of around 6.5% in 1997-1998 to a peak of 12.3% in 2000. In 2001, it was reduced to an average 7.3% and in July 2002 it fell to a record low of 2.0% year-on-year. The low 2002 figures are due to a virtual halt in administered price adjustments. Although these adjustments are expected to resume in 2003, the National Bank of Slovakia should be in a good position to keep the inflation rate well below the two-digit level. Core inflation, which abstracts from changes in administered prices and indirect taxes, also reached a record low of 1.2% in June and July this year.

Slovakia abandoned its exchange rate peg in the face of exchange market pressure in 1998. Against the backdrop of Slovakia's macroeconomic imbalances, the pressure on Slovakia's exchange rate peg *vis-à-vis* a deutschmark/US dollar basket surged in August-September 1998 due to political uncertainties, the crisis in Russia, and the build-up of post-election devaluation expectations. The National Bank of Slovakia (NBS) floated the Slovak crown on 1 October 1998. This led to a sharp depreciation, which basically continued until mid-1999 and was partly reversed in the second half of that year. The exchange rate against the euro remained relatively stable during 2000 and 2001. The NBS has been limiting interventions to the moderation of rapid movements and to the smoothing of strong fluctuations. To this end, it resumed interventions this year for the first time since January 2001, as the Slovak crown started to show signs of weakening due to pre-election uncertainties and re-emerged economic imbalances. After it had strengthened since the beginning of 2002, the crown depreciated from around SKK 41.5 per euro in mid-April to lows of almost SKK 45 per euro in June and July but has appreciated again since.

Monetary policy has successively been geared towards inflation benchmarks. Since the exchange rate peg was abandoned, monetary policy has been using interest rates as its main operating instrument to pursue its inflation goals. Accompanying the government's fiscal stabilisation policy, interest rates were channelled down until March 2001 to 7.75% (repo rate). They were left unchanged until April this year, when the National Bank felt compelled to react to a lack of fiscal consolidation in the pre-election period and to increased external imbalances by an interest rate increase of half a percentage point. Real interest rates dropped over the reference period and were partly negative. With inflation low, they have been rising this year. In spite of lower interest rates, bank lending

contracted in real terms during bank restructuring and privatisation and has only very recently started to recover. Given the status of financial market development and the important role of direct corporate foreign financing, the transmission of interest rate changes is still weak.

After the implementation of its stabilisation package, the government's fiscal stance has become increasingly expansionary again and now deviates from the consolidation path targeted in the pre-accession economic programme. Based on harmonised EU standards (ESA95), Slovakia notified a general government deficit for the years 1997 to 2001 which fluctuated between roughly 4.5% and 6.5% of GDP – except for the year 2000 when it spiked to 12.7% of GDP. For 2002, planned net borrowing amounts to 5.3% of GDP but includes one-off receipts of 0.5% of GDP from the sale of telecommunication licences. Starting in 1999, and in particular in 2000, the figures have been heavily influenced by the sequencing of the exceptional operations in connection with Slovakia's bank restructuring. Abstracting from bank restructuring costs and called-on guarantees (and on a GFS-basis), Slovakia had followed a restrictive fiscal stance and had reduced its general government deficit by roughly 1.5% of GDP between 1997 and 1999. Since 2001, the fiscal stance has become increasingly expansionary again, in spite of accelerating growth. In particular, the government has deviated from its PEP commitment for the general government deficit for 2002 and revised its deficit target upward by 1% of GDP, with a risk of a higher fiscal slippage remaining. In addition, the continuation of current policies would suggest a further deficit expansion in 2003. A reversal of these developments and a reduction of the fiscal pressure on the current account is contingent on decisive and rapid fiscal policy measures, including a more vigorous continuation of structural public expenditure reforms.

Government debt has substantially increased over recent years, mostly as a consequence of the bank restructuring operation. Government gross debt increased from 29.7% of GDP in 1997 to 44.1% of GDP in 2001. The government has largely excluded the use of privatisation revenues for current expenditure and committed itself to using the record privatisation revenues in 2002 for debt retirement and for financing the transition cost of the envisaged pension reform. Contingent liabilities in the form of government guarantees amount to roughly 15% of GDP.

Slovakia has started important structural public expenditure reforms, but the bulk of measures required to achieve fiscal sustainability still lie ahead. Important reform steps have been instituted in the health system but expenditure remains comparatively high and the sector is still far from being financially sound. Parametric reforms, such as relatively modest increases in the retirement age, have been initiated in the pay-as-you-go pension system but are not sufficient to brace it for the looming demographic pressures in the medium and long term. A decision on the introduction of a mandatory funded pension pillar has been taken and encompasses the use of substantial privatisation revenues for the financing of the transition costs. However, the legislation for the second pillar is not yet in place and many critical design questions remain open. Social assistance and benefits offer additional opportunities for savings without compromising their basic functions, in particular by improved targeting. In addition, the reform of education financing is not yet completed. Restrictions on the granting of subsidies and guarantees to enterprises still lack sufficient effectiveness. Considerable scope for savings also exists in connection with the civil service reform.

Tax reforms and tax reductions have been implemented but the strengthening of tax compliance has to continue. The corporate income tax rate has been reduced from 40% to 25% in two stages. The personal income tax rates have also been cut back and the number of tax brackets reduced. In addition, an import surcharge, which had been introduced temporarily in 1999, was phased out again in 2000. Reforms in tax administration have taken place but some elements, such as the implementation of a new organisational structure, have not yet been fully completed. Measures to reinforce tax compliance, in particular for VAT, are also needed. The government is creating the administrative infrastructure for the improved collection of social security contributions. The efforts to resolve tax and social contribution arrears need to be further strengthened.

Improvements in budgeting and public finance management have been introduced. The government has taken important steps to enhance the transparency and management of public finances, such as the abolition of almost all extra-budgetary funds; changes in the budgeting procedures and in budget classification; initial steps towards medium-term and programme budgeting; and towards the gradual build-up of a modern treasury system and a debt management agency. The measures are being implemented in the context of a phased fiscal decentralisation.

Although a more balanced policy mix had been reached in the stabilisation period of 1999-2000, monetary policy and tight credit conditions have been the main adjustment forces since, while fiscal policy has become more and more expansionary again. As mentioned above, monetary policy became increasingly tight during 1997-1998 but a narrowing of the unsustainable external deficits occurred only when fiscal policy became more restrictive and balanced the policy mix through the implementation of a stabilisation package in 1999-2000. In the meantime, fiscal policy has become expansionary again and has contributed to the re-emergence of external imbalances.

The free interplay of market forces has been strengthened. Several major price deregulation packages have successively been implemented since 1999, mainly in transport, energy, and housing. They enhanced cost recovery in these sectors. Administered prices rose by 38% in 1999, 21% in 2000, and 17% in 2001. The share of administered prices in the CPI now amounts to roughly one fifth. Among other measures, the liberalisation of the electricity and the gas market has begun and a Regulatory Office for Network Industries, responsible for gas, heating and electricity, started operations in October 2001.

The privatisation of non-financial public enterprises has substantially advanced. Since 1998, privatisation has avoided the deficiencies of the methods chosen in the earlier waves and has made significant further progress. As in the financial sector and in a clear break with the past, the government has been conducting its privatisation operations through transparent and competitive tenders. The major state-owned non-financial enterprises bequeathed to the new government were concentrated in the communication, utilities and transport sectors. In the meantime, most of these enterprises have been fully or at least partly privatised. The most prominent examples are the sale of a 51% stake in Slovak Telecom and of 49% stakes (with management rights) in the oil pipeline operator Transpetrol and the Slovak gas company to foreign strategic investors. The proceeds of the latter transaction amounted to around 12% of GDP. 49% stakes have also been sold in the three regional Slovak power distributors and in several bus transport companies. The private sector share in GDP now reaches around 85%. Most of the envisaged further privatisation projects are relatively small – except for the power producer Slovak

Electricity, which has already been tendered and is scheduled to be privatised before the end of 2002, and the transport operating part of Slovak Railways.

The government has dismantled barriers to market entry and strengthened market exit rules, but effective implementation still needs to be reinforced. Steps have been taken to facilitate, streamline and shorten the market entry process for new enterprises, although there is scope for further progress. Financing for new entrants is still a constraint but should be facilitated by recently adopted collateral legislation, which includes pledges on moveable assets. On market exit, the government introduced a reform of the bankruptcy framework with a view to enhancing creditor rights, accelerating procedures, and making restructuring a more realistic option. Although these were significant steps, the creation of an adequate and operational rehabilitation and exit framework is not yet finished as, for example, highlighted by the lack of trustee and judicial implementation capacity.

The legal framework for a market economy has broadly been established, although the enforcement of legal rules needs further upgrading. The government has considerably progressed in instituting the legal rules for a market economy. However, the capacity to enforce these rules lags behind. The most constraining factor is the judicial system, which needs substantial further reform. It still suffers from numerous problems, in particular a lack of human and technological resources, of managerial efficiency and of insulation against corruption.

The restructuring and privatisation of the Slovak banking sector has basically been completed. The government restructured its three largest state-owned banks (with a combined asset share of almost 50%) by injecting capital (around 2% of GDP) and carving out bad loans (around 12 % of GDP) in 1999-2000. In the course of 2001, it successfully privatised them to foreign direct investors. State-owned small and medium-sized banks have also been almost completely privatised and some insolvent small and medium-sized institutions have exited. The share of foreign-owned banks in total bank assets exceeds now 90%. The state-owned work-out institutions, to which the bad loans had been transferred, were merged this year, with the Slovak Consolidation Agency now being the only collection agency. The debt work-out is being conducted through different market-based methods and the agency is currently looking for a foreign joint venture partner to bring in additional expertise.

The banking sector is now much better placed for expansion and the fulfilment of its intermediation role. Without the bad loans transferred to work-out institutions in the course of bank restructuring, domestic credit to the private sector stood at 35% of GDP at end-2001, while deposits amounted to 62% of GDP. Bank restructuring and privatisation were accompanied by credit contraction in real terms, but recent developments suggest that lending activity to companies and households is picking up. The potential for expansion is large and will be encouraged by improvements in the legal operating environment. It will be based on the considerably enhanced stability of the sector. The aggregate capital-adequacy ratio based on Slovak accounting standards, for example, was almost 20% at end-2001 in comparison with less than 1% before bank restructuring (June 1999). Similarly, the ratio of non-performing loans to total loans dropped from almost 40% before bank restructuring to roughly 13%. Profitability remains low. The widespread presence of foreign direct investors is likely to enhance competition and efficiency and to improve corporate governance and risk management, including of the indirect risk arising from corporate customers with high foreign currency debt.

The intermediation role of the non-bank financial sector remains minor, although steps have been taken to facilitate its development. The government has strengthened the legislative framework for securities markets so as to achieve, *inter alia*, better protection of shareholder rights. A new securities law and commercial code have been adopted. Nevertheless, both capitalisation of and activity in securities markets remain very low. The bond market is dominated by government paper. A substantial reform of the framework for debt issuance and management and of the domestic debt market is still outstanding. In the insurance sector, the state-owned Slovak Insurance Company, with a market share of close to 50%, was sold to a foreign investor. Institutional investors invest mostly in bank deposits and government paper. Implementation of the envisaged pension reform and the ongoing growth of the insurance sector could help to enlarge the institutional investor base and to foster financial sector development.

The legal basis for financial sector regulation and supervision has been substantially enhanced but the upgrading of the implementation capacity to international standards has only recently gained momentum. Important legal improvements were, for example: the amendments to the NBS law and the Slovak constitution, which strengthened the power and accountability of the NBS banking supervision department; the introduction of a new banking law; a new securities act; a new insurance act; and the legislation underlying the creation of the new Financial Market Authority. However, many legal improvements have not yet been matched by satisfactory implementation, including in the area of accounting standards and auditing. Sufficient regulatory and supervisory implementation capacity is a pre-condition for keeping pace with the quantitative and qualitative expansion of an increasingly competitive and potentially more risk-inclined financial sector. The implementation of measures to create adequate banking supervisory capacity has recently gained strong momentum. Concerning non-bank financial institutions, the legal basis for their new supervisor, the Financial Markets Authority, has just been reformed and the agency's operational capacity is not yet fully established. A strategy for better co-ordination and for unification of financial market supervision within the NBS by 2005 is being drawn up and gradually implemented.

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

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

Slovakia has created a broadly predictable operating environment for economic agents. It has restored macroeconomic stability, although its maintenance is conditional on rapid fiscal measures to counteract re-emerged imbalances. In addition, Slovakia has demonstrated that it can endure difficult and prolonged structural reforms.

Although some progress has been made, there remains scope for a more growth-enhancing use of Slovakia's human capital resources. Slovakia suffers from a relatively low employment rate and, as mentioned above, unemployment has risen substantially. Improvements in this situation have been hampered by a broad array of structural shortcomings affecting the functioning of the labour market. Regional mobility could be improved through a reform of the housing market and transport system. Reforms in the health and social-protection systems still have to reduce the relatively high contribution wedge and to remove disincentives for employment creation and acceptance. Inflexibilities in the labour legislation, which have not been helped by the recent amendments to the labour code, add to the problems. Inefficiencies in the labour administration persist. Skill mismatches also play an important role in keeping unemployment high. To foster the competitiveness of Slovakia's already well-developed human capital endowment and to adapt it to new skill requirements, the education system has undergone several reforms, such as the decentralisation and diversification of service delivery and curricula changes. However, demographic changes and the increased and qualitatively changed demand for secondary and tertiary education, for instance, have not yet been sufficiently reflected in the reforms and the expenditure alignment. School enrolment rates are at 73% for upper secondary education and 20% for tertiary education.

Gross fixed capital formation has increased again and is now apparently predominantly private-sector-driven and supported by the increased involvement of foreign direct investors. Gross fixed capital formation fell sharply in 1999 but has recovered since. In particular in 2001, it rose by 9.6% in real terms and amounted to more than 31% of GDP. Starting from this high base, the growth rate in 2002 seems to be considerably lower and was indeed slightly negative in the first quarter. In sharp contrast to today, investment decisions and credit allocations in the pre-1999 period were determined by distorted incentives, weak corporate governance, and government interference. Today, they take place in a fundamentally improved structural environment, are subject to a considerably hardened budget constraint, and heavily directed by foreign direct investors. In consequence, they should be much more productive and have a distinctly augmented potential to contribute to Slovakia's growth. In addition, extensive foreign participation plays a major role in transferring technological and managerial skills. Foreign direct investment to GDP has considerably increased from below 2% of GDP between 1997 and 1999 to an average of around 8.5% of GDP in 2000-2001 – not only owing to privatisation but also as a result of greenfield investments. Specifically targeted measures to facilitate and encourage such investments have been introduced – sometimes coupled with steps to foster disadvantaged regions. However, the task of ameliorating the general business climate, which is at least equally crucial for attracting foreign investment, is not yet completed.

The transport and telecommunication infrastructure has expanded, while expenditure for research and development declined as a share of GDP. Concerning infrastructure developments, the length of motorways has been increased by 35% over the reference period. However, the removal of road infrastructure bottlenecks is not always pursued in the most efficient way, as for example evidenced by an overemphasis on road construction as opposed to road maintenance. The number of main telephone lines rose by 12%, the number of cellular phone subscriptions by a factor of more than 11 and the number of internet subscriptions by a factor of 3.5. Expenditure on research and development declined from 1.1% of GDP to 0.7% of GDP.

Enterprise restructuring has advanced and profitability has strengthened. Restructuring and the exit of unprofitable enterprises are being fostered by a hardened budget constraint and improved corporate governance. Major ingredients leading to these results have already been mentioned and include the restructuring and privatisation of the banking sector, the still ongoing resolution of the carved-out bad loans, and various legislative changes (commercial code, securities law, bankruptcy framework). Profitability has been successively improving and the dichotomy between loss- and profit-making enterprises has become less accentuated. This is evidenced by an increase of the ratio of value-added in profitable enterprises to that in loss-making enterprises from 2.8 in 1999 to 10.3 in 2001. Nevertheless, the factors conducive to enterprise restructuring need to be further strengthened, as problems remain predominantly in domestically owned enterprises. In addition, a more restrictive and conditional granting or prolongation of state guarantees and subsidies to enterprises would foster restructuring. Arguably, the most challenging remaining public enterprise restructuring project concerns Slovak Railways, which was divided into a network operator and a cargo and passenger transport operator as a preparatory step for the privatisation of the latter.

The service sector has become more important, in particular as regards its share in employment, which has increased from 52% to 57% over the reference period. This was matched by a decrease in the share of agriculture and forestry from 9% to 6%, in the share of industry from 30% to 29% and in the share of construction from 9 to 8%. Looking at its contribution to gross value added, the expansion of the service sector has been somewhat less accentuated. Its share increased from 60% to 63%, whereas the share of agriculture fell from 6% to 5% and the share of construction from 7% to 5%. The share of industry in gross value added remained basically unchanged at 28%.

Support measures for small and medium-sized enterprises have been put in place. They are co-ordinated by the National Agency for the Development of Small and Medium Enterprises (Nadsme). Income tax reductions and specific tax simplifications assist SME development. SMEs contribute roughly 30% of exports and 60% of employment. However, labour market flexibility and legislation do not yet sufficiently cater for the needs of SMEs. The access of small- and medium-sized firms to external financial means is still limited but should improve with the post-restructuring expansion of the banking sector. Legal reforms and their effective implementation, for example with respect to the recently approved collateral legislation, should contribute to fostering banks' willingness to lend to SMEs.

Government interference in the enterprise sector has been markedly reduced, in particular as the government has severed its ties with the banking sector and achieved strong progress in non-financial enterprise restructuring and privatisation. Nevertheless, some remaining public enterprises still receive a considerable amount of subsidies and guarantees.

Slovakia is a very open economy, has reached a high degree of trade integration with the EU, and has increased its competitiveness. The sum of its imports and exports of goods and services has increased from 122% of GDP in 1997 to about 160% of GDP in 2001. Given this figure, the increase of the share of exports to the EU in total exports from 47% in 1997 to 60% in 2001 and the increase of the share of imports from the EU in total imports from 44% in 1997 to 50% in 2001 reflect a very high degree of trade integration with the EU. Apart from sizeable, mostly energy-related, imports from Russia, most non-EU trade is conducted with the Czech Republic. Machinery and manufactured products

continue to dominate on the import and export side. Labour productivity has grown significantly in line with accelerated enterprise restructuring. Coupled with wage moderation, this has contributed to Slovakia's external price competitiveness. The real effective exchange rate (calculated on the basis of unit labour costs) depreciated substantially in the period spanning approximately from mid-1997 to end-1999. It roughly remained around or below the end-1999 levels throughout the export boom year 2000 and throughout 2001. The effects of this year's high real wage increases have most recently been dampened by the pre-election weakening of the Slovak crown.

2.4. General evaluation⁶

The 1997 Opinion already acknowledged the reform efforts undertaken by the Slovak authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Slovak authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that the Slovak Republic is a functioning market economy. The continuation of its current reform path should enable the Slovak Republic to cope with competitive pressure and market forces within the Union.

Improvements can be made to the macroeconomic situation, which requires urgent measures to reduce both the fiscal and current account deficits. Expenditure reforms, in particular in the health and pension area and as regards subsidies and guarantees, are essential. The unemployment problem necessitates a whole range of structural reforms, including the elimination of disincentive effects in the social protection system and a more flexible labour legislation. Supervision of the financial sector can be further strengthened. The effective implementation of the legal framework for a market economy needs to be further enhanced.

⁶ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

3. Ability to assume the obligations of membership

Introduction

This section addresses the question of Slovakia's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*⁷, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 Regular Report, this section seeks to provide an overall assessment of Slovakia's ability to assume the obligations of membership, and of what remains to be done. Furthermore, it includes an evaluation of Slovakia's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 negotiating chapters, and incorporates an assessment of Slovakia's administrative capacity to implement the *acquis* in its various aspects. Slovakia's progress in translating the *acquis* into its official language is assessed in a separate section.

In December 1995, the Madrid European Council remarked on the need to create the conditions for the gradual, harmonious integration of the candidate countries, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of effectively incorporating Community legislation into national legislation, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential precondition for creating the mutual trust indispensable for future membership.

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of Slovakia's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

"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."

In the 2001 Regular Report, the Commission found that :

"Slovakia has continued to make good progress in legislative alignment with the acquis. As last year, progress has not been uniform across chapters. Significant progress has

⁷ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Slovakia's application for EU membership.

been achieved in areas such as free movement of goods, company law, social policy and employment as well as customs union. Structural weaknesses have persisted in a number of sectors, namely in agriculture as well as regional policy and co-ordination of structural instruments. While further progress in strengthening administrative capacities was made, reinforced and sustained efforts are needed across all sectors.

Concerning internal market legislation, further progress has been achieved, notably in free movement of goods and free movement of services. In the area of free movement of persons, progress continues to be limited. In company law, with the exception of trademarks, significant legislative progress has been made, especially through further alignment with the company law directives and adoption of a new patent law. Appropriate strengthening of administrative and judicial bodies involved in all areas of intellectual and industrial property rights should be continued. In competition policy the amendment to the Act on State Aid has brought the legislative framework largely in line with the acquis. In contrast to the anti-trust area, however, the enforcement record in the field of state aid remains rather sketchy and non-transparent. Administrative capacities in the internal market domain need reinforcing, in particular as regards the supervision of financial services.

As regards agriculture, overall steps both in aligning and implementing the acquis have been limited with the exception of veterinary issues, where significant progress was made. Efforts should be reinforced to establish an Integrated Administration and Control System, the adoption of specific market regulations should be accelerated, alignment in the phytosanitary sector speeded up and administrative capacities, including border inspection posts, strengthened.

Further legislative alignment was achieved in the field of transport, notably in relation to land transport. Substantial alignment across all sectors and reinforcement of the administrative capacities, including completing the setting-up of the necessary structures is, however, needed.

Limited legislative alignment of indirect and direct taxation has been accomplished and additional efforts are required for adjusting VAT and excise duty rate levels. The reform of the Slovak tax administration has moved forwards, the measures for its modernisation should be vigorously pursued. The IT tax information systems allowing for the exchange of electronic data with the EC and its Member States should be developed.

Further positive steps have been taken in the energy sector with the decision to substantially open the domestic electricity market and the launching of the privatisation of major energy companies. As regards nuclear energy, Slovakia should implement its decommissioning commitments, and continue to ensure a high level of nuclear safety. In industrial policy, Slovakia kept its reform momentum by continuing privatisation, particularly in banking privatisation, and enterprise restructuring. With the exception of postal services, Slovakia has reached an overall high degree of alignment in the area of telecommunications and information technologies. Emphasis should now be put on the effective implementation and strengthening of administrative capacities. Legislative alignment in the field of consumers protection, notably on non-safety related issues, has continued. Efforts to ensure adequate co-ordination and strengthening of those bodies involved in market surveillance need to be continued.

In the field of social policy and employment, considerable progress has been achieved notably in further aligning with the acquis in the area of labour law and equal treatment for men and women. The focus needs to move now to the implementation, with a particular emphasis on the enforcement of health and safety at work.

Progress in the field of regional policy and co-ordination of structural instruments has continued to be limited. The lack of sufficient and qualified staff in the relevant ministries and bodies involved remains a matter of concern.

Concerning environment, legislative alignment – with the exception of water quality, nature protection and industrial pollution and risk management, has well advanced although substantial alignment is still lying ahead. The measures to strengthen the administrative capacities should be rigorously pursued.

In the area of co-operation in the field of justice and home affairs, further progress in terms of alignment and administrative capacities has been achieved notably with regard to external border control by, inter alia, adopting a Schengen Action Plan, as well as in the fields of visa policy and police co-operation. Considerable progress in all relevant areas is needed, including reinforced efforts for strengthening administrative capacities.

Considerable steps were taken in the area of customs union with the entering into force of the new Customs Act and the Act on State administration bodies in the field of customs. IT systems allowing for the exchange of computerised data between the EC and Slovakia should be developed. Significant progress can be reported in the area of financial control, where the basic legislative framework for public internal financial control and external audit is now in place. Particular emphasis should be put on the area of control over structural action expenditure and protection of EC financial interests.

As regards administrative capacities, while good progress was made in a limited number of domains in strengthening the relevant institutions, overall progress in this regard has been limited. Whereas considerable progress has been achieved in the areas of free movement of capital and customs union, little progress can be reported notably in agriculture, transport policy, regional policy and co-ordination of structural instruments as well as co-operation in the fields of justice and home affairs. As regards enforcement, more efforts should be invested particularly in the areas of company law, competition policy, as well as social policy and employment. The positive momentum reached in strengthening administrative capacities in the areas of taxation, energy and environment should be maintained. The institutions and mechanisms related to the efficient and controllable management of EC funds needs to be considerably strengthened.

The decision of the Government to increase the number of staff dealing with EU integration by approximately 1 200 persons by 2002 is a welcome step necessary to strengthen the overall still weak administrative capacities.

The short term priorities of the 1999 Accession Partnership have been met to a large extent in the field of internal market and social policy and employment; they have been partially met in the area of energy as well as co-operation in the fields of justice and home affairs and only to a limited extent in agriculture and environment. All medium term priorities have been partially met, with the exception of transport policy, regional policy and co-ordination of structural instruments as well as environment, where priorities were fulfilled only to a limited extent."

3.1. The chapters of the *acquis*

As indicated, the following review of Slovakia's ability to assume the obligations of membership has been structured in accordance with the list of 29 negotiating chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of progress on each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Progress since the last Regular Report

Since the last Regular Report, Slovakia has continued to make good progress in this area, with further legislative alignment in particular in the fields of the New and Global Approach and public procurement.

In the area of **horizontal and procedural measures**, amendments to the already existing framework legislation on technical requirements for products and on conformity assessment entered into force in November 2001, thus further aligning with the *acquis*. This legislation governs the method for determining technical requirements; the development, approval and issuance of Slovak technical standards; procedures for conformity assessment; rights and obligations of manufacturers, importers and those placing products on the market; and certain aspects of market surveillance. A new, separate law covering market surveillance, effective from April 2002, has established the legal basis for the enforcement of CE marking.

Further progress can be reported as regards the adoption of **sector-specific legislation**. In the areas covered by *New Approach Directives*, government ordinances for the transposition of the EC Directives on simple pressure vessels, lifts, medical devices, active implantable medical devices and in-vitro diagnostic medical devices were adopted in the reporting period. Furthermore, amendments to existing governmental ordinances were also adopted with respect to machinery, explosives for civil use, electrical equipment used within certain voltage limits, gas appliances, electromagnetic compatibility, equipment for use in explosive atmospheres, hot water boilers, refrigerators and freezers, marine equipment, non-automatic weighing instruments and personal protective equipment. Most of the New Approach Directives have now been transposed.

Further progress was also made in the sectors covered by *Old Approach Directives*. In the field of *chemicals*, following the entry into force of the new Act on Chemical Substances and Preparations in June 2001, a number of implementing regulations transposing EC Directives were adopted. In the field of pharmaceuticals, a government decree on the registration of medicines, which transposes the *acquis* on marketing authorisations, entered into force in January 2002. An amendment to the 1998 Act on Medicines and Medical Devices entered into force in December 2001, thereby introducing ten year data exclusivity for high technology medicinal products. Decrees aimed at transposing the *acquis* on labelling the composition of textiles, glass and footwear entered into force in 2002. No further progress can be reported as regards motor vehicles.

As regards the issue of *food safety and foodstuffs legislation* (see also Chapter 7 - *Agriculture*), there was some progress, notably the removal of some provisions related to the pre-market approval procedures in place in Slovakia. At the same time, the Ministry of Agriculture issued a decree introducing compulsory notification of all manufactured and imported foodstuffs. This measure contradicts the objective of a proper incorporation of the Community *acquis* into the Slovak system and will therefore need to be brought in line. Amendments to the Food Act provided for the establishment of the State Veterinary and Food Administration (SFVA). In addition, an inter-sectoral Food Safety Commission was created to enhance co-ordination between the various institutions involved in the food safety area.

An Act on the Return of Unlawfully Removed Cultural Goods was adopted in June 2002 aimed at implementing the two Directives in this field from accession. As regards the transposition of the *acquis* on firearms, no particular progress can be reported.

As regards the development of Slovakia's administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, further improvements can be noted. In the field of *standardisation*, the Slovak Institute for Standardisation (SÚTN) achieved full membership of the European Committee for Electrotechnical Standardisation (CENELEC) in June 2002. Harmonisation with EC standards has surpassed the 80% required for membership of the European Committee for Standardisation (CEN). According to the Slovak authorities, in the sectors proposed for inclusion in the Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA), the adoption rate of harmonised standards is 100%. A government ordinance for the transposition of the EC Directive laying down a procedure for the provision of information in the field of technical standards and regulations was adopted in July 2002. No progress can be reported on the measures to be taken with regard to the EC Regulation concerning the checks for conformity with the rules on product safety in the case of products imported from third countries. Although this Regulation will be directly applicable from the date of accession, Slovakia needs to set up the necessary enforcement structures well before accession.

Since the last Regular Report, some further progress has been made as regards the **non-harmonised area**, mainly as concerns information procedures. However, limited progress can be reported as regards the systematic screening of legislation for provisions that might not be compatible with Articles 28 to 30 of the EC Treaty.

In the area of **public procurement** two amendments to the Act on Public Procurement were adopted in the reporting period, the latest in July 2002. This second amendment, expected to enter into force at the beginning of 2003, is intended to improve transparency in selection and award procedures and further clarify certain aspects related to review procedures, dealing, for example, with the award of damages by the Public Procurement Office and the possibility of legal appeals against its decisions. The amendment also aims to tackle some of the other previously identified shortcomings such as excessively broad exceptions from the law, the exclusion of bodies governed by public law, the inadequate coverage of purchasing entities in the field of utilities, the requirement to have 'entrepreneur' status and the need to abolish discriminatory provisions in favour of underdeveloped regions.

Overall assessment

Despite some progress in the non-harmonised area, the situation is still unclear as regards legislation in conflict with Articles 28-30 EC. The Slovak authorities should ensure that all legislation that is not compatible with Articles 28 to 30 of the EC Treaty is amended by the date of accession. More information on transposition measures and enforcement arrangements concerning other related legislative instruments is still awaited.

As regards sector-specific legislation for areas covered by New Approach Directives, transposition is almost complete, with most of the relevant Directives transposed. Work remains with regard to the pressure equipment and, transportable pressure vessels Directives. In the area of Old Approach Directives, the *acquis* on chemicals, cosmetics, legal metrology, pre-packaging and wood has been largely transposed. However, further progress is required in the pharmaceuticals area, where alignment of price controls still needs to be achieved and the central procedure for registration and the procedure for the mutual recognition of registrations need to be implemented by the date of accession. The renewal of existing marketing authorisations for pharmaceuticals should also be completed. Also, transposition of the motor vehicles *acquis* is outstanding.

In terms of transposition of the foodstuffs *acquis*, Slovakia is behind schedule. Additional efforts are needed to achieve full transposition and to guarantee the quality of the implementing provisions. Further steps are also necessary in order to dismantle the authorisations, registrations and other forms of control prior to marketing in all instances where such procedures are not provided for by Community law. As for novel foods, there is currently no official approval system in place for specifically novel foods, including genetically modified foodstuffs, nor any specific legislation in force.

As for administrative capacity, Slovakia's standardisation and accreditation bodies have been in place for some years and continue to function well. The Slovak National Accreditation Service (SNAS) is a member of the European Cooperation for Accreditation (EA) and will participate fully in the multilateral agreement (MLA) from the end of 2002. In June 2002, the Slovak Institute for Standardisation (SUTN) became a full member of CENELEC and formal membership of CEN is scheduled for the end of 2002. In the past year, Slovakia has increased the personnel capacity of the Slovak Trade Inspectorate, the Centre for Chemical Substances and Preparations and the State Institute for Drugs Control. Reorganisation of market surveillance structures has also taken place following adoption of the new Act on state control of the internal market in consumer protection issues. Such efforts at reinforcing capacity should be sustained. In all industrial sectors, the relevant administrative infrastructure for application of the *acquis* must be in place and functioning effectively by the date of accession, if not before.

In the area of foodstuffs, further reinforcement of administrative capacity is required, despite the progress made. As the mandate of the newly established State Veterinary and Food Administration remains ambiguous, co-ordination between the various services is vital. The use of laboratories needs to be streamlined and their personnel trained, partly so as to be able to put in place the necessary structures and procedures in line with the EC *acquis*. Clear guidelines and procedures need to be set up to operate fully a rapid alert system for food and feed and the creation of a commission for crisis management is awaited. The national contact point also needs to be designated and an adequate network with IT equipment established. The compliance of food producers with Hazard Analysis

Critical Control Point Systems (HACCP) principles remains a major challenge and a plan of action for their implementation would be welcome.

As regards safety checks on products at external borders, Slovakia still needs to establish appropriate customs and market-surveillance infrastructure, as well as effective administrative co-operation between competent authorities.

As regards the transposition of the *acquis* on firearms, a new law on weapons and ammunition aimed at ensuring full compatibility with the *acquis* is under preparation. The foreseen transposition measures will need to be examined, including as concerns the establishment of national procedures for the exchange of information and issuance of European firearms passes.

As regards public procurement, despite the fact that the Public Procurement Office is functioning well and is carrying out its tasks in a very proactive way, further efforts should still be made towards guaranteeing a wider and more regular monitoring and control system and towards increasing the quality and number of inspections. Infringements committed by procuring entities seem to be still quite common, especially at the level of municipalities. Further efforts are needed to ensure transparency and enforcement of current rules at all levels of government and in all sectors. In performing the review procedures, steps should be taken to reinforce total independence and adequate capacity of the Office.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia was progressively taking on the full *acquis* related to the free movement of goods but that the slow progress in legislative alignment and in implementing a compatible system of voluntary standardisation and conformity assessment reflected weaknesses in compliance with the provisions of the Europe Agreement. It was nevertheless noted that it was not expected that the free circulation of goods would be a major obstacle at the point of accession.

Since the Opinion, progress has generally been good. Transposition of the *acquis* is reasonably advanced and administrative capacity largely in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this field. Slovakia is generally meeting the commitments it has made in the accession negotiations in the free movement of goods area.

In order to complete preparations for membership, Slovakia's further efforts should now focus on alignment in the field of motor vehicles, where the exact form of the transposition is yet to be determined following decentralisation of competencies, and in the area of pharmaceuticals as outlined above. Furthermore, a special focus on food safety and foodstuffs legislation and implementation is required, as is the completion of systematic screening of legislation in the non-harmonised areas and removal of legislation contrary to the *acquis*. More generally, continued improvements to administrative capacity should be made.

Chapter 2: Free movement of persons

Progress since the last Regular Report

Further progress has been achieved since last year in this area.

In the area of **mutual recognition of professional qualifications**, some progress was achieved. The Act on Mutual Recognition of Professional Qualifications, adopted by the Parliament in June 2002, aims to establish a general framework for the recognition of foreign professional qualifications in Slovakia and to align with the general systems directives. Under this Act, the Centre for Equivalence for Diplomas has been established as an organisational unit of the Ministry of Education. In February 2002, the Parliament adopted the Act on Higher Education, which makes a clear distinction between academic and professional recognition of qualifications. In April 2002, the Parliament adopted laws in the area of health care, accelerating legislative alignment with sectoral directives.

Good progress can be reported on **citizens' rights**. With the new Act on Stay of Aliens, effective from April 2002, Slovakia has aligned its legislation with the *acquis* provisions on residence rights. There have also been developments in the area of voting rights. The Amendment to the Act on Elections to Municipal Self-Government Bodies, which came into force as of March 2002, authorises foreigners with permanent residence in Slovakia to elect and to stand as a candidate for municipal self-government bodies.

There have been developments in the area of **free movement of workers**. The safeguarding of the supplementary pension rights of employed and self-employed persons moving within the Community has been regulated by the latest amendment to the Act on Supplementary Pension Insurance, adopted by the Parliament in May 2002.

Preparatory works has continued to facilitate Slovakia's participation in the European Employment Services network (EURES).

Slovakia has continued to strengthen bilateral relations with a view to the future **co-ordination of social security** matters and development of institutional capacity has accelerated. The adoption by the Parliament of the Act on Social Insurance in May 2002 and the Act on Health Insurance in August 2002 have been the first steps in the social security reform in Slovakia.

Bilateral agreements covering health insurance and pension benefits were signed in December 2001 with Austria and in May 2002 with Spain. A similar bilateral agreement with the Netherlands entered into force in May 2002.

Overall assessment

In the area of mutual recognition of professional qualifications, Slovakia needs further legislative work to achieve alignment and to provide for the establishment of the necessary administrative bodies. With respect to professional qualifications obtained before harmonisation, Slovakia needs to introduce measures to ensure that all its professionals, particularly in the health care sector, can, as of accession, meet the requirements laid down by the directives. Shortcomings identified in the curricula and training of dentists and midwives need to be addressed urgently. A major effort is needed in the short term to improve considerably training for the latter.

In particular, a fully aligned general framework for the recognition of foreign professional qualifications has to be established. Alignment with the general systems directives and certain sectoral directives on health care workers and architects is still to be achieved. It is important that an amendment to the Act on Advocacy removes current restrictions on the right to practise for EU lawyers and does not create new ones. The Centre for Equivalence for Diplomas has still to be designated as the contact point and national co-ordinator for the general system directive.

By accession, it has to be ensured that all Slovak legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements. Legislation needs to be monitored to ensure that it includes simpler procedures to allow for the provision of services.

With the adoption of legislation on residence rights, Slovak legislation is now largely aligned with the *acquis* on citizens' rights. The work for finalisation of the legislation on voting rights, in particular relating to the European Parliament elections, should continue.

Preparations should also continue to align with the provisions on free movement of workers.

Further progress is necessary to strengthen Public Employment Services with a view to future participation in the EURES network.

With a view to the future co-ordination of social security systems, further work to develop the necessary administrative structures, in particular through the training and recruitment of additional staff, is needed. Institutional capacity needs to be strengthened further so as to enable Slovakia to apply the *acquis* on co-ordination of social security. Agreements such as those signed with Austria, the Netherlands and Spain on social security will facilitate Slovakia's compliance with the regulations as of accession, as they normally rely on the same principles as the social security co-ordination regulations, and this will familiarise the administration with the relevant procedures.

Conclusion

In its 1997 Opinion, the Commission concluded that part of the *acquis* on mutual recognition of diplomas was already taken over and that training, for those professions where a minimum co-ordination is foreseen in the directives, was rather broadly in line with the *acquis*, although a number of adaptations were still necessary. It added that the necessary structures to facilitate the free movement of persons seemed to be in place, but that it was difficult to fully assess their real effectiveness. Finally, the Commission indicated that adaptation of regulations and implementation/enforcement structures relating to free movement of persons was needed if Slovakia was to fully adopt the *acquis* in this area and added that the achievement of these adaptations was feasible in the medium term.

Since the Opinion, Slovakia has made progress in aligning with the *acquis* in this area, and has further strengthened the relevant institutions, including with regard to the future co-ordination of social security systems. The process of bringing Slovakia's legislation and structures in relation to the free movement of persons into line with the *acquis* has developed satisfactorily, and although further efforts are required, legislative and other work has generally been carried out in a timely manner. In overall terms a high level of

alignment with the *acquis* has been achieved and administrative capacity is developing satisfactorily.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia has agreed to a transitional arrangement in respect of the free movement of workers put forward by the EU. Restrictions on the movement of workers from Slovakia to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on the adoption of outstanding legislation with regard to mutual recognition and on further strengthening institutional capacity in all areas. The training needs identified with respect to midwives' and dentists' training should be addressed.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

Since last year's Regular Report, Slovakia has made good progress, mainly regarding financial services and enhancing administrative capacity.

In the field of **the right of establishment and the freedom to provide services**, some progress can be recorded. The Act on Lotteries and Similar Games, adopted by the Parliament in June 2002, will remove the requirement of Slovak nationality for the positions of director, financial director and casino managers from January 2003.

In the field of **financial services**, with regard to the banking sector, the amendment to the Act on the Protection of Bank Deposit entered into force in December 2001. The amendment partially aligned Slovak legislation with EC requirements. Banking deposits of legal persons of non-profit and non-business nature are now covered by a deposit protection scheme and the compensation amount for unavailable deposits has started to rise in order to reach the EC level upon accession. Membership of the scheme is compulsory for all banks. They are required to make contributions in proportion to their deposit base.

The new Act on the *Insurance* Industry entered into force in March 2002, though some provisions which will only enter into force upon accession. It has enhanced the supervisory powers of the Financial Market Supervision Authority over the insurance market in Slovakia.

Slovakia has achieved good progress since last year's report in the area of *investment services and securities markets*. The new Act on Securities and Investment Services came into force as of January 2002 and aims to transpose the *acquis* on investment services in the securities field and regarding rules of capital adequacy of investment firms and credit institutions. This Act established an Investor-Compensation Fund, which became operational in June 2002. The new Act on the Stock Exchange, which came into force in August 2002 - though certain provisions will only enter into force upon Slovakia's accession to the EU -, has aligned with the *acquis* the requirements for the listing and trading of securities on the stock exchange. With the adoption by the Parliament in June

2002 of an amendment to the Collective Investment Act, expected to come into force in January 2003, Slovakia took a further step towards implementing the *acquis* on collective investment.

With regard to financial supervision, further progress can be reported. The new Act on Financial Market Supervision, which entered into force in April 2002, has replaced the Financial Market Authority with the Financial Market Supervision Authority, which is no longer financed from the state budget but through contributions of financial market participants. The Slovak Government adopted the Integrated Financial Market Supervision Concept in March 2002, which sets up a gradual process for an integrated financial market supervision. In the first phase, the two existing supervisory bodies, i.e. the National Bank of Slovakia Supervision Department - which supervises credit institutions - and the Financial Market Supervision Authority - which oversees insurance companies and capital markets - will be strengthened and their co-operation will become closer. Legislative changes are expected to be adopted by 2004 with the aim of merging the two institutions by the end of 2005.

Concerning the **protection of personal data and the free movement of such data**, progress was achieved through the adoption of the new Act on Personal Data Protection, which came into force in September 2002. This Act will establish the new Personal Data Protection Office and has strengthened the independence of the Commissioner for the protection of personal data, who is currently appointed by the Parliament on a proposal from the Government.

As regards the **information society regulations**, the Act on Electronic Signature, which entered into force in May 2002, has defined the conditions for use of electronic signature as legally equivalent to hand-written signature.

Overall assessment

In the field of the right of establishment and freedom to provide services, Slovakia is considerably advanced. It has, in particular, removed a number of nationality and residence permit requirements. Ambiguities, however, remain as regards other potential restrictions to the right of establishment and free provision of services existing in the Slovak legislation. Slovakia needs to identify possible restrictions, and remove them before accession.

Slovak legislation is in line with the relevant banking *acquis*. The National Bank of Slovakia, as regulator of the banking industry, has issued rules and is implementing policies and practices which are similar to the Recommendations of the Basle Committee on Banking Supervision and in line with EC directives. The National Bank of Slovakia has started on-site examinations in all existing banks but should increase their frequency and has to continue upgrading the training and number of prudential supervisors. Further measures are needed in order to fully transpose the capital adequacy Directive for market risks and to implement the legislation on the deposit guarantee scheme and the schedule for meeting the EC minimum level of guarantee. The deposit guarantee scheme should be structured in such a way that it will, after accession, be able to cover foreign branches of Slovak banks.

As regards the insurance sector, there are still significant gaps in the implementation of the relevant *acquis*. Further progress in terms of legislative alignment and administrative

capacity is therefore needed. Slovakia still has to transpose substantial parts of the Directives in the area of life and non-life insurance, insurance accounts and motor vehicles.

In the field of investment services and securities markets, Slovakia is well advanced. Nevertheless, on the investor compensation scheme, the alignment of the levels of compensation with the EC requirements needs to start as a matter of urgency.

At the same time, Slovakia has still to fully and accurately transpose the Directive on undertakings for collective investment in transferable securities (UCITS). The current different legal concepts of UCITS are not clearly identified. In particular, in view of the unlicensed pyramid scheme scandal leading to fraud of retail investors on a rather large scale, it is essential for Slovakia to demonstrate willingness and ability to fully and accurately implement the UCITS directive in order not to damage the single market for UCITS after accession.

The overall framework of supervision in the financial services sector in Slovakia has been strengthened. However, the newly created Financial Market Supervision Office should have the power to issue secondary legislation, currently vested in the Ministry of Finance in accordance with the Slovak Constitution. The Financial Market Supervision Office should be ensured to have operational independence from financial market participants. The Banking Supervision Department needs more legal enforcement powers, in particular regarding the shortage of qualified supervision resources. Supervisory standards need to be improved and early enforcement action against unlicensed non-banking financial institutions needs to be taken so as to avoid serious damage to investor confidence. In view of the future integration and merger of the two existing supervisory bodies, efforts should be made to strengthen their mutual co-ordination in the implementation of existing legislation.

Slovakia has advanced in the area of the protection of personal data and the free movement of such data both as regards legislative alignment and administrative capacity, although it still has to be assessed whether the amendments introduced by the 2002 Act actually overcome all the previous shortcomings. Further efforts will be needed to implement the new Act on personal Data Protection and public-awareness raising will be key for ensuring actual compliance with the law.

In the field of information society services, the e-commerce and the transparency Directives have to be transposed.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia had taken some steps towards alignment with the *acquis* in the area of financial services and, in particular, that legislative approximation in the securities area was achievable over the medium term. However, it added that considerable efforts were needed both to adequately enforce the banking legislation, particularly in regard to the remaining state-owned banks, and to effectively adopt and implement the *acquis* in the insurance sector.

Since the Opinion, Slovakia has made steady progress in most areas of the chapter, both in terms of legislation and in bolstering the administrative and regulatory infrastructure required to supervise the financial services sector. Slovakia's alignment process is now

well advanced, but further legislative alignment is still needed with regard to some aspects of the *acquis*, as well administrative strengthening.

Negotiations on this chapter have been provisionally closed. Slovakia has been granted a transitional period (until January 2007) with respect to investor compensation schemes. Slovakia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on completing legislative alignment in the insurance and UCITS (undertakings for collective investment in transferable securities) sectors and bolstering the administrative infrastructure necessary to further strengthen financial supervision, and eliminating provisions which discriminate against non-nationals as regards the right of establishment and freedom to provide services.

Chapter 4: Free movement of capital

Progress since the last Regular Report

Since last year's report, steady progress has been achieved in this area.

In the field of **capital movements and payments**, long- and short-term capital inflows have been further liberalised. Following the entry into force of an amendment to the Ministry of Finance and National Bank of Slovakia Decree implementing certain provisions of the Foreign Exchange Act, operations with foreign securities that are not traded on the primary market of a foreign stock exchange have been liberalised. An amendment to the Foreign Exchange Act, adopted by the Parliament in June 2002, will liberalise, from January 2003, operations with financial derivatives and will abolish the possibility of setting a limit on the export and import of banknotes and coins (domestic and foreign currency). From January 2004, the same amendment will authorise Slovak residents to open accounts abroad and will remove both their obligation to transfer financial means acquired abroad into the country and the current restrictions on the purchase, exchange and selling of real estate abroad. The re-codified Act on the Insurance Industry, effective from March 2002, has removed restrictions on the investment of insurance company reserves into foreign securities. An amendment to the Act on Supplementary Pension Insurance of Employees has abolished the restriction related to investment in supplementary pension insurance funds as of July 2002. The remaining restrictions on foreign participation in companies operating lotteries and other similar games will be removed on the date of accession according to the Act on Lotteries and Similar Games, adopted by the Parliament in June 2002. Liberalisation of investment in air carriers will also be applicable from the date of accession.

Concerning the *acquis* on **payment systems**, the Act on Payments, adopted by the Parliament in June 2002 and expected to enter into force in January 2003, aims to fully transpose the Directives on cross-border credit transfers and on settlement finality and to ensure compliance with the provisions of the *acquis* on electronic payment instruments.

As regards **money laundering**, an amendment to the Act on Protection against the Legalisation of Proceeds from Crime, which entered into force in September 2002, will abolish existing anonymous accounts (bearer passbooks) from January 2004 with a prescription period until January 2007. An amendment to the Criminal Code, adopted by

the Parliament in June 2002, implementing the Convention on the Protection of the EC's Financial Interests and its Protocols, is expected to introduce criminal responsibility for legal entities in the course of the re-codification of the Penal and Criminal Codes.

Overall assessment

In the field of capital movements, liberalisation in line with the *acquis* is now almost complete. The main remaining restrictions are linked to the acquisition of real estate by non-residents. This issue still needs to be addressed.

As regards payment systems, the Slovak legislation is broadly in line with the *acquis*. A body to handle customer complaints about cross-border credit transfers has yet to be set up. Infrastructure in relation to payment and securities' settlement is in place. The envisaged introduction of a real time gross settlement system for inter-bank payments to improve the payment infrastructure further needs to be pursued.

As regards money laundering, the legal framework has significantly improved, but continued efforts are needed, particularly in terms of practical implementation of the new rules applying Directives and international standards. The processes for client identification, keeping records of transactions and all requirements related to reporting to the Financial Intelligence Department established within the Financial Police Office are effectively in place in the Slovak banking sector. This legislation also has an impact on the non-banking sector. A further effort to co-ordinate various sectors is needed. The framework of the secondary legislation regarding the regulatory process should be further improved, regarding the non-banking sector in particular.

Conclusion

In its 1997 Opinion, the Commission concluded that the degree of capital movement liberalisation already achieved by Slovakia was very substantial, but liberalisation of inward capital movements was proceeding much more rapidly than that of outward capital flows. It added that Slovakia was expected to face no major difficulties in eliminating the remaining restrictions on the movement of capital in the medium term, thus fully assuming the Community *acquis* in this area.

Since the Opinion, Slovakia has made very solid progress, both in aligning its legislation and in developing the necessary administrative structures.

Negotiations on this chapter have been provisionally closed. Slovakia has been granted transitional arrangements concerning the acquisition of agricultural and forestry land (for a period of 7 years following accession). Self-employed farmers from EU countries who have resided and actively farmed in Slovakia for three years are excluded from the transitional arrangements. Slovakia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovakia's efforts should now focus on completing alignment and eliminating all remaining restrictions, completing the administrative structures necessary to implement the *acquis* in this area, and reinforcing administrative capacity, paying particular attention to the bodies involved in the fight against money laundering.

Chapter 5: Company law

Progress since the last Regular Report

Since last year's Regular Report, Slovakia has made some limited progress in the areas of company law and the protection of intellectual and industrial property rights.

Regarding **company law** as such, in April 2002 a project was launched aimed at centralising and improving the operation of the Commercial Register. As regards **accounting**, a new Accountancy Law aimed at achieving full compliance with the 4th and 7th EU Directives was adopted by Parliament in July 2002 and is due to enter into force in January 2003. As regards the *acquis* on the authorisation of persons responsible for carrying out the statutory audits of accounting documents, a new Slovak Auditors Act adopted by the Parliament in July 2002 is scheduled to enter into force in January 2003.

In the field of **industrial and intellectual property rights**, an amendment to the Trademarks Law aimed at aligning it with the *acquis* on trademarks, entered into force in January 2002. The EC Directive on the legal protection of designs has been transposed by the adoption of the Act on Design in July 2002.

As concerns patents, the new Patent Law reported on last year entered into force in November 2001. Slovakia acceded to the European Patent Convention with effect from July 2002.

Overall assessment

Legislation in the field of company law is broadly in line with the *acquis*, as a consequence of the comprehensive amendments to the Commercial Code adopted in October 2001, which set out the steps for gradual alignment with all company law directives in the period up to January 2003.

Improvements have been made in recent years as regards the Commercial Register, including most recently the on-line availability of certain aspects and the extension of the list of obligatory data recorded in the Register. However, its operation in practice remains subject to severe criticism from the business community, in particular as regards registration procedures. The absence of set deadlines for example leads to uncertainty for business and fosters corrupt practices in the process, as dealing with applications can become arbitrary. Furthermore, a recent amendment to the Code of Civil Procedure allows provisional entries in the Register regardless of the legal validity of the decision allowing the entry. This would seem to provide a potential loophole affecting legal certainty in that area and might be contrary the *acquis*. Improvements to the operation of the Commercial Register are necessary, especially with regard to the speeding up the average time needed to company registration. Furthermore, it should be ensured that court fees for copies from the register are cost-covering only.

As regards accounting rules, these are already largely in line. Full alignment with the *acquis* in this area in particular as regards the 4th and 7th EC Directives as well as international accounting standards should be achieved when the recently adopted Accounting Law enters into force in January 2003.

In the field of industrial and intellectual property rights (IPRs), Slovakia's trademark and patent law is largely in line with the *acquis*. However, further alignment is needed in view of the Directive on Copyright in the Information Society and the Resale Rights Directive. The Slovak Ministry of Culture is currently preparing a new amendment to the Copyright Act with a view to implementing the above provisions. Slovakia has acceded to all relevant conventions in the field of copyright and related rights, including the two 1996 WIPO Treaties.

The main difficulties in the area of copyright are still law enforcement, piracy and the low level of legal knowledge and awareness among enforcement authorities. Cable retransmission piracy is the main piracy problem in Slovakia (about 60% in 2000). Many of the cable companies regularly retransmit foreign programming without authorisation. However, according to information provided by private industry, the levels of pirated music products were relatively low in 2001 (10%), whereas pirated software products was estimated at 46%. Particular attention should be paid to the effectiveness of the administrative and judicial bodies involved in enforcement, such as the customs services, the police and the judiciary, in particular by improving co-ordination and co-operation among them and the provision of adequate resources and targeted training.

The entry into force of the Act on Import and Export and Re-export of Goods that violate certain Intellectual and Industrial Property Rights has improved customs officers' scope for action. However, seizure of goods at the border requires a court decision, which is likely to slow down the procedure and burden the already overloaded courts. The reported number of requests for action filed by property holders (4 requests since August 2001) seems relatively low.

Slovakia will be in a position on accession to incorporate the Regulation replacing the Brussels Convention on jurisdiction and enforcement of judgements in civil and commercial matters and the Rome Convention on the law applicable to contractual obligations.

Conclusion

In its Opinion of 1997, the Commission concluded that with regard to company law and intellectual and industrial property rights, new legislation and legislative amendments were necessary to complete the alignment process. On intellectual and industrial property in particular, a major effort was needed to strengthen the implementation and enforcement structures.

Since the Opinion, Slovakia has made steady progress in aligning legislation with the *acquis* in the area of company and accounting law and on IPRs. Furthermore, gradual progress has been made with strengthening administrative capacity. Legislation in the field of company law is now broadly in line with the *acquis*. Administrative capacities are relatively advanced.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements and has agreed to the EU proposal relating to industrial property rights for pharmaceuticals products and Community Trademarks. Slovakia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring full alignment with the *acquis* along the lines set out above. In particular, the new corporate legislation should be properly implemented and enforced and company registration procedures improved. While steps are on-going to improve the transparency of and access to the Commercial Register, the actual procedures for company registration are in need of improvement. Slovakia should intensify measures to combat piracy and counterfeiting, strengthening border controls and, more broadly, further improving co-ordination between enforcement bodies (customs, police, judiciary).

Chapter 6: Competition policy

Progress since the last Regular Report

Since last year's Regular Report, Slovakia has made further progress in this area.

In the **anti-trust** field, the Slovak Parliament adopted in June 2002 an Act on Group Exemptions from the Ban on Agreements Restricting Competition. The Act aims to harmonise Slovak national legislation with several sets of Community rules, including various block exemptions on vertical and horizontal restraints. It also includes a minor amendment to the Competition Act introducing a simplified procedure when dealing with certain mergers.

In terms of administrative capacity, in 2002 an increase in the number of staff of the Anti-Monopoly Office to 75 (from 65) was approved by the Slovak Government. Of this increased number, 38 would be case-handlers directly involved in the implementation of anti-trust legislation. As far as enforcement is concerned, the Slovak Anti-Monopoly Office in 2001 adopted 167 decisions of which 24 concerned agreements restricting competition, 25 abuse of dominant positions, and 118 mergers. Of these, 9 decisions (including 2 imposing fines) prohibited vertical or horizontal restrictive agreements. There have been no prohibition decisions on abuse of dominance,. However, in 2002, several resource-intensive investigations into international merger cases led to approval decisions subject to substantive conditions.

In the field of **state aid**, a revised Act on State Aid entered into force in November 2001 which broadly brings Slovak legislation in this field in line with Community *acquis*. In particular, the Act updates Slovakia's rules on regional aid and on aid to the sensitive sectors, and also incorporates the key provisions of the recent Community block exemptions on aid to small and medium-sized enterprises, on training aid and on *de minimis* aid. An Act on Investment Incentives which entered into force in January 2002 brought the conditions for granting certain investment incentives broadly into line with the *acquis*. Also, in June 2002 the Slovak Parliament adopted an act amending the existing fiscal aid schemes under Articles 35 and 35a of the Income Tax Law. This will enter into force on 1 September 2002. As a result, all new aid granted in accordance with these provisions from the tax year 2002 must comply with the relevant state aid rules. Both the Act on Investment Incentives and the revised Act on Income Tax provide for individual *ex ante* monitoring of all aid projects by the Slovak State Aid Office (SAO). In addition, during the reporting period, a new regional aid map was proposed by Slovakia with maximum aid intensities of 20% net for the Bratislava region and 50% net for the rest of the country, thereby taking into account the latest regional GDP figures. In January

2002, Slovakia presented to the Commission a state aid inventory covering cases approved in 2000 and 2001.

As regards administrative capacity, a Government proposal to merge the SAO with the Anti-Monopoly Office was rejected by the Slovak Parliament in June 2002. The current status of the SAO was thus left unaltered. The State Aid Office foresees an increase in its staffing level from 35 in June 2002 to 45 by the end of the year. There are currently 22 case-handlers. During the period under review, the SAO undertook considerable efforts to strengthen its capacity, in particular by launching several training initiatives, including internships with relevant institutions within the EU. Substantial efforts to raise awareness of the state aid rules among aid grantors were undertaken.

In terms of enforcement, in 2001, its first full year of operation, the State Aid Office adopted 150 decisions, and during the following six months, a further 55 decisions. During this 18-month period, the SAO issued 10 negative decisions. One such decision was appealed against and upheld by the Supreme Court. The SAO played an important role in the conversion of incompatible existing aid measures into compatible benefits. In addition, the SAO also improved its internal procedures and has thereby made good progress towards a satisfactory level of enforcement.

Overall assessment

As regards antitrust, the Slovak Act on the Protection of Competition covers the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. Since this Act has been complemented by the new Act on Block Exemptions as of June 2002, the Slovak legislative framework is to a large extent compatible with the *acquis*. As for administrative capacity, the Anti-Monopoly Office functions well, with a good track record and a continued high level of staff training. It is understood that the Office will continue to actively develop its resources, in particular in view of the planned modernisation and decentralisation of the application of EU anti-trust rules. In order to further strengthen the enforcement record, efforts should continue to give priority to cases concerning the most serious distortions of competition, and more deterrent sanctions should be applied. In general terms, an increased awareness of the anti-trust rules, particularly among the business community should be fostered. Training of the judiciary is also required.

As regards state aid, the State Aid Act encompasses the main principles of state aid control, although Slovakia will have to continue to update its legislation in line with recent developments in the *acquis*, such as the Community Rescue and Restructuring Guidelines, and the Guidelines on environmental aid. On the question of steel, state aid granted in Slovakia is not compatible with Protocol 2 of the Europe Agreement. This issue needs to be addressed as a matter of urgency.

As regards transparency, state aid reports have been submitted for the years up until 2000. They now follow closely the methodology and presentation of the European Commission's survey on state aid in the EC and are of satisfactory quality. The State Aid Office has improved its functioning markedly, although further training efforts are necessary. It is now building up a track record of enforcement. Efforts should continue to further increase awareness of state aid rules among market participants, as well as aid grantors and the judiciary.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia was progressing satisfactorily as regards alignment with the *acquis* in anti-trust legislation, though considerable efforts were necessary as regards state aid control.

Since the Opinion, Slovakia has made steady progress in adopting anti-trust legislation, developing the Anti-Monopoly Office's administrative capacity and establishing an enforcement record. More recently, good progress has also been made in adopting state aid legislation and increasing transparency of the system, as well as in developing administrative capacity in the State Aid Office. An enforcement record is also emerging, although further strengthening will be necessary in this respect. Overall, on legislative alignment, administrative capacities and enforcement record Slovakia is reasonably advanced.

Negotiations on this chapter continue.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring that it continues to update its alignment as the *acquis* in this area evolves and, most importantly, on continuing to develop a track record of proper application and enforcement of both anti-trust and state aid legislation.

Chapter 7: Agriculture

Progress since the last Regular Report

Since last year's Regular Report Slovakia has made good progress in several agricultural sub-sectors in terms of transposition and implementation of the relevant *acquis*, especially in the veterinary and phytosanitary areas.

Agriculture in Slovakia accounted for 4.6% of gross value added in 2001, compared with 4.5% in 2000⁸. Employment in agriculture has further declined during the reporting period and accounts for 6.3% of total employment⁹.

In 2001, overall agricultural trade¹⁰ between Slovakia and the EC increased significantly, largely due to the « double-zero-agreement » to liberalise trade in agriculture. EC imports of agricultural products originating in Slovakia increased by 49 % to €139 million. EC exports to Slovakia increased by 8 % to €344 million. The trade balance in favour of the Community amounted to €205 million compared to €225 million in 2000. EC imports were dominated by oil seeds, dairy products and beverages, spirits and vinegar. Residues from food industries, fruit and nuts and cereals were the main export goods from the EC.

⁸ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

⁹ EUROSTAT Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

¹⁰ Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89.)

Horizontal issues

Since last year's Regular Report some progress can be reported with regard to the implementation of measures related to *the European Agricultural Guidance and – Guarantee Fund (EAGGF)*. The Slovak Ministry of Agriculture has taken the decision to incorporate the SAPARD Agency, Agricultural Intervention Agency and the Paying Agency Department of the Ministry of Agriculture into a single Paying Agency upon accession. The *administrative structures* were strengthened during the past year. The staff of the Ministry of Agriculture was reinforced by 72 new employees.

Little progress has been achieved as regards the *Integrated Administration and Control System (IACS)*. Slovakia is still in the process of drawing up a strategy for the implementation of this system. First steps towards setting up the Land Parcel Identification System (LPIS) and the Animal Identification System (AIS) are underway. Slovakia has opted for the methodology of physical blocks to build its land parcel identification system, i.e. blocks of parcels delimited by permanent boundaries such as roads, rivers, forests, etc. Only 5% of the country is covered by aerial photographs.

As regards *trade mechanisms, quality policy* and the implementation of the *Farm Accountancy Data Network (FADN)*, no further developments can be reported during the reference period.

Slovakia achieved further progress in the area of *organic farming* by amending the Organic Farming Act, to bring it in line with the *acquis* in this area. The amended Act facilitates the introduction of a clear and functional system of management in organic farming and organic food production.

Common Market Organisations

Since last year's Regular Report Slovakia has made some progress in introducing a legal framework and administrative structures for the establishment of Common Market Organisations. The Act on the Organisation of Markets in Selected Agricultural Products, which provides for the establishment of the Agricultural Intervention Agency, came into force as of January 2002 and transformed the State Market Regulation Fund into an Intervention Agency. The statute of the Intervention Agency was adopted by the Government in April 2002. The Agency currently employs 22 people.

The Act empowering the Government to issue approximation regulations was amended to include the approximation in the agricultural area. However, little progress can be reported so far in adopting specific regulations organising the various markets covered by the *acquis*.

Slovakia has continued its preparation for the establishment of a proper market information system. However, the Act on Market Organisations does not include provisions regarding the Market Information System.

In the *wine* sector, Slovakia has commenced the establishment of the vineyard register, based on the output of the pilot project in a sample wine-growing area. The Ministry of Agriculture has approved the timetable for the completion of the vineyard registration, according to which it is to be completed by December 2003. An amendment to the Act on Viticulture and Winemaking, providing for further alignment with the *acquis*, was adopted in June 2002.

As regards *animal products*, the National Reference Laboratory for the Control of Milk and Dairy Products has been accredited. In the area of common classification of carcasses (SEUROP), Slovakia has adopted the Decree on the Classification of Pig Carcasses, which entered into force as of May 2002. The Decree aligns the Slovak classification system with the *acquis* and contains detailed requirements for training and certification of personnel in charge of the classification of pig carcasses. It also contains requirements for the registration of slaughtered pigs and the quality of pig carcasses.

Rural development and forestry

Significant progress has been reached in this area with the accreditation of the Slovak SAPARD Agency, which was confirmed by the Commission in April 2002. The Commission conferred the management of five out of nine SAPARD measures to the SAPARD Agency. The Slovak SAPARD Agency currently employs 82 people, including the employees at the eight regional units (*see Section A.b – relations between the European Union and Slovakia*).

The Ministry of Agriculture has begun preparing post-accession rural development programmes (both the EAGGF Guarantee funded Rural Development Plan, and the EAGGF Guidance funded Operational Programme for Rural Development), concentrating particularly on the classification of Less-Favoured Areas.

Veterinary and phytosanitary issues, including food safety

Since last year's Regular Report, considerable progress was made with regard to legislative alignment in the **veterinary sector**.

In July 2002 Slovakia adopted the new Veterinary Framework Act, which provides the legal basis for implementing veterinary rules and is due to enter into force as of 1 January 2003. Slovakia has also prepared a detailed timetable for the adoption of the legislation implementing the new Framework Act. The completion of this detailed timetable is challenging. The new Veterinary Framework Act contains provisions in the field of *animal welfare*.

With regard to the identification and registration of cattle, the Central Register of Bovine Animals was put in place in April 2002 and the identification of beef cattle has been completed for the big farms, while the registration of the remaining cattle on smaller farms is ongoing and due to be completed by the end of 2002. So far, out of around 650.000 bovine animals nearly 500.000 have been registered.

In the area of *animal-waste treatment* Slovakia is substantially aligned with the *acquis*. In the area of *veterinary control* and *control of animal diseases*, progress can be reported with regard to the implementation of the computerised network linking veterinary authorities ANIMO. Slovakia joined the *Animal Disease Notification System* (ADNS) in February 2002. Contingency plans for serious animal infections have also been prepared.

Slovakia has taken further steps to strengthen *administrative capacity* in the veterinary field. The staff of the State Veterinary and Food Administration was reinforced by 15 new employees (2 of them joined the European Integration Department and the other 13 were recruited to foodstuffs surveillance bodies).

Some progress can be reported with regard to completing the establishment of the *Border Inspection Posts* (BIPs) at the future EU external borders. Slovakia has completed construction of one out of three future BIPs, namely the BIP on the road-border in Vysné Nemecké. However the EC requirements to the quality of the construction works have not been fully met. Construction work on the railroad BIP in Cierna nad Tisou is underway and due to be completed by the end of 2002. The situation on the spot has to be considerably improved.

In the **phytosanitary sector**, significant progress has been made since last year's Regular Report. An amendment of the Phytosanitary Care Act relating to harmful organisms and plant-protection products entered into force as of January 2002, although the provisions relating to protected zones and plant passports will be applicable upon Slovakia's accession to the EU. This amendment provides for the registration of producers, importers and exporters as well as for the phytosanitary requirement for input of harmful organisms, plants, plant products and internal and external quarantine issues. In July 2002 the Ministry of Agriculture adopted an implementing Decree, which lays down detailed requirements for plant protection products. Another decree of the Ministry of Agriculture, specifying the administration of the Act on Phytosanitary Care in Slovakia, entered into force as of February 2002.

With regard to *seeds and propagating material*, the Slovak Parliament approved the amendment to the Act on Plant Varieties and Seeds, which contains provisions for the marketing of vegetable, fruit and ornamental plant propagating and planting material. In order to achieve full compatibility, the adoption of the relevant implementing legislation is required.

With regard to the *administrative capacity* in the phytosanitary sector, the staff of the Central Control and Testing Institute for Agriculture (CCTIA) has been strengthened by 14 additional employees. Training activities for the staff are ongoing. A new Department for organic farming, quality control of pesticides and monitoring of pesticide residues in agricultural products was established within the CCTIA. The Seed Testing Laboratory in Bratislava has been re-accredited by the International Seed Testing Association (ISTA).

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), there has been some streamlining of the authorities responsible for inspections related to food safety, since following the adoption of the Act on Foodstuffs in 2002, the Slovak Agricultural and Food Inspection and the Slovak Veterinary Administration were merged into one central authority under the authority of the Ministry of Agriculture: – the State Veterinary and Food Administration (SVFA). At regional level, the official control of foodstuffs and veterinary care falls under the competence of the regional and district veterinary and food authorities.

In March 2002 Slovakia established a cross-sectoral Food Safety Commission, which consists of representatives of the Central Testing Institute, the State Food and Veterinary Administration, the Ministry of Agriculture, the Ministry of Health, the Ministry of Economy, the Ministry of Environment and several research institutes. The Commission co-ordinates the activities carried out by these institutions and focuses on the adoption of measures and dissemination of information related to food safety.

Slovakia continues to implement the BSE testing measures. These measures have been increased considerably since the previous Report, reaching almost the same level as in the

EU. The alignment with the *acquis* has been achieved as regards epidemio-surveillance, the rendering system, the removal and disposal of specific risk materials from animal feed. In March 2002 the Slovak Government approved the quantification of costs for the implementation of measures aimed at protection against BSE for 2002.

Slovakia has made further progress in completing and implementing a national plan for upgrading food establishments to meet EC requirements. All establishments that propose to operate after accession have been inspected by the competent authority and a plan to correct any deficiencies has been drawn up. However, it must be noted that the criteria used in evaluating the establishments combined with a lack of detailed upgrading plans and the incomplete evaluation of plans by the State Veterinary and Food Administration makes that the information available needs follow-up.

Overall assessment

As regards **horizontal issues**, particular attention needs to be paid to further development of the legislative basis and the functioning of the Paying Agency.

Slovakia needs to accelerate its efforts with regard to preparation for the establishment of the *Integrated Administration and Control System* (IACS) by the date of accession, in particular with regard to the Land Parcel Identification System. Slovakia seeks to achieve the digitalisation of the blocks by end 2003. No planning has been made for the processing of applications, the field inspections, the administrative controls or the payments. Very serious efforts are urgently needed in order for Slovakia to build up an operational IACS by accession. Planning and intentions must be transformed into concrete actions according to a strict timetable. If Slovakia is to be in a position as of accession to administer and control efficiently the CAP-aided schemes, any delays to the envisaged timetable must be strictly avoided. If the required administration and control structures are not fully operational, or do not operate correctly upon accession, Slovakia will be unable to fully benefit from the support systems under the Common Agricultural Policy, or will be required to reimburse EC funds already received.

As regards the system laid down for *trade mechanisms*, it is currently under the responsibility of several Ministries. The Ministry of Economy is in charge of issuing import/export licences, whereas the Ministry of Agriculture serves as an advisory body. The Ministry of Finance is responsible for collecting export taxes. The Agricultural Intervention Agency provides export refunds and controls the destination of intervention products along with the Customs Office.

With regard to *quality policy*, the relevant *acquis* regarding the protection of geographical indications and designations of origin for agricultural products and foodstuffs needs to be implemented.

The adoption of the Organic Farming Act has been an important step forward in aligning Slovakia's legislation with the *acquis*.

As regards the implementation of **Common Market Organisations**, Slovakia needs to complete its legislation organising the various markets covered by the *acquis*. In particular, it is essential for Slovakia to prepare the specific market organisations and implementing legislation for crops and animal products. A proper legislative framework for the establishment of the Market Information System also needs to be adopted.

Slovakia needs to complete the registration of vineyards across the whole territory. The current Slovak milk quota system needs to be brought into line with the *acquis*.

In the area of **rural development and forestry**, Slovakia needs to continue preparation of the post-accession programmes, and preparation for the implementation of rural development policy, including ensuring adequate administrative capacity.

In the **veterinary** field, Slovakia has undertaken important steps with a view to the alignment with, and implementation of, EC legislation, notably by the adoption of the new Veterinary Framework Act. It needs, however, to make further progress in adopting and implementing legislation in order to achieve full alignment. A high degree of alignment with the *acquis* has been reached in the area of *identification and registration of animals* for cattle as well as regarding *animal treatment*.

Progress with regard to the establishment of the veterinary and phytosanitary controls at the future external borders of the EU remains slow. Slovakia needs to make substantial efforts to upgrade the Border Inspection Post (BIP) in Vysné Nemecké, to bring it into line with the EC standards and to start the construction of the remaining BIPs at Cierna nad Tisou and Bratislava Airport.

In the **phytosanitary** field, Slovakia has reached a good level in transposing and implementing legislation, but this process is not yet complete. Further harmonisation is needed in particular in the field of seeds and propagating material. It is equally important for Slovakia to ensure that all inspection bodies concerned, including Border Inspection Posts, have been established and have the necessary legal basis to correctly implement the *acquis*. The strengthening of the administrative capacity as well as training activities for the phytosanitary inspectors need to continue.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), Slovakia is advanced with respect to the establishment of the bodies dealing with food safety and the increase in measures to deal with BSE. While all processing establishments have been inspected and upgrading plans have been drawn up, further work is required concerning the detailed implementation of these plans. Furthermore, it is important that the criteria used in evaluating the establishments are clearly defined, that detailed upgrading plans are developed, and that a complete evaluation of the plans by the State Veterinary and Food Administration is ensured. A review of the upgrading plans and a strong monitoring of the upgrading process is crucial to achieve alignment with the relevant *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that further alignment to the *acquis* was still necessary, although significant progress had been made in adopting the measures mentioned in the Commission's White Paper of 1995 on the Internal Market. The Commission added that particular efforts were needed on: the implementation and enforcement of veterinary and phytosanitary requirements and upgrading establishments to meet EC standards (an aspect of particular importance with regard to the inspection and control arrangements that protect the EU's external borders); strengthening administrative structures to ensure the necessary capacity to implement and enforce CAP policy instruments; and further restructuring of the agri-food sector to improve its competitive capacity. The Commission further pointed out that if such progress was

accomplished, accession in the medium term should not be accompanied by significant problems in applying the common agricultural policy in an appropriate manner.

Since the Opinion, Slovakia has made considerable progress towards alignment with the EC agricultural *acquis*, in particular during the past year. Slovakia's legislation in this area is now largely in line with the *acquis*. Serious efforts are however needed to increase its administrative capacity in this sector.

Negotiations on this chapter continue, although all negotiation issues in the veterinary and phytosanitary fields have been clarified. Slovakia has been granted a transitional arrangement for public health in two establishments – a meat- and a fish-processing plant (until three years after the date of accession). Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on finalising alignment; further reinforcing the administrative capacity to implement and enforce the *acquis*, in particular in the veterinary field and that of food safety; ensuring that establishments are duly upgraded to meet Community Standards; completing the construction and ensuring the proper functioning of the Border Inspection Posts on the EU future external borders; implementing the Integrated Administration and Control System; completing preparations for the implementation of different Common Market Organisations; completing of the legislative and administrative basis for the proper functioning of the Paying Agency. Due priority should be given to the establishment of the Integrated Administration and Control System, in particular with regard to the land parcel identification system.

Chapter 8: Fisheries

Progress since the last Regular Report

Slovakia has achieved further progress in this sector both in legislative and institutional terms.

Slovakia brought its legislation in line with the *acquis* as regards **resource management, inspection and control, import and transport of fish and fish products** by the adoption of the Act on Fisheries in February 2002, the amendment to the Act on Foodstuffs in December 2001 and the adoption of the Act on Market Organisations in October 2001.

With regard to the **market policy**, Slovakia has reached alignment with the *acquis* by adopting the framework Act on Veterinary Care in July 2002.

No new developments can be reported in the field of **structural actions**. Slovakia further advanced in strengthening the administrative capacity in this sector. On the basis of the amendment of the Act on Foodstuffs, the State Veterinary Administration was transformed into the State Veterinary and Food Administration with the responsibility for inspection and control of domestic production and imported fish, as well as for the training of inspectors. Also the administrative capacity in the Department for Animal Commodities at the Ministry of Agriculture was further reinforced by the recruitment of one additional employee in 2002.

No particular developments are to be reported in the areas of **state aid** to the fisheries sector and **international fisheries agreements**.

Overall assessment

Since Slovakia is a landlocked country, only parts of the *acquis* on fisheries are applicable to it. Slovakia has not yet completed the legal framework for the establishment of the paying agency, which is necessary with a view to implementing structural actions. Slovakia should also further reinforce administrative capacity with regard to market policy and programming and project selection within the fisheries structural policy framework.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia would not encounter any major difficulties in integrating its fisheries sector into the Common Fisheries Policy. However, the Commission stressed that it would be necessary for Slovakia to ensure compliance with the EC's health, hygiene and environmental standards.

Since the Opinion, Slovakia has consistently progressed and alignment with the *acquis* in this sector is largely satisfactory. The necessary administrative structures are broadly in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on further reinforcing its capacity for implementation and enforcement, in particular with regard to the administration of future structural actions under the Common Fisheries Policy.

Chapter 9: Transport policy

Progress since the last Regular Report

Slovakia has made further progress in the transport sector since the previous Regular Report, especially in the road transport and aviation sector.

As regards **Trans-European Transport Networks**, since the approval, in 2001, of the "National Development Plan 2001 – 2006", apart from some limited motorway construction work, only small specific developments can be reported. The Slovak government in 2002 approved the construction project connecting Viedenska Cesta and Pristavny Most, which is intended to improve the quality of the transport corridor in Bratislava and reduce the heavy traffic on the existing roads in the area.

In the **land transport** sector, *road* transport legal alignment has progressed. In January 2002 the Road Law came into force harmonising Slovak vehicle taxes and user charges with the fiscal harmonisation *acquis*. In June 2002 new regulations aimed at harmonising Slovak legislation in the field of admission to the occupation of road transport operator with EC rules entered into force. Transport licences will now be granted for a maximum

period of 5 years. This legislation will also ensure full compliance with EC rules on use of vehicles hired without drivers for the carriage of goods by road.

On *railways*, restructuring of the Slovak Railways (ZSR) continued. As of January 2002, the company was split up into Zeleznicna Spolocnost (ZS), which will be responsible for the commercial activities, and Zeleznice Slovenskej Republiky (ZRS) with responsibility of the national railway network and related servicing activities. No further progress can be reported concerning the establishment of the Railway Regulatory Body during the reporting period.

Regarding *Inland waterways*, no particular development can be reported.

As regards **air transport**, Slovakia aligned its legislation with a substantial part of the aviation *acquis*. The new Civil Aviation Act, which entered into force in January 2002, introduces the conditions for independent investigations of civil aviation accidents, access to ground handling market at community airports, licensing of air carriers and common rules on the allocation of slots. The establishment of the independent Air Accident Investigation body has been finalised and is scheduled to be operative before the end of 2002.

As regards **maritime transport**, the Slovak Government in April of 2002 has completed the privatisation of the enterprise Slovenská Plavba Pristavy a.s. Apart from the transposition of the EC legislation on marine equipment no major legislative developments can be reported as Slovakia had already aligned with most of the relevant *acquis* in the sector.

Overall assessment

As regards *Trans-European Transport Networks*, Slovakia should continue with the further modernisation and development of the main transport infrastructure network. The capacity of the Ministry of Transport to prepare, manage and monitor transport projects should be strengthened.

As regards *road transport*, major progress has been achieved, notably concerning alignment with the fiscal *acquis*, technical requirements for motor vehicles and the development of collective passenger transport. Further efforts are still to be made in the transposition and implementation of social rules (admission to the occupation and driving times and rest periods) and as regards the implementation on the requirement related to tachographs in particular for domestic road transport operations. Slovakia still has to ratify the INTERBUS Agreement on the international occasional carriage of passengers by coach and bus in January 2002. Administrative capacity should be strengthened, in particular to reach the mandatory checking levels of road transport undertakings and drivers as required by the relevant *acquis*.

In the *railways* sector significant steps forward as regards the future organisation of the Slovak Railways have been made. Further efforts are required to align fully with the revised railway *acquis*, including the setting up of a Railways Regulatory Authority. Slovakia has indicated that the new railway package will be fully implemented on 1 January 2004 through new amendments to the 2001 Act on Railway Joint-stock Company and the 1993 Act on Railways. This should be ensured. Slovakia plans to establish the Railways Regulatory Authority by transforming and strengthening the existing State Rail

Office by January 2003. Slovakia should also ensure that the allocation of infrastructure capacity will be fully aligned with EC legislation and that interoperability requirements are fully respected.

As regards the *inland waterways* sector, it is necessary to complete legislative alignment, in particular Slovakia should also ensure that its commitment to create conditions for the implementation of EC legislation to promote inland waterway transport, including the establishment of the Inland Waterway Transport Fund as of January 2003, is adhered to.

As regards air transport, the legislation regarding an independent aviation accident investigation body is in place. It must now be ensured that the body becomes operational. Generally the legislative framework in this sector seems to be in line with EC requirements, Slovakia should continue to progressively incorporate the Joint Aviation Requirements (JARs).

As regards maritime transport, although Slovakia is a landlocked country full alignment with the maritime *acquis* has to be ensured.

As regards administrative capacity some progress have been achieved, but there is still a general need to improve the overall administrative capacity in the transport sector, including staffing, and to enhance co-ordination between the different ministries and bodies involved in the sector.

Conclusion

In its 1997 Opinion, the Commission concluded that the Slovak Republic had made progress in adapting transport legislation to the *acquis*. The report added that considerable progress was still needed to be made, however, on road haulage (particularly market access, safety standards and taxation) and railways, where the effective adaptation of legislation would have to be monitored. The situation in these two sectors had to improve if the transport sector was not to pose serious difficulties as regards the adoption of the internal market *acquis*. The report further stated that steps had also to be taken to ensure that the means required to lay the basis for the extension to the accession countries of the trans-European transport network were provided. This required particular attention because Slovakia, as a mountainous country, faced higher costs in constructing infrastructures, which placed the country at a disadvantage compared with neighbouring countries in which TENs were being more easily developed. Finally, Slovak administrative structures, including inspection bodies, for example those in the area of safety, were to be rapidly and significantly strengthened at all levels to prevent them further slowing the country's progress.

Since the Opinion Slovakia has made steady progress in transposing EC requirements into its national legislation. Substantial changes have occurred in most of the transport areas, notably as regards rail and road transport. Overall, Slovakia's legislation in the transport sector is now to a great extent in line with the *acquis*. Administrative capacities have been gradually improved, but need further strengthening.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia has agreed to a transitional arrangement put forward by the EU concerning the reciprocal access to the cabotage

market in the road haulage sector. Slovakia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on the implementation on the social/technical *acquis* in the road transport area and the further legislative alignment in the rail sector. In the inland waterways sector, particular attention will need to be paid to completing legislative alignment with a view to the setting up of an Inland Waterway Fund. As regards air transport, the independent aviation accident investigation body should become operational. Slovakia's efforts also need to focus on the improvement of the overall administrative capacity in the transport sector, including staffing, and on the enhancement of the co-ordination between the different ministries and bodies involved in the sector.

Chapter 10: Taxation

Progress since the last Regular Report

Since the last Regular Report, Slovakia has made good progress with aligning its tax legislation with the *acquis*. The reform of the tax administration has also advanced.

In the area of **indirect taxation**, the amendments to the VAT legislation that came into force in January 2002 aligned the Slovak legislation to the *acquis* as concerns the place of taxation for services provided to foreign business entities and the tax refund for foreign natural persons exporting goods of non-commercial nature. A mechanism for tax refunds applicable to taxable persons not established in Slovakia and the special scheme for travel agents were also introduced. Following amendments passed in July 2002, further alignment will be achieved as of January 2003, in particular on the right of deduction and on reducing the scope of the VAT reduced rate.

In the field of excises, the Act on mineral oils, which entered into force on January 2002, has introduced tax warehouses, the regimes of duty suspension covered by a financial guarantee, the modalities for registration of traders, licensed users and warehouses and the specification of the taxable transactions. Furthermore, the Act ensures equal taxation of all mineral oils irrespective of their origin. Competence in the field of mineral oils has been transferred to the Customs Administration. As to alcohol and alcoholic beverages, amendments passed in July 2002 have significantly increased rates on beer and intermediate sparkling products as of January 2003, introduced provisions on small breweries, and adjusted the definition of beer.

In the area of **direct taxation**, the transposition of the Merger Directive has moved forward, with the entry into force in January 2002 of an amendment to the Income Tax Act, covering legal provisions in case of mergers, modification or spin-off of companies.

There are no developments to report in the field of **administrative co-operation and mutual assistance**.

As regards administrative capacity, an amendment to the Tax Authorities Act, in force since May 2002, has created two new offices, the Large Taxpayers Office and the Tax Investigation Office, responsible for investigation of tax crimes, including tax fraud.

Overall assessment

Slovakia has scheduled full transposition of indirect taxation legislation by January 2004. On VAT, alignment is still required in particular on the scope of reduced VAT rates and exemptions, on special schemes and on VAT intra-community trade. On excise duties, significant efforts still lie ahead to align structures and rates of most product categories and to introduce tax warehouses for alcohol and tobacco. Concerning cigarettes, additional efforts are needed, notably to introduce the same taxation rate for long and short cigarettes, and the specific element in the excise duty structure. Slovakia is planning to complete before accession the transfer of competencies on all excisable products from the Tax to the Customs Administration. However, the transfer is made dependent on the approval of legislation on alcohol and tobacco warehouses. Slovakia should accelerate alignment in the area of excises.

As regards direct taxation, Slovakia still has to transpose fully the merger directive. Legislation will have to be reviewed in order to eliminate potentially harmful tax measures, so as to comply with the Code of Conduct for Business Taxation to the same extent as current Member States upon accession. The Commission's initial technical assessment of potentially harmful measures applied in Slovakia is ongoing.

As concerns mutual assistance and administrative co-operation, progress is still limited due to the pending adoption of the relevant legislation. A VAT Information Exchange System project plan provides all key milestones of implementation. The Central Liaison Office is scheduled to be set up by 1 January 2003. No plans for establishing the Excise Liaison Office have been produced so far. Subject to work proceeding as planned, Slovakia should be in a position to meet its information technology obligations by accession.

While a comprehensive and consistent reform agenda is in place to strengthen administrative capacity, some important weaknesses remain. In particular, the VAT system is characterised by an excessive volume of refunds and by the problem of fraud. More in general tax collection remains weak, as shown by the still high percentage of tax arrears. The tax administration suffers from limited autonomy from the Ministry of Finance in managing its own budget, which remains insufficient. Human and information technology resources devoted to audit activities are not adequate and control methodologies need to be improved.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* concerning direct taxation should present no significant difficulties, and that where indirect taxation is concerned, Slovakia should be able to comply with the *acquis* on VAT and excise duties in the medium term, provided that a sustained effort was made. The Commission added that it should be possible for Slovakia to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, and especially over the last two years, Slovakia has made good progress in aligning with the *acquis*, although a number of aspects remain to be addressed. Slovakia has also made progress with developing the necessary administrative capacity to implement the *acquis* in this area, and the organisational reshuffle implemented since 2000 represents a major development.

Negotiations on this chapter have been provisionally closed. Slovakia was granted transitional periods as regards the continued application of the reduced VAT rate on the supply of construction work for residential housing (until 31 December 2007) and on the supply of heat energy for private households (until 31 December 2008). Slovakia was also allowed to apply a VAT exemption and registration threshold of €35.000 for small and medium sized enterprises. Furthermore, Slovakia obtained a transitional period of one year from accession in order to apply for the reduced rate on the supply of natural gas and electricity upon accession. In the field of excise duties Slovakia was granted a transitional period regarding a delayed implementation of the excise duty rates on cigarettes until 31 December 2008 and a permanent derogation to continue applying its excise duty scheme for small fruit grower's distillation, provided that the quantity does not exceed 30 litres of fruit spirit per year per household and that the reduced excise rate is not less than 50% of the standard national duty rate for alcohol. Slovakia is generally meeting the commitments it has made in the context of the accession negotiations.

In order to be ready for membership, Slovakia will need to focus further efforts on pursuing the measures undertaken to modernise and strengthen the tax administration. Furthermore additional efforts are needed to complete transposition - except for areas where transitional arrangements were agreed - in the areas of VAT and excise duties, including intra-Community transactions. Slovakia should fully implement the comprehensive reform agenda it has established to address the identified shortcomings, including by strengthening its administrative capacity.

Chapter 11: Economic and monetary union

Progress since the last Regular Report

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

Since last year's Regular Report, no further progress was to be reported in the area of economic and monetary union as Slovakia had already fulfilled the requirements as regards the **independence of the central bank, the prohibition of direct public sector financing by the central bank, and the prohibition of privileged access by public authorities to financial institutions.**

Overall assessment

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

Slovakia's legislation is now in line with the *acquis* in this area, notably as regards aligning the National Bank's statutes, the prohibition of direct public sector financing by the central bank, and the prohibition of privileged access by public authorities to financial institutions.

There has been little progress in upgrading Slovakia's administrative capacity to carry out medium-term fiscal planning and fiscal reporting. Further strengthening of the appropriate expert departments at the Ministry of Finance will be required to ensure that there is sufficient capacity to cover issues of domestic economic policy in the EU environment.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia's central bank was largely independent from the government in terms of the appointment procedure of the governor and of the conduct of monetary policy and that Slovakia had a sound fiscal record, which has implied no financing of the budget deficit.

Since the Opinion, Slovakia has made further progress in the areas of the chapter and has, overall, achieved a high level of alignment with the EMU-related *acquis*.

Negotiations on this chapter have been provisionally closed. Slovakia is generally meeting the commitments it has made in the accession negotiations in this domain. Slovakia has not requested any transitional arrangements in this area.

In order to complete preparations for membership, Slovakia's efforts should focus on strengthening the administrative capacity of the Ministry of Finance along the lines set out above.

Chapter 12: Statistics

Progress since the last Regular Report

Slovakia has continued to make steady progress over the past year.

In the field of **statistical infrastructure**, the new Statistical Law, which entered into force in January 2002, gives a suitable legal framework to the Statistical Office of Slovakia (SOSR). It takes into account the relevant EC requirements, including provisions regarding confidentiality, the SOSR's right of access to administrative data and the extension of the duration of the survey programme to three years. Under this law the SOSR president is appointed directly by the President of the Slovak Republic, thus increasing his independence. The Law has also established the Statistical Council as an independent advisory body. To ensure the implementation of the *acquis*, particular attention has been paid to strengthening administrative capacity.

As regards statistical **classifications**, the new Statistical Law regulates a nation-wide harmonised use of classifications, which is a crucial step towards an effective use of administrative data.

Concerning **demographic and social statistics**, the preliminary results of the first population and housing census carried out in the independent Slovak Republic were

published in October 2001, reflecting no significant changes over the past decade. The Labour Force *ad hoc* module on length and patterns of working time has been carried out. The questionnaire for the 2002 Structure of earning survey has been prepared. The Labour Cost Survey is currently in line with the EC requirements. Preparation of the Time Use Survey is ongoing.

Concerning **regional statistics**, in February 2002, the Slovak Government agreed to maintain the Nomenclature of Territorial Units for Statistics (NUTS), which has been applied in Slovakia since 1997.

In the area of **macro-economic statistics**, the implementation of the European System of Accounts (ESA 95) in National Accounts has progressed, as has the harmonisation of quarterly and annual data. Reporting on debt and deficit statistics by the Ministry of Finance is currently achieved.

In the area of **business statistics**, a census of small and medium-sized enterprises was conducted in Slovakia between March and June 2002 with the objective of clearing the old Business Register and creating a register of Local Kind of Activity Units.

In **transport statistics**, Slovak legislation has become compliant with the EC rules including the weekly statistical survey on road freight.

Concerning **external trade statistics**, the SOSR has taken some steps to prepare the implementation of the INTRASTAT mechanism, which gathers statistical data on the internal trade in all commodities among Member States.

In **agricultural statistics**, an agriculture census covering all agriculture units, private farms and households was conducted from November to December 2001; the official results of the census, presented in September 2002, recorded over 71,000 farms in Slovakia.

Overall assessment

The newly established legal basis and the continuous commitment and high level of competence of the SOSR staff constitute a good basis for the implementation of the *acquis*.

Further progress is still required in some specific areas, including regional and external trade statistics. The quality of regional statistics has to be improved. In particular, efforts are needed to ensure further data resources for the regionalisation of gross fixed capital production for multi-regional units to improve data regionalisation for employment, employees and employee salaries according to the ESA 95 methodology, and to bring regional statistics up to the level required for programming, monitoring and evaluation. For external trade statistics, there is a lack of concordance as regards the use of supplementary measurement units, as the measurement units in the Customs table of the Slovak Republic and Common Customs Tariff of the EC differ under certain subheadings.

The SOSR has further strengthened its co-operation with various other producers of official statistics, e.g. ministries and the Central Bank. It has an extensive independence and autonomy in methodological matters, techniques and procedures for producing and

disseminating data. The SOSR has made efforts to ensure that adequate IT, human and financial resources are allocated to further strengthen statistical capacities, including at regional level.

Conclusion

In its 1997 Opinion, the Commission concluded that, provided that continuous progress was made, Slovakia should be able to comply with EC requirements within the next few years.

Since then, Slovakia has made considerable progress in adopting the *acquis* in many areas, in particular with the entry into force of the new Statistical Law in 2002. Overall, Slovakia is well advanced both in terms of legislative alignment and in having appropriate administrative structures in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this domain. It is generally meeting the commitments it made in the accession negotiations in this area.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring full application of the ESA 95 methodology, on strengthening -regional statistics and on making the INTRASTAT system operational by accession.

Chapter 13: Social policy and employment

Progress since the last Regular Report

Since the last Regular Report, there has been further progress towards finalising transposition of the *acquis* on social policy and employment.

In the area of **labour law**, the new Labour Code, which was adopted last year, was further amended by Parliament before its entry into force in April 2002. The amendments concern the extension of maximum working time as well as the possibility to work under an external part-time agreement, during weekends and overtime in extraordinary situations and for emergency works, thus aiming at bringing more flexibility to employment relations.

In the framework of transposing the Posting of Workers Directive, the Labour Inspectorate was designated as the responsible national body in April 2002. The Inspectorate will act as the liaison body providing information concerning labour conditions in Slovakia.

Legal conditions were also created to increase the effectiveness of labour inspections relating to illegal labour. In the second half of 2001 the labour inspection departments carried out 1 676 checks (i.e. inspections, complaints, petitions) in the industrial relations area. In order to strengthen the enforcement structures in the field of labour law, 38 and 27 new labour inspectors were recruited in 2001 and 2002 respectively.

Progress in the field of **equal treatment for women and men** has also been achieved as a result of the new Labour Code, which provides for equal treatment as regards access to employment, career, vocational training and working conditions. Moreover, the new Act

on Social Insurance approved in May 2002 aims at finalising transposition of the Directive on equal treatment for men and women in matters of social security.

As regards **health and safety at work**, some further progress has been made in transposing the relevant legislation, especially the minimum health and safety requirements for construction sites, as well as protection at work with asbestos, from the negative effects of noise and vibrations, at work with chemical agents, with carcinogens and mutagens, with biological agents and in mining. However, financial impact assessments have not yet been carried out for all directives. Further alignment has been achieved by an amendment of the Act on human health protection in November 2001. The Act lays down basic requirements for the protection of people's health aimed at eliminating and/or minimising negative influences on human health.

As regards administrative capacity for health and safety protection, there has been some progress. A Labour Protection Information Centre has been established as an independent department of the National Labour Inspectorate, directly subordinate to the General Labour Inspector. It began operations in March 2002 and has seven employees. Basic and further training of labour inspectors and inspectorate staff is provided within the structures of the National Labour Inspectorate.

In the field of **public health**, there has been some progress. Implementation of the updated National Programme of Health Promotion began in 2001. The surveillance of all infectious diseases based on compulsory reporting is an obligation laid down in Slovak legislation. Surveillance is carried out under Ministry of Health regulations as well as the relevant national programmes. The surveillance, prevention and control of communicable diseases is regulated by the Act on human health protection. No major impediments have been identified for Slovakia to implement the relevant EU legislation, with the possible exception of the need to improve diagnostic methods. Surveillance of particular diseases is executed by the network of State health institutes. National Reference Centres for priority diseases and medical problems have been established.

Slovak authorities have continued efforts to promote **social dialogue** at all levels, although the national tripartite social dialogue was interrupted between September and December 2001 following disagreement on a Government proposal for price increases for natural gas. An amendment to the Collective Bargaining Act entered into force in January 2002. The Act regulates the conclusion of higher-level collective agreements, introduces the concepts of conciliators and arbitrators, and lays down the conditions for concluding collective agreements as well as for the selection and verification of the professional qualifications of conciliators. It also contains provisions governing the resolution of collective disputes and sets out the details concerning the calling and commencement of a strike. Administrative capacity at the Ministry of Labour, Social Affairs and Family has been increased by the recruitment of one extra employee at the department for labour relations and collective bargaining. The department is responsible for recording, collecting and analysing higher-level collective agreements and for arranging intermediaries and arbitrators in the case of disagreements. In 2001 a total of 73 collective labour agreements were recorded and five arbitrations organised. Social dialogue is also moving to the regional level. Regional tripartite structures have been established in various regions of the country.

As regards **employment policy**, the Joint Assessment of Employment Policy Priorities (JAP) was signed between the Commission and Slovakia in November 2001. As part of

the monitoring process of the Employment Policy Review, a progress report on the implementation of the priorities identified in the JAP was submitted to the Commission by Slovakia in June 2002. This report represents an important step in assessing the extent to which Slovakia is progressing towards its objectives of labour market reform and adaptation of its employment system in order to prepare for future participation in the European Employment Strategy after accession.

The situation in the labour market deteriorated slightly in the reference period. The unemployment rate increased from 19.1% in 2000 to 19.4% in 2001. The male unemployment rate was 20.1%; female unemployment was slightly lower at 18.6%. The high and rising long-term unemployment at 58% is of great concern.

Unemployment is particularly high among the young and the low-skilled and especially severe among the Roma population. The lack of labour mobility is largely due to deficiencies in the housing market. Higher levels of vacancies have accompanied higher levels of unemployment, suggesting a regional and skills' mismatch as well as disincentives to take up jobs. Provisions for early retirement and sick leave may also entail certain disincentives. The number of unemployed undergoing training has grown considerably in 2001, albeit remaining at a low level (4.7% of registered unemployed). More training should be provided for displaced workers.

In April 2002 the Government adopted a National Employment Action Plan for 2002–2003 which represents the continuation of the process of gradual implementation of the European Employment Strategy in Slovakia. The measures under the Plan are divided into four areas: improving employability; business development; supporting adaptability of companies and their employees; strengthening equal opportunity policies.

Very slow progress has continued towards establishing the necessary management structures for the European Social Fund (ESF). The ESF Management Department established at the Ministry of Labour, Social Affairs and Family in September 2001 has five employees. Training has been ongoing for the work in the ESF implementing units and their regional branches.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and Slovakia have initiated a joint co-operation exercise to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses. The Slovak Statistical Office co-operates with Eurostat to produce data on poverty and social exclusion. Preliminary figures suggest a very low but increasing level of income disparities as well as of poverty after social transfers, together with important regional disparities and a particular vulnerability of the Roma population. Furthermore, the high Slovak unemployment figures suggest closely associated problems of social exclusion.

As regards other areas of **social protection**, a new Act on social insurance was adopted in May 2002 and will enter into force in July 2003. The Act establishes the first pillar of pension reform, sets pensions according to the premium paid by an individual employee, progressively raises the retirement age for women to 60 years, adjusts child benefits and no longer registers women with more than six children as unemployed.

As regards **anti-discrimination**, no progress can be reported (*see also Section B.1.2. – Human rights and the protection of minorities*).

Overall assessment

In the field of labour law, Slovakia adopted the national measures aiming at the transposition of the *acquis* with the entry into force of the Labour Code. Regarding labour law enforcement, it will be important to ensure sufficient institutional capacity. Slovakia will have to transpose the Directives related to the involvement of workers in the European Company and to information and consultation of workers.

Notwithstanding the legislative progress achieved in the field of equal treatment for women and men, effective implementation and enforcement are crucial and attention now needs to be turned to developing appropriate and adequately financed information, training and institutions. Moreover, the Concept of Equal Opportunities between Women and Men adopted by the Government in March 2001 has been criticised by several sources as rather ineffective and declaratory, for want of sufficient financial support in the 2002 State budget.

In the field of health and safety at work, effective administrative capacity needs to be reinforced. There is still a particular need to co-ordinate the supervision and enforcement of the relevant provisions on health and safety legislation. Particular attention must be paid to the financial impact of the implementation of health and safety legislation on enterprises. The system of fines, which appears to be inefficient because of the low level of fines, should be improved.

In the field of public health, efforts should be continued for the development of a health monitoring system in order to obtain health data and indicators comparable with the Community health monitoring system. With regard to the surveillance and control of communicable diseases, particular emphasis should be put on improving diagnostic methods, on implementing a system of quality control and on further progressing towards accreditation of most laboratories. Progress is needed to transpose and implement Community tobacco legislation also with respect to the current *acquis*, and efforts should also be continued in developing the necessary infrastructure for its implementation. In general, progress is needed to improve the health status of the population, as it is still lower than the EU average. Major health concerns are the increase in smoking and drug use, particularly among young people.

Slovakia has a regulated, structured system of social dialogue, which needs to be progressively improved. Autonomous bipartite social dialogue should be promoted in order to increase its coverage in terms of labour force and enterprises covered by collective agreements. Tripartite social dialogue should be further developed in order to allow social partners to discuss issues of national importance, including in new policy areas such as employment or social inclusion. Administrative capacity of the government and social partners in this area should also be enhanced. Communication between representatives at all levels of the social dialogue should be improved. Further training is needed for social partners' representatives at national, sectoral and company levels on EU legislation, policy and decision-making processes as well as on successful negotiation practices. Attention should be paid to the issue of low membership in employers' associations and trade unions.

As regards employment policy, the Joint Assessment of Employment Policy Priorities for Slovakia (JAP) represents an important step in the accession preparations. Progress in the implementation of these policies is assessed regularly and it will be important to ensure

effective monitoring of the phasing-in of the priorities and commitments contained in the JAP. The structural problems inherent in the labour market should be addressed, and particular attention should be paid to promoting active labour market policies rather than passive measures. It is important to implement measures to raise participation in education and their integration on the labour market among the Roma minority. Incentives to work should be clearly increased. Implementing an active strategy of supporting and encouraging job search and employability requires the systematic interaction of the Public Employment Service with the unemployed throughout the unemployment spell; this can only be achieved with a re-orientation of the priorities of the National Labour Office and improvements to the services it can provide to both job-seekers and employers.

Development of the administrative structures for management of the ESF has been seriously delayed. The relationship between the ESF Management Department at the Ministry of Labour, Social Affairs and Family and the intermediary bodies within the National Labour Office and the Education Ministry and their regional units should be clarified as soon as possible. Further development of training systems in this area also remains of utmost importance. It is also important that the content of future ESF interventions is embedded in the European Employment Strategy and the fight against social exclusion.

A national integrated strategy on promoting social inclusion, taking into account the EU objectives, needs to be developed. As poverty and social exclusion are multi-dimensional by nature, it is important to promote an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

As regards other areas of social protection, sustained efforts are required to implement the reforms that have been introduced, including the pension reform.

Legislation transposing the EC anti-discrimination Directives based on Article 13 of the EC Treaty will have to be introduced and implemented. Further efforts will be needed in order to ensure full conformity, including the establishment of the Equality Body.

Conclusion

In its 1997 Opinion, the Commission concluded that social reforms needed to be further developed, the social dialogue ameliorated and the health system improved. Slovakia needed to make substantive progress in the fields of health and safety at work and labour law. Efforts to implement the *acquis* effectively needed to be continued. Provided that Slovakia pursued efforts both in terms of adoption and of application of the *acquis*, it should be possible to take on the obligations of EU membership in the medium term.

Since the Opinion, Slovakia has made good progress in aligning with the *acquis*, in particular in the spheres of labour law and health and safety at work. Overall, Slovakia is well advanced in terms of legislative alignment and administrative structures are mostly in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts should now focus on completing transposition and effectively implementing the *acquis* in the remaining areas of health and safety at work, equal treatment for women and men, tobacco and anti-discrimination, on developing social dialogue in line with EU practice, on tackling the problem of unemployment and on enhancing overall administrative capacity and inter-ministerial co-ordination, notably as regards the European Social Fund.

Chapter 14: Energy

Progress since the last Regular Report

Since last year's Regular Report, Slovakia made further progress in aligning its energy legislation with the EC *acquis*. In particular progress has been made in the field of the internal energy market, including setting up the necessary regulatory body. Some progress has been made with regard to decommissioning of the two V1 reactors at Bohunice, which Slovakia is committed to close by 2006 and 2008, respectively.

With regard to **security of supply**, Slovakia is making progress in particular regarding the setting up of the infrastructure to manage the emergency oil stocks, which are being built up as foreseen. The administrative capacity of the oil stock body was reinforced by 5 additional employees since last year's Regular Report.

As for **competitiveness and the internal energy market**, Slovakia continued to make progress in establishing the framework for equal and fair application of the *acquis*. Both the electricity and the gas markets have been partly opened to competition. Restructuring, including privatisation, of both sectors is ongoing.

The opening of the electricity market is proceeding in two stages. Following the entry into force in January 2002 of the Ministry of Economy decree laying down the smallest volume of annual electricity and gas consumption for eligible customers, initial market opening of the electricity market started in January 2002 with liberalisation for the largest consumers (over 100 GWh per annum), corresponding to 31 % of the market. Smaller customers (over 40 GWh per annum) will be free to choose their supplier from January 2003. From January 2004 the same will apply for 20 GWh consumers. These represent 36% and 42% of the market share respectively. For foreigners, one-third of consumption will be liberalised from January 2003, another third from January 2004 and the final third from January 2005.

At the end of 2001, the unbundling of the national electricity company Slovak Electric took place and three joint stock companies with separate management and accounting were set up. One of these – the Slovak Energy Transmission Network (SEPS) performs the role of the independent Transmission System Operator and will remain 100% state owned.

Three energy distribution companies have been partially privatised in May 2002.

With respect to the gas market, following the entry into force in January 2002 of the Ministry of Economy decree laying down the smallest volume of annual electricity and gas consumption for eligible customers, the market has been opened for customers consuming more than 25 bn m³ annually as of July 2002.. This threshold will be lowered to 15 bn m³ and 5 bn m³ by January 2003 and January 2008, respectively. In effect, this affects only a limited part of the current domestic consumption (10-15%). The Slovak Gas Company (SPP), which currently remains as one vertically integrated company responsible for both transit and distribution, was partly privatised in March 2002.

As regards **energy efficiency and renewable energy**, some progress can be reported. Government decrees aiming at improving energy efficiency through the labelling of electrical household appliances entered into force in May 2002.

In the field of **nuclear energy**, Slovakia operates two nuclear power plants located at Bohunice and Mochovce. At Bohunice, there are four units in operation: two VVER 440/230 reactors (units 1 and 2 at Bohunice V1 and two VVER 440/213 reactors (units 3 and 4 at Bohunice V2). At Mochovce, two VVER 440/213 reactors (units 1 and 2) are in operation.

As regards nuclear safety, Slovakia is continuing its safety improvement programmes at the Bohunice and Mochovce nuclear power plants.

With regard to the specific recommendation by the June 2001 Council Report on Nuclear Safety in the Context of Enlargement that Slovakia completes the regulatory assessment of bubbler condenser containment function under design basis accidents, Slovakia, together with the Czech Republic and Hungary, is financing a set of additional experiments to support this review. The evaluation of the results is due to be presented by December 2002 to all three regulatory authorities.

The Slovak Government decided in September 1999 that the two Bohunice V1 reactors will be closed down by 2006 and 2008 respectively. During the reporting period, Slovakia took some steps to implement this commitment. In November 2001, the Grant Framework Agreement, which is an international agreement, was signed between the Slovak Republic and the EBRD acting as manager of the Bohunice International Decommissioning Support Fund (BIDSF). In June 2002, the Slovak Parliament adopted the legislation which was necessary for the integration of the valid and binding Framework Agreement into the Slovak legal system. The BIDSF held two meetings of the Assembly of Contributors. The first, in November 2001, approved the Framework Agreement and made the BIDSF operational. The second, in June 2002, defined the scope of activities to be financed under the BIDSF and reviewed the project pipeline proposed by the Slovak side which is divided in four categories (preparation for final shutdown, decommissioning documentation, waste management and measures in the energy sector). The Assembly is chaired by the Commission, representing the European Community as the main contributor to the BIDSF.

Overall assessment

With regard to security of supply, Slovakia has made progress both in terms of alignment and the actual building up of oil stocks but needs to continue these efforts.

As regards the internal energy market, mechanisms for regulation and control have been duly set up, but there is a need to fully align with the *acquis* and to further strengthen the administrative capacity. The market structure is such that it will be difficult to introduce real competition in practice. Privatisation, although not a requirement by the *acquis*, may help to introduce competition.

Concerning energy efficiency and renewable energy, Slovakia should intensify its activities to promote the use of renewable sources of energy and enhance performance as regards energy efficiency.

The independent Regulatory Office for Network Industries (RONI) has been operational since August 2001. The RONI has the mandate to protect the consumer from negative consequences deriving from the monopoly position of an energy supplier and to create conditions that stimulate market competition and to eliminate political influence on price setting. RONI competencies include granting market licences and setting market rules; the responsibility for price regulation will be transferred from the Ministry of Finance to the RONI as of January 2003. The RONI has a staff of 50. Despite its operationality, the employees of RONI will need further training. Full independence will only be achieved if the Office's budget chapter falls under the Parliament rather than the Government.

The European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001 the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This Report contains recommendations to all candidate countries to continue their national safety improvement programmes, including the safe management of spent fuel and radioactive waste and the safety of their research reactors.

During the first half of 2002 a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing the recommendations. This exercise, conducted under the auspices of the Council, resulted in a Status Report published in June 2002, which concludes that Slovakia has accepted and addressed all the recommendations contained in the Report on Nuclear Safety in the Context of Enlargement of June 2001. Most of the recommendations have been adequately addressed. With regard to four specific recommendations, Slovakia has announced adequate measures, but the Report emphasises that Slovakia is expected to ensure that they are implemented. This concerns the timely completion of the Bohunice V-2 safety improvement programme, the implementation of appropriate guidance for the management of beyond design basis accidents at Bohunice V-1, the completion of the full verification of the containment bubbler-condenser systems, and proper measures to preserve staff motivation at Bohunice units 1 and 2 until final closure.

The two V1 reactors of Bohunice Nuclear Power Plant are subject to early closure commitments. In 1999 the Slovak government decided that these are to be closed down by 2006 and 2008 respectively. These closure commitments must be respected and therefore duly included in the Accession Treaty.

The independent status and resources of Slovakia's nuclear safety regulatory authority should be further strengthened and the safety improvement programmes on Bohunice units 3 and 4 and Mochovce should be continued.

Longer-term solutions for spent fuel and nuclear waste will need continued attention.

Slovakia will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention must be given to preparing for the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear material. It should be noted that Slovakia has concluded a Full-Scope Safeguards Agreement with the IAEA.

Conclusion

In its 1997 Opinion, the Commission concluded that, Slovakia needed to step up its efforts in order to comply with most of the EC energy legislation in the coming years. In particular, matters such as the adjustment of monopolies, access to networks, energy pricing, emergency preparedness -including the building-up of mandatory oil stocks-, state interventions in the solid fuel sector, and the development of energy efficiency and fuel quality standards needed attention. The Commission further pointed out that, although no major difficulties were foreseen regarding compliance with Euratom provisions, nuclear safety required particular attention. Safety standards should be tackled appropriately and realistic programmes implemented quickly. Furthermore, longer term solutions for waste need attention.

Since the Opinion, steady progress has been made, notably with regard to oil stocks, the internal energy market, particularly the electricity and gas sectors, nuclear issues, the gradual development of administrative capacity and, to a lesser extent, the improvement of energy efficiency and the promotion of renewable energy. Overall, Slovakia has achieved a good level of alignment with EC requirements in this field, as regards both legislative alignment and administrative preparations.

Negotiations on this chapter have been provisionally closed. Slovakia has been granted a transitional arrangement for the building-up of oil stocks (until 31 December 2008). Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring full and timely implementation of legislation in this area, in particular with regard to the internal energy market (gas and electricity), and on strengthening the administrative capacity of the established bodies (in particular the energy regulator and the nuclear safety authority). Slovakia needs to take further measures for the progressive building up of oil stocks. Continued attention will need to be paid to state interventions in favour of the solid fuels sector and the repercussions on the electricity market. With respect to the Bohunice International Decommissioning Support Fund, Slovakia should further refine its project pipeline to ensure satisfactory projects for the decommissioning of the Bohunice V1 reactors.

Chapter 15: Industrial policy¹¹

Progress since the last Regular Report

Since the 2001 Regular Report, Slovakia has made further progress with the development of industrial policy. Priority has been given to investment promotion and privatisation.

The Slovak **industrial strategy** has focused on consolidating and improving existing legislation and institutional structures. During the reporting period the Government approved the “Analysis of Tourism” strategy paper.

An institutional reorganisation has taken place within the Ministry of Economy. A newly established Expert Advisory Body has replaced the Council for Competitiveness in Industry. The body is made up of ministry representatives and experts from various enterprise associations. Its task is to provide the Ministry of Economy with recommendations on enterprise policy issues. The Benchmarking Information Centre, established within the Ministry, has been granted a budget allocation from the 2002 state budget, which has enabled it to start functioning. Particular attention should be devoted to recruiting and retaining staff. A national Tourism Agency has been established, and it should become operational on 1 January 2003.

The newly established Regulatory Agency for the Capital Market and Securities should improve corporate governance, while the new Commercial Code, which entered into force in January 2002, should strengthen the rights of minority shareholders and employees.

As concerns investment promotion, the investment climate in Slovakia has generally been improving. Since 2000, the trend is a steadily increasing flow of foreign direct investments, with a rising share of green field investments (*see also B.2 – Economic criteria*). A new Law on Investment Incentives, which entered into force in January 2002, has introduced several advantages for both foreign and domestic investors. Beside a ten-year tax holiday, the new incentive package introduced a subsidy of up to SKK 10 000 for each employee at firms offering re-qualification courses, and other subsidies for the creation of new jobs.

SARIO, the Slovak Investment and Trade Development Agency, was transformed into a specialised agency reporting to the Ministry of Economy and has been undergoing restructuring to improve its performance. In particular, export and investment grant schemes were introduced to improve financial support to Slovak companies.

Privatisation and restructuring has entered its final phase. During the reference period the Government’s attention has focused on the preparation and implementation of partial privatisation of natural monopolies in the fields of energy, gas and oil. The finalisation of the partial privatisation of SPP (a major gas industry), Transpetrol (the crude oil pipeline operator), and three regional power distribution companies is to be considered the Government’s major achievements in this respect. In August the Government invited bids for the partial privatisation of power producer Slovenske elektrarne (SE). At the end of 2001, Slovenska Poistovna, the main national insurance company, was also privatised.

¹¹ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (*see Chapter 16 - Small and medium-sized enterprises*).

The legislative framework for large-scale privatisation was improved following the approval of the amendment to the Law on Privatisation in November 2001. The amendment increases the supervision by the Supreme Audit Office of the assets owned by the privatisation agency (National Property Fund - NPF) and empowers the NPF to sell bad loans through a tendering procedure. Additionally, the draft Law on State-owned Companies, was amended to clarify the process of liquidation and to increase management transparency of state-owned companies and adopted in December 2001.

Overall assessment

Slovakia has made significant progress in the field of institutional and legislative improvements to the business environment. However, a big effort is still needed to address shortcomings such as corruption, excessive bureaucracy and inconsistency in legislation. Further improvements are also needed as concerns bankruptcy and insolvency procedures, to enhance the role of creditors, improve the quality of trustees and expand the capacity of the judicial system to implement the bankruptcy legislation in a fully effective manner.

Slovakia continues to make efforts on investment promotion, and has been steadily enhancing its international credibility in the area of foreign direct investment. Actions already taken and proposals being implemented indicate that high priority is consistently attached to improving the investment climate. However, structural weaknesses remain in this area. In particular, most investments continue to be directed to Bratislava and surrounding area. It is hoped that the establishment of Higher Territorial Units by January 2002 will contribute to increasing investment flows in particular to the disadvantaged eastern parts of Slovakia. Actual improvements in the functioning of SARIO are still to be fully assessed.

The privatisation process has progressed successfully and is now almost complete. As a result of the shift from public to private ownership, the scope of political interference that has proved problematic in the past has decreased. While enterprise restructuring should continue, the privatised Slovak steel industry continued operating successfully in a difficult economic environment. No further action from the Government's side appears necessary.

The necessary administrative bodies have been established, and the fragmentation of the institutional structure seems to have been reduced through the reorganisation of several government bodies under the Ministry of Economy. This, however, increases the onus on the Ministry to push the reform process through whilst guaranteeing stability, consultation with relevant stakeholders and consistency.

It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules (*see Chapter 6 - Competition policy*).

Conclusion

In its 1997 Opinion, the Commission concluded that the integration of Slovak industry into the European market could face difficulties to proceed satisfactorily over the medium term. Integration required diversification away from heavy industry and effective

enterprise restructuring. Major shortcomings were considered to be the low level of foreign investments, the bad debt situation and the non-transparent privatisation methods.

Since the Opinion, Slovakia has made good progress in most areas, so that Slovakia's policy towards industry is generally in line with the principles of EC industrial policy, i.e. it is market-based, stable and predictable.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this field. Slovakia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovakia's efforts now need to focus on further coordinating its administrative structures, and further enhancing competitiveness in the enterprise sector so as to achieve full integration into the Single Market.

Chapter 16: Small and medium-sized enterprises¹²

Progress since the last Regular Report

Since the last Regular Report, Slovakia has made further progress with revising its SME policy and reforming the state support system for business promotion. The institutional and administrative framework for support to the SME sector has been strengthened. Some further steps to improve the business environment have been taken.

As regards **SME policy**, on 15 May 2002 the Government adopted a document analysing the development of the SME sector in Slovakia, and proposing modifications to the system of SME Support Schemes. This is a preliminary step opening the way to an updated global SME policy strategy 2002-2005, to be finalised shortly.

In April 2002, Slovakia endorsed the European Charter for Small Enterprises as the basis for its action to support and develop small enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the socio-economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter in Slovakia started in May 2002.

The Ministry of Economy was partially reorganised in 2002, and departments for business environment and for support programmes were set up. Restructuring also took place within the state-controlled agencies co-ordinated by the Ministry of Economy active in the SME sector, NADSME, the National Agency for the Development of Small and Medium-Sized Enterprises, and SARIO, the Slovak Investment and Trade Development Agency (with regard to SARIO, *see Chapter 15 - Industrial policy*). The Expert Advisory Body, set up to replace the Council for Competitiveness in Industry (*see Chapter 15- Industrial policy*) will also be competent on SME policy, in particular as regards support schemes and overall SME development policy.

¹² Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see Chapter 15 - Industrial policy*).

During the reporting period the government passed several laws affecting the **business environment** for SMEs, including an amendment to the Income Tax Law, which entered into force in January 2002. This amendment introduced a flat-rate tax for self-employed entrepreneurs. Another law positively affecting the business environment for SMEs is the Investment Incentives Law (*see Chapter 15 - Industrial policy*). The company registration process has become more transparent, and the Commercial Register is now accessible via the Internet. Finally, as of July 2002, the Slovak Chamber of Independent Entrepreneurs was allowed by the Law to extend its activities to non-member individual entrepreneurs and to be co-financed from the state budget.

As regards support to SMEs, the Regional Advisory and Information Centres (RAIC) and the Business Information Centre (BIC) network was extended to nine additional first contact points, thereby reaching almost full regional coverage. The introduction of support services to start-ups and companies in the early developmental phase made some steps forward, with the first two business incubators to due to be opened in 2002. An accreditation system for professional SME trainers and consultants was also developed.

Access to finance remains an obstacle to the development of Slovak SMEs. The Ministry of Economy provides funding through six broadly defined programmes with a substantial number of sub-programmes, each managed separately. They include a support loan programme, micro-credits and seed capital. Increased funding has been made available this year compared to 2001.

No further development can be reported concerning **SME definition**, which is fully aligned with the EC Recommendation.

Overall assessment

The most important issues affecting the Slovak business environment have been identified and addressed, and the business environment has improved overall as a result of measures introduced mainly in 2000 and 2001.

The new SME strategy currently being developed should pay particular attention to ensuring effective implementation and follow-up of measures taken, reducing the administrative burdens and simplifying bureaucratic procedures and strengthening law enforcement. In addition, the large number of SME support schemes should be streamlined in order for them to reach critical mass and become more user-friendly. This is also recommended in the Government's evaluation of the projects' effectiveness and efficiency.

Recently, measures have been taken to streamline the institutional framework, which cannot yet be fully assessed. The sustainability of NADSME should be ensured and due consideration should be given to the role of specialised agencies such as NADSME and SARIO, also with regard to the future implementation of structural funds. Duplication and overlapping should be avoided between the RAICs and BICs network – co-ordinated by NADSME - and the Regional Development Agencies under the Ministry of Construction and Regional Development. As regards business associations, some of them represent the interests of smaller enterprises and are involved in the national tripartite social dialogue. Slovakia should further encourage the development of an active role of business associations.

Efforts should be strengthened to prepare for full use of the structural funds in the area of enterprise development.

Conclusion

In its 1997 Opinion, the Commission concluded that the conditions for sustainable SME growth were basically in place in Slovakia. However, there was room for further improvement in several fields, including simplification of legislation, strengthening support infrastructure, improvement of the tax environment and development of SMEs' access to financing.

Since the Opinion, Slovakia has made further progress in formulating SME policy and in improving the business environment. Its policy towards SMEs is generally in line with the approach promoted at EU level.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on consolidating and streamlining the institutional framework in order to prevent fragmentation and lack of co-ordination.

Chapter 17: Science and research

Progress since the last Regular Report

Further progress has been made in this area since the last Regular Report.

The legal framework was enhanced by the Act on Science and Technology and the Act on the Slovak Academy of Sciences, which were both adopted by the Parliament in February 2002. The National Council also adopted the new Act on University Education in February 2002. The Agency for the Support of Science and Technology continued to work effectively.

During the reference period, Slovakia continued to be associated with the Fifth EC **Framework Programme**, as well as with the Fifth Euratom Framework Programme. Slovakia has expressed interest in being associated with the Sixth Framework Programme (2002-2006).

Overall assessment

The framework for co-operation in the field of science and technology (including National Contact Points) is well established. Slovakia should, however, further increase the financial support and strengthen the administrative capacity in this area.

To develop the sector further and to ensure that Slovakia is fully integrated into the European Research Area, it is important to increase gross domestic expenditure on research and technological development. The private sector, including SMEs, should also be encouraged to participate more actively in research and technological development.

The legal and institutional framework for State support to science and research is now in place.

Conclusion

In its 1997 Opinion, the Commission concluded that in the perspective of accession, no major problems should be expected in this field.

Since the Opinion, Slovakia has made progress and has strengthened co-operation with the EU in this field.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. It is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovakia should focus further efforts on increasing the financial support and strengthening the administrative capacity, as a key factor in Slovakia's successful association with the Communities' RTD Framework Programmes.

Chapter 18: Education and training

Progress since the last Regular Report

Further progress has been made in this area over the past year, especially in the legislative field.

During the reference period, Slovakia continued to participate in the second generation of the Leonardo da Vinci, Socrates and Youth **Community programmes** (*see section A.b – Relations between the European Union and Slovakia*).

An amendment completing transposition of the **Directive concerning education of children of migrant workers** was adopted by the Parliament in June 2002.

Good progress was made as regards **reforms in the field of education and of training**. In the legislative field, the Parliament adopted in February 2002 the Act on University education which entered into force in April 2002. The Act foresees the transformation of State universities into public institutions, the introduction of higher education establishments other than universities, the transformation of the system of disciplines, the across-the-board introduction of a credit study system, the transition to multi-source financing for universities and the introduction of a new system of social support for students. University education will remain free of charge. Universities will continue to be financed prevalingly from the State budget through subsidies. The law also foresees an increase in teachers' salaries in order to maintain high educational standards and to prevent "brain-drain".

In the field of vocational training, competencies have been significantly decentralised to the regional level as of July 2002. In December 2001, a Council for Vocational Training was established at the Ministry of Education. As regards elementary and secondary schools, an Act on the financing of primary schools, secondary schools and education establishments was adopted in November 2001 and entered into force in January 2002.

The law allows educational establishments to receive additional funds from the budgets of new regional authorities and from renting out premises. It aims to ensure that private and State schools receive equal levels of support and to make the financing of elementary and high schools more transparent. As of July 2002, self-administrative bodies of the Higher Territorial Units have taken over the responsibility for management of secondary schools. Management of primary schools is transferred to municipalities.

Overall assessment

Participation in the Community Socrates, Leonardo da Vinci and Youth programmes is satisfactory, and the existing national agencies are operational.

The Directive concerning the education of children of migrant workers has been transposed and its due implementation now needs to be ensured.

In general, the declining trend of resources for education and training is a serious cause for concern. Overall expenditure on education is rather low in comparison with EU Member States, and could be increased. The legislative developments in this field should be now sustained and implemented in due course. Also the transfer of competencies from the State to Higher Territorial Units should be accompanied by sufficient financial resources.

Moreover, further progress should be made in the reform of the vocational education and training system. The adaptation of the content and scope of vocational education to new labour market requirements remains weak. Currently, there is a lack of systematic contacts between enterprises and schools and only a small number of students are following practical training in enterprises. Co-operation between schools and labour offices needs to be improved as well. The establishment of the Council for Vocational Training and of new advisory committees at national level for the content of vocational education can be considered as positive developments. Furthermore, there is a need for the development of a lifelong learning strategy placing emphasis on a substantial increase in the provision of continuing training and second chance education opportunities to address the problems of youth and adult disadvantaged groups (in particular the unemployed and the Roma minority).

Conclusion

In its 1997 Opinion, the Commission concluded that in the perspective of accession, no major problems should be expected in these fields.

Since the Opinion, Slovakia has achieved steady progress, including its participation in relevant Community programmes. Legislative alignment has been progressing well, especially during the past year. Overall, Slovakia's legislation is in line with the *acquis* in this area.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this field. Slovakia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovakia's efforts now need to focus on developing a balanced and realistic implementation strategy and ensuring the

necessary financial means. Adequate administrative capacity should be ensured, as well as due co-ordination between all the bodies involved.

Chapter 19: Telecommunications and information technologies

Progress since the last Regular Report

Since the last regular report, some further progress can be reported in the telecommunication sector.

As regards the **liberalisation of the telecommunications market**, no further progress can be reported.

Fixed network penetration peaked at around 32 %, slightly falling back in response to recent price changes designed to bring prices more closely into line with costs as required by the *acquis*. Fixed network modernisation and price rebalancing still have some way to go. The mobile sector continued to maintain its quick growth to reach a market penetration of 40 % of inhabitants (as compared to 29 % in the last reporting period). A combined license for GSM and UMTS to a new, third mobile operator and two separate licenses for UMTS to the two, already GSM operating companies have been issued in June and July 2002, respectively, allowing UMTS operations to commence when market conditions permit.

The Government has adopted a strategy on the Information Society in Slovakia, aiming at implementing the e-Europe + initiative and establishing a National Agency as a co-ordinator in the area of information technology.

As regards the **regulatory framework**, the Slovak Parliament failed to adopt a draft amendment to the Act on Telecommunication in August 2002, prepared by the Government and aiming at advancing alignment with the *acquis*. A Department for Economic Regulation has been established within the Telecommunication Office in May 2002. The Office has issued roughly 5,600 decisions, comprising licences, type approvals, penalties and assignment of numbers. Only 7 decisions were appealed against in the Supreme Court, 6 of which were confirmed.

As regards **postal services**, considerable progress was achieved by Slovakia in adopting the Act on Postal Services in November 2001, which has partially aligned Slovak legislation with the relevant *acquis*. This Act entered into force in January 2002, with the exception of provisions concerning correspondence and direct mail items up to 350 g, which will be enacted in January 2004. Based on this Act, a Postal Office was established at the beginning of this year as an independent regulatory authority in the field of postal services.

Overall assessment

As regards the telecommunications sector, legislative alignment has reached a high level. In order to achieve full compliance with the *acquis*, issues related in particular to local loop unbundling and universal service need to be addressed, as was the aim of the rejected Government draft. Slovakia has not yet been able to evaluate the economic implications of implementing fully the universal *acquis* so as to achieve affordability and a decision on this point remains outstanding. Slovakia will need to transpose the updated

telecommunications *acquis* before accession and to complete the implementation procedures as soon as possible afterwards.

Fair competition and proper functioning of the market need still to be ensured. Further efforts are necessary to prepare for full liberalisation of the market. The independence of the regulatory authority has reached now a good level but needs to be further safeguarded. In particular, in order to achieve a proper separation of regulatory from operational functions, the Ministry of Transport, Post and Telecommunication should no longer exercise the state's property rights in the incumbent operator. Co-operation with the competition authority has reached a satisfactory level.

The number of staff in the Ministry of Transport, Post and Telecommunications remains with 10 persons relatively low. The Telecommunication Office currently employs 190 people many of whom are engaged in activities not required by the *acquis*. In view of the forthcoming full liberalisation of the sector, however, the Office is not yet sufficiently resourced. Budgetary constraints have prevented the office also from reaching its full potential.

As regards postal services, after a slow start it seems that Slovakia has taken the first steps in order to comply with the *acquis* by the date of accession. Legislation needs to be brought fully in line with the *acquis*, notably as regards reserved services and the licensing regime. The administrative capacity of the newly created national regulatory authority needs to be strengthened.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia would have some difficulty in complying with the *acquis* in the medium term because there was insufficient administrative capacity to complete new legislation and enforce it. It added that greater competitiveness of the public operator had to be achieved to attract investment and to prepare for competition.

Since the Opinion, Slovakia has made reasonable progress in aligning with the *acquis*, particularly in terms of putting the necessary legislative framework and regulatory authorities in place. Over the past years, Slovakia's policy in this area has moved steadily towards complete transposition and implementation of the *acquis* and the completion of liberalisation. This has now been achieved to a considerable extent, despite the recent setback in the telecommunications sector. Administrative capacity still needs to be strengthened.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangement in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this sector.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring an affordable universal service in the telecommunication sector, on finalising alignment in the postal sector and on strengthening, overall, the administrative capacities.

Chapter 20: Culture and audio-visual policy

Progress since the last Regular Report

Slovakia has made further progress since last year's Regular Report in the field of culture and audio-visual policy.

With regard to **audio-visual** policy, an amendment to the Act on Broadcasting and Retransmission entered into force in May 2002. It aims at solving a procedural problem that impeded the Council for Broadcasting and Retransmission from effectively imposing sanctions in case of appeals. As regards administrative capacity, the staff of the Council for Broadcasting and Retransmission has been strengthened in the reporting period through the recruitment of 7 additional employees, mainly for the monitoring department. The Council's 2002 budget was also increased.

Slovakia has taken steps to participate in the Media Plus and Media Training Community programmes as of 2003.

In the field of **culture**, the Association Council decision allowing Slovakia to participate fully in the "Culture 2000" programme as from 2001 was adopted in October 2001. During the reporting period, the Slovak Republic has gradually strengthened the administrative capacity in this area.

Overall assessment

With the 2000 Act on Broadcasting and Retransmission, slightly amended in 2001 and 2002, Slovakia's legislation is now largely in line with the Television Without Frontiers Directive.

Significant progress has been made in strengthening the administrative and budgetary capacity of the Council for Broadcasting and Retransmission.

Slovakia is a party to the Council of Europe Convention on Transfrontier Television and its amending protocol.

Conclusion

In its 1997 Opinion, the Commission concluded that, provided that the necessary legislative measures are pursued with sufficient urgency and are accompanied by the necessary structural adaptations of the industry, it was reasonable to expect that Slovakia should be able to meet EC requirements in the audio-visual sector in the medium term.

Since the Opinion, Slovakia has made considerable progress, and has reached, overall, an advanced level both in terms of legislative alignment and administrative capacity. The necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts should now focus on ensuring that administrative capacity enables a sound implementation of the new legislative framework.

Chapter 21: Regional policy and coordination of structural instruments

Progress since the last Regular Report

Since the last Regular Report, progress has been made in preparing for the implementation of structural policies.

Concerning **territorial organisation**, in February 2002 the Slovak government adopted the provisional classification of statistical territorial units at NUTS II level as follows: Bratislava region, Western Slovakia (Trnava, Trencin and Nitra regions), Central Slovakia (Zilina and Banska Bystrica regions) and Eastern Slovakia (Presov and Kosice regions). This classification was agreed with the Commission.

There have been no particular developments since the last Regular Report regarding the **legislative framework**.

With regard to **institutional structures**, Slovakia adopted several government decisions in February and June 2002 which designate the following management structures and the Paying Authority for the implementation of the Structural Funds and the Cohesion Fund.

The Ministry of Construction and Regional Development is responsible for the co-ordination of programming and will be the future Managing Authority for the Community Support Framework and the Cohesion Fund. The Ministry of Finance was designated as the future Paying Authority for all the Funds. Slovakia has also designated the Managing Authorities for the operational programmes as well as (provisionally) some of the intermediary bodies.

With regard to **programming**, the schedule for the elaboration of the Development Plan, the 6 Operational programmes and the 2 Single Programming Documents for the objectives 2 and 3 for the Bratislava region were decided by a government decision in June 2002. The Ministry of Construction and Regional Development is responsible for the whole programming process that started in January 2002.

In order to ensure that the **partnership principle** is applied, a National Monitoring Committee has been set up to oversee the preparation of the Development Plan. Membership of the Monitoring Committee has already been established, based on the partnership principle. Upon accession, this Committee will be transformed into the Community Support Framework Monitoring Committee.

With regard to **monitoring and evaluation**, the Ministry of Construction and Regional Development is responsible for setting up an information data system containing the financial and statistical information necessary for the monitoring and evaluation of the implementation of the structural instruments in line with the *acquis*.

Some developments can be reported with respect to **financial management and control**.

The regulatory framework for budgeting, co-financing, financial management and control of Structural Funds has been established. An amendment of the Act on Budgetary Rules adopted in June 2002 enables multi-annual programme-oriented budgeting of Structural Funds, as well as the transfer of unused funds to the subsequent budgetary year.

Internal audit units have been established in the Ministry of Finance, the Ministry of Environment, the Ministry of Economy, the Ministry of Defence, the Ministry of Justice, the Ministry of Transport, Post and Telecommunication, in the Prosecutor's Office as well as in three regional offices.

There have been no major developments since the last Regular Report regarding **statistics**.

Overall assessment

Slovakia has already organised its territory into units corresponding to the NUTS classification.

Slovakia has advanced as regards the setting up of institutional structures. It has designated the bodies which are to be responsible for the implementation of the Structural and Cohesion Funds. However, the allocation of tasks has still to be completed. Steps must be taken to ensure effective inter-ministerial coordination. Slovakia will also have to step up its efforts to bring the administrative capacity of the managing and paying authorities, intermediate bodies and other relevant bodies up to the level required. Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes. Slovakia should also continue to work towards developing the necessary structures and coordination mechanisms to manage financial assistance from the European Social Fund in the context of the European Employment Strategy and the inclusion process.

With regard to programming, Slovakia still needs to further radically improve its programming capacity. To that end, there will need to be efficient and effective inter-ministerial cooperation and partnership throughout the whole process of preparing the Development Plan. Substantial progress must also be made with the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline).

Work on ensuring compliance with the *acquis* requirements for monitoring and evaluation must continue, in particular as regards the ex-ante evaluation of the Development Plan. To ensure effective and efficient implementation of the Structural Funds programmes, it is crucial that an effective monitoring system should be up and running in good time.

Slovakia has progressed in the field of financial management and control. It is finalising the specific procedures for financial control, auditing, certification of expenses and correction of irregularities specifically applicable to the Structural and Cohesion Funds. However, the appropriate systems and procedures for financial management and control still need to be strengthened, in particular as regards the structure of the Managing Authorities and Paying Authority. Internal audit units have been established in the ministries responsible for the implementation of the Funds with the exception of the Ministry of Labour, Social Affairs and Family. However, these departments still need to be strengthened and the training of internal auditors should be a priority in this respect.

Common guidelines for the internal audit services still need to be drawn up. Slovakia has introduced multi-annual planning of budgetary expenditure. Its budgetary legislation also contains some flexibility to transfer allocations between funds and priorities.

As far as statistics are concerned, more needs to be done to bring them up to the level required for programming, monitoring and evaluation, in particular as regards ex-ante evaluation.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia presented only limited elements of an integrated development policy which could ensure compliance with EC structural policy rules. It suggested that a comprehensive differentiated policy addressing regional disparities should be introduced. Moreover, the Commission added that Slovakia's administrative capacity to manage integrated regional development programmes clearly needed to be improved. Thus, significant reforms including the establishment of appropriate administrative and budgetary procedures needed to be implemented before Slovakia could apply the Community rules, in order to channel effectively the funds from the EC structural policies.

Since the Opinion, Slovakia has made progress in legislative terms, and, more recently, has moved forward with taking the necessary decisions that will serve as a good basis for developing the required administrative capacity. Overall, Slovakia has already aligned with the *acquis* but effective administrative structures are only in place to a limited extent.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to be ready for membership, Slovakia needs to give urgent attention to defining the final implementation structures and very substantially reinforcing their administrative capacity, strengthening inter-ministerial cooperation and partnership, preparing an efficient project pipeline and further reinforcing systems and procedures for effective monitoring, financial management and control. Slovakia has started to take measures to remedy the situation, including the allocation of additional human resources. Ongoing efforts now need to be substantially stepped up.

Chapter 22: Environment

Progress since the last Regular Report

Since the last Regular Report, Slovakia has made good legislative progress through the adoption of important national laws, in particular in the areas of air, water and nature protection, and has strengthened its administrative capacity to implement and enforce the environmental *acquis*.

With regard to the **integration of the environment into other policies** and the promotion of sustainable development, the Slovak Government approved in November 2001 the Draft Measures to Secure the Implementation of the Aarhus Convention. A

National Strategy for Sustainable Development was approved by the Parliament in April 2002.

In the field of **horizontal legislation**, in January 2002, a documentation centre for environmental impact assessments (EIA) was established at the Slovak Environmental Agency in Banska Bystrica, and at its seven regional agencies.

As regards **air** quality, some progress can be reported. The Air Protection Act, which transposes the Air Framework Directive, was adopted in July 2002. It sets air quality targets, the responsibilities of state administration authorities and municipalities for air protection, and the penalties for breaching the obligations in this field. The new law transposes the waste incineration directive and partially transposes the requirements on large combustion plants. The Kyoto Protocol was approved by the Parliament in March 2002.

In the area of **waste** management, in February 2002 the Ministry of the Environment issued an Order laying down uniform methods for the analytical inspection of waste. In February 2002, the Government approved the Waste Management Programme of the Slovak Republic until 2005. In August 2002, the Parliament adopted the Act on Packaging, which transposes the Packaging and Packaging Waste Directives. The Act will enter into force in January 2003, with the exception of the provisions concerning heavy metals content of packaging, which will enter into force in January 2006.

In the field of **water quality**, good progress has been made with the entry into force, in June 2002, of the Water Act, which transposes individual water directives, but does not fully transpose the Water Framework directive. A national register of permits and wastewater discharges is being prepared. The Act on the Protection of People's Health entered into force in January 2002 and its implementing decrees on the requirements for bathing water and the quality control of bathing water in swimming pools, and on the requirements for drinking water and the quality control of drinking water, have already been adopted. They transpose the Directive on the quality of water intended for human consumption and the Directive on the quality of bathing water.

As regards water management, the ownership of water and wastewater utilities has been transferred to municipalities. However, no transfer of staff from the Ministry of Agriculture to the new companies is envisaged. The Regulatory Office for Network Sectors (URSO) will oversee the deregulation of tariffs and subsequently be responsible for regulating prices and benefits. URSO will publish the tariffs for water and wastewater during 2002, based on the price cap regulation methodology. The Act on Public Water Supply and Sewage entered into force in July 2002 and partly transposes the Urban Waste Water Directive. In April 2002, the Government approved the 2nd edition of the Report on the General Plan for the Protection and Rational Use of Waters which will be used as a support document in the decision-making process on water management.

In the field of **nature protection**, good progress has been achieved, via the transposition of the acquis on trade in endangered species with the entry into force in July 2002 of the Act on Trade in Endangered Species of Wild Fauna and Flora. The Nature and Landscape Protection Act has been adopted and will enter into force at the beginning of 2003. It should fully transpose the Birds and Habitats directives.

As regards **industrial pollution control and risk management**, some progress has been achieved in the alignment of legislation. The Act on the Prevention of Major Industrial

Accidents which transposes the Directive on the control of major-accident hazards involving dangerous substances (Seveso II) entered into force in July 2002. The Act on Environmental Labelling of Products, which transposes the revised Community Eco-label Award scheme into the Slovak Republic's legal system has been adopted by the Parliament and will enter into force in January 2003. The Act on an Environmentally Oriented Management and Audit System concerning the voluntary participation of organisations in the Community eco-management and audit scheme (EMAS) has also been adopted by the Parliament and will enter into force in January 2003.

In the field of **genetically modified organisms and chemicals**, progress has been made with the entry into force of the Act on the Use of Genetic Technologies and on Genetically Modified Organisms in April 2002 and of its implementing provisions in June 2002.

As regards **noise**, there has been good progress. The requirements on limiting noise emissions by equipment used outdoors, and by household appliances, have been transposed by government regulations.

In the field of **nuclear safety and radiation protection**, (*see also Chapter 14 - Energy*), the *acquis* has been transposed completely with the entry into force of an amendment to the law on the protection of human health, which entered into force in January 2002.

Slovakia has carried out a range of actions to develop its **administrative capacity** in the field of the environment. A number of tasks have been devolved to municipalities and regional self-governments as part of the overall decentralisation process approved in 2001. Competencies in the field of environmental protection, especially forestry protection, were transferred from district offices to municipalities in January 2001. Expansion of staffing levels for environmental institutions paid from the state budget with 199 people for 2002 was approved.

Slovakia has a comprehensive, permitting system, but complex in particular for waste management. Integrated permits have not yet been introduced. In June 2002, Slovakia appointed the Slovak Environmental Inspectorate (SEI) as the permitting body for IPPC. The SEI continues to be the main body responsible for enforcement. A reasonable comprehensive monitoring system with the involvement of mainly the SEI, Slovak Hydrometeorological Institute and contract laboratories, is in place.

Overall assessment

Due to significant legislative progress over the last year, Slovakia has achieved considerable alignment with the EC environmental *acquis*. However, it still needs to complete transposition, most urgently in the field of industrial pollution, in particular for the Solvents Directive and the IPPC Directive. Close attention should be paid to the implementation of the *acquis* with regard to waste management (drafting of management plans, upgrading of landfills, strengthening of administrative capacity), water quality (designation of vulnerable zones under the nitrate *acquis*, permits for discharges of dangerous substances), and industrial pollution control (issuing of integrated permits).

The principle of integration requires continuous attention both at national and at Community level. Slovakia needs to continue integrating environmental protection

requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development.

Slovakia's administrative capacity to implement the EC environmental acquis still requires close attention. Slovakia's administrative structure in the field of the environment is based on a four-tier system of national authorities, the environmental departments of eight regional offices (REDs) and 79 district offices (DEDs) and municipalities. Decentralisation of the state administration with more self-government for regions and municipalities is foreseen, entailing the transfer of some competencies on water and waste management and nature and landscape protection to municipalities from REDs and DEDs. Efforts to increase the staff for institutions financed from the state budget are welcome and need to be sustained into the future. The general administrative structure appears fragmented, requiring improved co-ordination between different ministries and bodies, especially between national and sub-national institutions. In the field of water, sufficient staff needs to be provided at the municipal level for the new tasks arising from the new Water Act. A system to inform the general public of non-conformity with the Drinking Water Directive should be put in place.

As regards the issuing of permits, Slovakia's permitting system, at present is media-based with separate permitting for different sectors. The Directive on Integrated Pollution Prevention and Control has not been transposed although in June 2002, the permitting body for IPPC was assigned to the Slovak Environmental Inspectorate. Urgent action is required to ensure implementation by accession as regards "new" installations (transposition as scheduled by end 2002, appointment of the competent authorities for permitting and inspection, training of staff and preparation of industry for permit applications, including translation of the "Best Available Techniques" reference documents).

As regards planning, capacity needs to be strengthened in particular as regards waste management (a comprehensive waste management plan still needs to be drawn up) and water pollution (preparation of the reduction programmes for List II substances of the Dangerous Substances Directives). Within the current Slovak system, monitoring and inspection are already carried out for the individual environmental sectors. The Environmental Inspectorate has currently a staff of 158 people.

The number of inspections, and monitoring capacity should be increased, in particular in the area of waste (for closed landfills, landfills to be closed, and the new landfills to be opened, waste incinerators, and dangerous waste handling and transport). As regards enforcement, Slovakia has a system of environmental fines imposed by the relevant authorities. However, the enforcement mechanism needs to be further improved.

Considerable investments need to be secured, also in the medium-term, to ensure the implementation of the environment acquis.

Conclusion

In its 1997 Opinion, the Commission concluded that a considerable effort had been made to establish environmental legislation compatible with Community law and that, if Slovakia continued in its legislative programme, full transposition of the acquis could be achieved in the medium term. On the other hand, effective compliance with a number of

pieces of legislation requiring a sustained high level of investment and considerable administrative effort could be achieved only in the long to very long term.

Since the Opinion, Slovakia has achieved considerable progress in aligning with the EC environmental *acquis*, and has progressed in developing the necessary administrative capacity to implement the *acquis* in this area. Slovakia has recently significantly increased environmental investments.

Negotiations on the chapter have been provisionally closed. Slovakia has been granted transitional arrangements with regard to VOC emissions from storage of petrol (until 31 December 2007), packaging waste, (until 31 December 2007), urban waste water treatment (until 31 December 2015), discharge of certain dangerous substances (until 31 December 2006), large combustion plants (until 31 December 2010), incineration of waste (until 31 December 2006), and IPPC “existing” installations (until 31 December 2011). Slovakia is generally meeting the commitments it has made in the context of the accession negotiations.

In order to complete preparations for membership, Slovakia’s efforts now need to focus on finalising transposition, in particular as regards Integrated Pollution Prevention and Control (IPPC) and on implementation, notably with respect to the *acquis* on discharge of dangerous substances, on strengthening permitting capacity (IPPC, waste) and on the preparation of the pollution reduction programmes for waters.

Chapter 23: Consumers and health protection

Progress since the last Regular Report

There has been some progress under this chapter during the reference period, mainly as concerns market surveillance.

Except for the adoption in August of a decree aimed at transposing the *acquis* on the indication of prices, no particular further progress can be reported with respect to **safety and non-safety related measures**.

Some progress has been made in developing a **functioning market surveillance mechanism**. In April 2002, a new Act on State Supervision of the Internal Market in Consumer Protection Issues entered into force, which strengthened the responsibilities and co-ordinating role of the Slovak Trade Inspectorate. As the main body in charge of market surveillance in the non-food area, the Inspectorate will assume the responsibilities in this area of the regional and district state administration authorities, and co-operation with those authorities dealing with veterinary and foodstuffs issues, health protection and customs will be improved. The Inspectorate’s capacity is being reinforced through the recruitment of additional staff, mainly consisting of personnel responsible for the performance of direct inspection activities. During 2001, trade inspectors from the Slovak Trade Inspectorate carried out 22 047 own initiative controls to check conformity of consumer products with regulations covering safety specifications, quality, and labelling and information provided for the consumer. In 13 678 cases (62%) administrative measures in the form of fines and/or suspension from the market were taken. In 13 149 cases there was a ban or restriction on the sale of the products concerned, which related to 90 906 products with a total value of some SKK 447 million (about €10.3 million). In

addition to these own-initiative controls, the Inspectorate received 2 941 consumer complaints to investigate.

In 2002, the Ministry of the Economy increased the level of financial support to non-governmental consumer organisations from SKK 1 million (around €23,000) to SKK 2.8 million (around €65,000). In the course of 2001/02 various consumer education activities were promoted, for example a conference on "Educating Today Tomorrow's Consumers" by the Association of Slovak Consumers (ZSS); education and training of mainly young consumers through the ongoing national and international youth competition "Consumption for Life" (A3S); and publication of various consumer magazines.

Overall assessment

A functioning consumer protection system exists in Slovakia, which includes several elements of the Community *acquis* in this area, including legislation on misleading advertising, consumer credit, package travel, and liability for defective products. A decree aimed at transposing the *acquis* on the indication of prices has yet to enter into force. Some shortcomings both in the safety and non-safety area still have to be addressed, however. Further alignment is needed for example as regards general product safety, timeshare, injunctions for the protection of consumer interests, unfair terms in consumer contracts and certain aspects of the sale of consumer goods and associated guarantees.

In the area of market surveillance, the Slovak Trade Inspectorate's role has been strengthened through recent legislative changes. It is too early to comment, however, on the impact of these developments on the efficacy of the surveillance system, particularly in terms of the need for improved co-ordination referred to in last year's Regular Report and the importance of involving business and consumer organisations in market surveillance activities to complement the actions of the public market surveillance administration.

The Slovak Trade Inspectorate has participated in the TRAPEX system since May 1999 (Transitional Rapid Exchange of Information System), connecting the market surveillance authorities of the Central and Eastern European applicant countries with those of the EU Member States. By July 2002, 226 TRAPEX notifications had been received in Slovakia; three of the notified products were also found on the Slovak market and their sale subsequently prohibited. Slovakia put 43 notifications into the TRAPEX system. Dangerous products detected in Slovakia are in particular textiles and electrical appliances.

The consumer movement in Slovakia includes two main umbrella non-governmental consumer organisations, the Association of Slovak Consumers ("ZSS", active since 1990) and the Association of Consumer Entities of Slovakia ("A3S" which began operating in 2000). Separate consumer organisations operate at regional level or are specialised in specific areas of consumer protection. Good co-operation is in place between the government and consumer NGOs. Consumers' awareness about their rights and businesses' awareness about their responsibilities is developing progressively, although general consumer awareness of consumer law and its application could still be improved. The number of consumer complaints registered with the Slovak Trade Inspectorate seems to be relatively small, possibly reflecting a somewhat low level of awareness regarding their rights or perhaps also a low expectation that cases can be

solved satisfactorily due to cost-benefit/economic considerations or burdensome and lengthy administrative procedures. There is currently no system for out-of-court dispute settlement in Slovakia.

Conclusion

In its 1997 Opinion, the Commission concluded that, although Slovakia would need to make efforts to complete the legislative programme in line with EC requirements and to strengthen the administration as well as consumer organisations, it was likely to be in a position to take on the full consumer protection *acquis* in the medium term.

Since the Opinion, Slovakia has continued to make good progress, and few problems have been encountered. It is, overall, well advanced in terms of alignment and administrative capacities.

Negotiations on the chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area and is generally meeting the commitments it has made in the accession negotiations in the field of consumer protection.

In order to complete preparations for membership, Slovakia's efforts now need to focus on completing transposition, ensuring that the administrative structures in place effectively fulfil their task in terms of market surveillance, and increasing consumers' and producers' awareness.

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

Progress since the last Regular Report

Since the 2001 Regular Report, further progress has been made in this area, particularly in the fields of data protection, visas, border control, migration, asylum and police co-operation.

Slovakia has made substantial progress in further aligning its legal framework as concerns **data protection** (see also Chapter 3 - *Free movement of services*). In September 2002 a new Act on Protection of Personal Data entered into force. The Chairman of the Office for the Protection of Personal Data, who heads the supervisory authority, will be elected by the Parliament upon a proposal of the Government. In addition, the position and independence of the supervisory authority will be further strengthened and its financial independence ensured. Since December 2001, the information databases of the Police are also subject to supervision by the Chairman of the Office for the Protection of Personal Data. Control of the information systems of the Army, Warden Court Force, Customs Administration, and Railway Police is the responsibility of the Commissioner for the Protection of Personal Data. Slovakia also signed the additional Protocol to the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, regarding Supervisory Authorities and Transborder Data Flows in November 2001.

Slovakia has made good progress in aligning its **visa policy** with that of the EU. The new Act on the Stay of Foreigners, which entered into force in April 2002, specifies the type of visas which may be issued (short term, long-term, transit and airport transit visas) as well as the procedures for their issuance. Consular Instructions, which are intended to

ensure alignment with the Common Consular Instructions, entered into force in June 2002. Slovakia has almost completed alignment with the Regulation on visa requirements for countries which are under visa obligation, except for Cuba, South-Africa and the Seychelles, for which the visa obligation will be introduced six months before accession at the latest. Slovakia needs to complete alignment as regards countries which are exempt from the EU visa obligation. It still needs to sign agreements on abolition of visa requirements with 16 countries and 2 Special Administrative Regions as well as to amend valid agreements with Malaysia and Italy. As regards administrative capacity, a central visa authority, which is part of the Border and Aliens Police Force, was established in February 2002. In addition, in order to complete the on-line system for issuing visas and the central visa register, a number of new on-line connections were established in April 2002. A new visa sticker was also introduced in April 2002, in order to meet EU security standards.

With regard to external border control, the Government has undertaken several administrative and legal measures to reinforce external border controls. In 2001, the border and Alien Police departments were reorganised into a coherent structure with a vertical management through a central office, i.e. the Border and Aliens Police Office. Since January 2002, the Border and Aliens Police Authority has been established as an independent budgetary organisation and as of July 2002, the departments of Aliens Police at the border crossings and the Border departments have been merged. However, the existing quota of civilian employees is not yet sufficient to handle the administrative tasks arising from being an independent budgetary organisation. The border crossing points on the border with Ukraine have been improved from the point of view of infrastructure, although efforts must be continued.

Slovakia is making progress in aligning it with the Schengen/EU requirements. The Schengen Action Plan has been updated and progress has been made in its implementation. In June 2002, the Government approved the Report on fulfilling the measures defined in the Schengen Action Plan. Slovakia has started to withdraw conscripts engaged in border surveillance tasks and has decided to phase out the use of conscripts in border surveillance tasks by January 2003, while simultaneously strengthening the allocation of permanent staff to the Border and Aliens Police. Slovakia has taken measures to upgrade and enhance technical equipment at all its borders.

As regards migration, the new Act on the Stay of Foreigners entered into force in April 2002. The new Act deals with all aspects related to the entry and stay of third country nationals, issuing of residence permits, rights and obligations of third country nationals and illegal immigration. It largely aligns the Slovak legislation with the *acquis* on migration, and reduces the wide room for discretionary power of the Border and Aliens Police, a structural weakness, which created a climate conducive to corruption. To improve the fight against illegal immigration, Slovakia established a National Unit to Combat Illegal Migration in April 2002. This is a central service with analytical and operational tasks, which should increase the capacity of the country to prevent and detect illegal immigration and cross-border crimes. However, Slovakia continues to face serious problems with regard to illegal immigration. Recent trends show that the number of illegal immigrants apprehended at the borders with Austria and Hungary increased in 2001. Readmission agreements were signed between Slovakia and Luxembourg, Belgium and the Netherlands in February 2002, with Austria in June 2002, with the Czech Republic in July 2002 and with Hungary in September 2002.

Significant progress was achieved by Slovakia with the adoption of the new Act on Asylum in June 2002, which will enter into force in January 2003. The new Act lays down new rules on the principle of *non-refoulement*, regulates in detail the procedure for granting asylum and contains new definitions as regards the safe-third-country concept. In particular, the new Act covers the establishment of an independent review authority to reconsider negative decisions taken at first instance. As regards implementing capacity, the number of officers at the Migration Office is still insufficient to cope with the increased number of cases. In 2001, a sharp increase (423%) in the number of applications (8 151) was observed in comparison to 2000. The Migration Office issued 5 395 first instance decisions, 18 of which granted refugee status, and 130 denied refugee status, and in 5 247 cases the procedure was terminated because the applicant had left the country. A new refugee reception centre with a capacity of 140 people was opened at Rohovce in the western part of the Slovak Republic in October 2001.

In the field of **police co-operation and the fight against organised crime**, Slovakia has continued to make good progress in aligning its legislation. In June 2002, the Slovak Parliament adopted an amendment to the Code of Criminal Procedure, which contains provisions to simplify the pre-trial procedure, remove the overlap between the functions of the police authorities and the investigators and strengthen the role of the prosecutor in criminal proceedings. The Parliament adopted a new Police Act in October 2001, which amends the Act on Police Forces of 1993. In November 2001, Slovakia signed the additional Protocols to the 2000 UN Convention against Transnational Organised Crime (Palermo Convention) on trafficking in persons and smuggling of migrants. In August 2002, Slovakia signed the additional Protocol on firearms.

Furthermore, the amendment to the Criminal Code, entering into force in September 2002, has introduced **terrorism** as a new criminal offence.

As regards the **fight against fraud and corruption** (*see Section B.1.1- Democracy and the rule of law*) the Slovak Parliament has adopted amendments to the Criminal Code, which will enable Slovakia to implement the 1995 Convention on the Protection of the European Communities' Financial Interests and its two Protocols. The amendments were adopted in June 2002 and are to enter into force in September 2002. The Slovak Parliament also adopted amendments to the Civil Code in August 2002 which will enable the ratification of the Civil Law Convention on Corruption. These amendments are to enter into force in January 2003. The Slovak Government has indicated that it will ratify the Civil Law Convention on Corruption by the date of the entry into force of the amendments.

The Government has continued to implement the National Programme of the Fight against **Drugs**, which covers the period 1999-2003, with projections up to 2008. It is a comprehensive programme, which ranges from prevention, treatment and re-socialization to drug supply reduction and law enforcement. In May 2002 the Government approved a proposal for compliance with institutional and financial requirements for Slovakia's participation in the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and established a section for inter-ministerial co-ordination on drug issues. It established the National Monitoring Centre for Drugs as the Central Node of the Drug Information System in the European Network on Drugs and Drug Addiction (Reitox).

As regards the fight against **money laundering** (*see also Chapter 4 - Free movement of capital*), Slovakia has achieved good progress in this field by introducing measures to

combat money laundering and to abolish anonymous passbooks and accounts. A new law, which entered into force in September 2002, requires the abolition of accounts that are presently anonymous from January 2004 with a prescription time of until January 2007.

In the field of **customs co-operation**, Slovakia has signed 3 Memoranda of Understanding between the customs administration and business organizations to combat drug trafficking. In addition, the investigative powers of customs officers were enhanced in June 2002 with the approval by the Parliament of an amendment to the Code of Criminal Procedure.

With regard to **judicial co-operation in criminal and civil matters**, Slovakia has made further progress in the field of criminal matters, with the adoption of the amendment to the Code of Criminal Procedure. Indeed it contains also new provisions on international legal assistance, completing alignment with the *acquis* in the field of judicial co-operation in criminal matters. The amendment is to come into effect in October 2002. On civil matters, the following conventions became binding for the Slovak Republic in the reporting period: Convention on Protection of Children and Co-operation in Respect of Inter-Country Adoption; European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children (1980); Convention Abolishing the Requirement for Legalisation of Foreign Public Documents (1961); Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in respect of Parental Responsibility and Measures for the Protection of Children (1996).

Overall assessment

As regards **data protection**, Slovakia has now achieved a good degree of alignment with the adoption of the new Act on Protection of Personal Data. The proper implementation of the Act on Protection of Personal Data must be ensured, in particular as regards the provisions, which relate to the strengthening of the independence of the supervisory authority. An appropriate level of staffing and means must be provided for the Office for the Protection of Personal Data. The entry into force of the amendment to the Police Act constitutes also a further progress in this field.

Concerning **visa policy**, adequate implementation of the Act on the Stay of Foreigners must be ensured. Slovakia should also continue to implement the plan for alignment with the Regulation on visa requirements, in particular as regards harmonisation with the EU visa-free travel lists. In addition, Slovak travel documents do not yet fulfil EU security standards. Furthermore, Slovakia should equip all its consular and diplomatic missions abroad with the full range of equipment necessary to detect false and falsified documents.

Although Slovakia has taken a number of measures to reinforce **external border control**, it should continue to strengthen border control management and improve capacity to control external borders, especially by giving priority to the border with Ukraine. In particular, Slovakia should fully implement its plans to phase out the use of conscripts at all its borders by 1 January 2003. Further training for border guards should also be ensured. In addition, co-operation with neighbouring states should be enhanced. Slovakia should intensify efforts to achieve a more effective co-operation in the control of the common borders with Poland, Hungary and Ukraine. Slovakia should also revise its two

bilateral agreements with the Czech Republic, which are not yet in conformity with the *acquis*.

Implementation of the **Schengen** action plan continues. However, the successful implementation of this plan hinges on the above issues being effectively addressed. In particular, Slovakia should also strengthen the technical equipment available at all its borders.

As regards **migration**, the entry into force of the new Act on the Stay of Foreigners is a positive step. However, some amendments should still be adopted to complete alignment with the *acquis*, namely on long-term residents, expulsions and access to employment. A new standard travel document should also be adopted. The establishment of a National Unit for the Fight against Illegal Migration and the signature of re-admission agreements with the Benelux countries, Austria, the Czech Republic and Hungary constitute positive developments. Further efforts should still be made, in particular to strengthen the administrative capacity to fight against illegal migration.

The recent adoption of the new Act on **Asylum** is an important step forward towards bringing Slovakia's legislation in line with the *acquis*. Slovakia needs to ensure the effective implementation of the new law, in particular the principle of *non-refoulement* and to considerably improve administrative capacity, especially as regards the processing of asylum claims and reception conditions. Slovakia should also ensure implementation of the provisions of the new law which refer to the regional courts as independent review authorities. Full alignment with EURODAC should also be ensured.

In the field of **police co-operation and the fight against organised crime**, the adopted amendment to the Code of Criminal Procedure and the new Police Act represent very significant progress. The appropriate implementation of these provisions should simplify the pre-trial procedure and eliminate functional overlaps between police bodies and police investigators. However, Slovakia should continue to take specific measures to fight against organised crime, including trafficking in human beings and drug trafficking, and to strengthen administrative capacities. Statistical instruments for measuring crime rates should be improved, while new methods of technical crime investigation, including development of forensic investigation should be further developed. The 2000 UN Convention against transnational organised crime and its three protocols and the Council of Europe Convention on Computer Crime have not yet been ratified. Furthermore, the new provisions adopted in the field of data protection constitute important requirements for the conclusion of a co-operation agreement with Europol.

Regarding the **fight against fraud and corruption**, there has been some progress with the adoption of the relevant amendments to the Criminal Code and to the Civil Code. However, efficiency in combating economic crime and corruption needs to be improved through effective co-operation between enforcement agencies, qualified staff and adequate training. Slovakia should ensure the necessary enhancement of its implementation capacity to effectively address the prevention of and the fight against corruption. Particular attention should be devoted to prevention of corruption in the judiciary as well as in the services dealing with customs and external borders. Slovakia should also pay more attention to the fact that the prevention through transparency and accountability standards is as important as repressive tools.

Relevant institutions for the fight against **drugs** have been established. However effective implementation remains problematic. Institutional capacity and in particular inter-institutional co-operation among law enforcement bodies should be improved, and measures to reinforce staffing and equipment should be implemented. Appropriate monitoring, preventive programmes and nation-wide coverage needs to be ensured.

As regards **money laundering**, the Slovak Republic is well advanced on the way to being able to comply with the *acquis* upon accession in this key area. Nevertheless close monitoring and continuous efforts are needed particularly in terms of practical implementation of the legislation adopted.

Slovakia has achieved a high level of compatibility in its alignment with the *acquis* in the field of **customs co-operation**. As regards administrative and operational capacity, Slovakia should continue to install and implement customs-related information technology applications, to improve the effective development of a risk analysis system and to ensure the appropriate implementation of all the measures envisaged in the National Action Plan on the Fight against Corruption in the Customs administration. Furthermore, Slovakia still needs to ensure full comparability with the 1995 Convention on the Use of Information Technology for Customs Purposes and to put in place a risk assessment system.

As far as **judicial co-operation in criminal and civil matters** is concerned, Slovakia has made further progress in the field. The 1980 Convention on International Access to Justice has not yet been signed. Slovakia should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contacts between competent judicial authorities should be made possible.

All **human rights** instruments, which are part of the justice and home affairs *acquis* have been ratified by Slovakia.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia appeared to have the administrative capacity and infrastructure to meet the justice and home affairs *acquis* (present and future) in the medium term, but that it would have to demonstrate its commitment to introduce the necessary reforms, notably in the development of visa policy toward the Newly Independent States, border management and migration control, extradition and combating organised crime and corruption.

Since the Opinion, significant progress has been made in terms of legal alignment, in particular over the last two years. Overall, Slovakia is to a significant extent aligned with the *acquis* and administrative structures are generally in place but need to be further strengthened.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on completing legislative alignment (visa, migration, judicial co-operation), and in

particular on further reinforcing the administrative capacity in order to strengthen border control management, the fight against illegal immigration and organised crime, including trafficking in human beings and drug trafficking, and to improve capacity in combating fraud and corruption.

Chapter 25: Customs union

Progress since the last Regular Report

Slovakia has achieved considerable progress in the customs field since the last Regular Report.

Slovakia's legislation is already largely aligned on the **customs *acquis***. A law on the protection of the national cultural heritage was adopted in February 2002. Legislation on electronic signatures was passed in April 2002, which will be applied, *inter alia*, in the context of simplified procedures and export declarations.

As far as **administrative and operational capacity** to implement the *acquis* is concerned, good progress has been made. Following the approval by the Government of a Resolution on administrative needs and new institutions related to the implementation of the Community *acquis*, additional posts and staff were allocated to the customs department and the customs technical laboratory. A tri-lateral co-operation agreement between customs laboratories was signed in January 2002 by Hungary, the Czech and Slovak Republics.

As regards the management of the EU's future external frontier with Ukraine, the extension of the Vysne Nemecke border crossing was completed in December 2001, including new freight control hall and relevant infrastructure.

Regarding computerisation, since the last Regular Report, Slovakia has made considerable efforts on its customs IT systems. Work on the new computerised entry-processing system, which is to be installed in all customs offices, began in June 2002.

Overall assessment

Concerning administrative capacity, Slovakia has made good progress and already manages a number of measures and systems which gives it the capacity for managing them in the Community. However, Slovakia does not currently manage quotas according to the *acquis*, and also lacks experience of applying measures such as export refunds for agricultural products.

The use of risk analysis techniques for targeting customs controls is at a preliminary stage and tends to be based on specific alerts rather than a truly analytical approach. Central input to the risk analysis module is only possible under one of the two computerised entry-processing systems in use in Slovakia.

Some computerised systems such as the integrated tariff and transit systems are still at initial stages of development, and these also need to be linked to the computerised entry-processing system.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia was making a major effort to align its organisation and staff to the duties that have to be carried out by a modern customs administration. The Commission added that, provided that Slovakia reinforced its efforts, particularly in relation to project management in the computerisation area, it could be ready to fulfil the responsibilities of an EU customs administration within the following few years.

Since the Opinion, Slovakia has achieved steady progress in aligning with the *acquis* in this area. Slovakia has completed its legislative alignment with the *acquis*. It has, overall, gradually developed and reinforced the necessary administrative capacity, although a number of issues remain to be tackled in this regard.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts should now focus on the development and implementation of the computerised customs systems and on other interconnectivity-related issues. Moreover, Slovakia should pursue effective co-operation between the customs department and other law enforcement bodies in order to combat customs irregularities and take all steps necessary to prepare for the application of measures and provisions that will be introduced only at the time of accession.

Chapter 26: External relations

Progress since the last Regular Report

Since the previous Regular Report Slovakia has continued to align with the *acquis* on common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard to the Doha Development Agenda negotiations.

As regards the **common commercial policy**, upon accession Slovakia will be required to align its tariffs with those of the EC. Slovakia's applied tariffs currently average 6.1% on all products, 13.2% on agricultural products, 0.1% on fishery products and 4.4% on industrial products. By comparison the EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

Slovakia has unilaterally applied a suspension of MFN tariffs levied on imports of twelve civil aircraft products. Despite the Commission's strong opposition, this exceptional measure introduced in 2000 and due to end in December 2001, was prolonged until December 2002. The Slovak Republic will need to ensure that this tariff suspension will not be prolonged beyond 2002.

With regard to **dual-use goods**, a law entered into force in February 2002, which largely aligned the Slovak legislation with the EU *acquis* in this area, including in terms of lists of goods controlled. Slovakia keeps the industry regularly informed of developments in

this field and has developed bilateral contacts with the EU Member States to exchange best practices on export control issues.

As regards **bilateral agreements with third countries**, Slovakia signed a Free Trade Agreement with the Republic of Croatia in November 2001, which has been provisionally applied since January 2002 pending its ratification.

Within CEFTA, the member countries, including Slovakia, signed the Additional Protocol No. 10 relating to the liberalisation of agricultural and food trade, and the Additional Protocol No. 11 relating to rules of origin of goods.

With regard to **development policy**, co-operation and assistance, Slovakia is an active member of the OECD and is adapting its development practices to the guidelines laid down by the Development Assistance Committee. The guidelines for granting **humanitarian aid** are also being reviewed. In 2002 the government has allocated additional funding equivalent to €2 million to bilateral external assistance to developing countries (0.04% of GDP).

Overall assessment

The EU and Slovakia have established a framework for co-operation regarding WTO issues at both ministerial and departmental level. Slovakia has been supportive of EU policies and positions within the WTO framework, in particular during the preparation for and the launching of the Doha Development Agenda. This close co-operation should continue. Slovakia is a member of the Information Technology Agreement. It is an observer to the WTO plurilateral agreements on Government Procurement and Civil Aircraft. With regard to GATS, steps have been defined to ensure smooth alignment on the EC's GATS commitments and MFN exemptions and the close coordination in this field should continue. With regard to the WTO Agreement on Trade in Textiles and Clothing (ATC), co-ordination has taken place within the third stage of integration under the ATC to align Slovakia's integration programmes with those of the EC.

Slovakia has made substantial progress on dual-use goods legislation, which is now largely in line with the *acquis*, although some further alignment is necessary. However, full alignment to the *acquis*, in particular the general export authorisations, can only take place upon accession.

In addition to its bilateral free trade agreements with Croatia, Estonia, Latvia, Lithuania, Turkey, Israel and EFTA, Slovakia is a member of CEFTA. Slovakia needs to ensure that the Union is kept fully informed both about existing trade agreements and about any negotiations aimed at the conclusion of the new trade agreements with a third country. Prior to accession, Slovakia will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State. Decisive steps are needed, as a matter of urgency, to bring bilateral investment treaties in conformity with the Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved in the Accession Treaty.

Slovakia's alignment with and future participation in the common commercial policy is administered by the Ministry of Economy. The administrative infrastructure, which needs to be in place with respect to customs services, is discussed in the chapter on customs

union (*Chapter 25 – Customs union*). The Ministry of Foreign Affairs co-ordinates development policy, while the Ministry of Interior is responsible for humanitarian aid. There is further need to improve the co-ordination of assistance provided by both ministries in this area, and to strengthen the institutional capacity of the Foreign Ministry as well as co-operation with the non-governmental sector.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia was well placed to meet Community requirements in this field within the next few years.

Since that time, Slovakia has made good progress and has achieved a generally high level of alignment with the *acquis*, in particular in the area of export credits and administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovakia's efforts now need to focus on finishing the process of legislative alignment, on taking decisive steps, as a matter of urgency, towards the renegotiation or abrogation of its bilateral investment treaties in full conformity with its EU membership obligations, on terminating its exceptional suspension of MFN tariffs on certain civil aircraft products by December 2002 at the latest, as well as on ensuring that the capacity exists to fully implement and enforce the EC *acquis* in this field upon accession.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

Since the last Regular Report Slovakia has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy.

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

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

The Parliament adopted a Military Strategy in October 2001, complementing the Security and Defence Strategy adopted last year. The strategy aims at modernising the current structure of the armed forces. At the end of last year and beginning of this year, Slovakia adopted new legislation in this field, based on the requirements for EU membership. It also adopted a new law on import and export control including arms and dual use goods.

Slovakia has continued to align itself regularly with **EU statements and declarations**, common positions, joint actions and other CFSP instruments, including negative measures. In international organisations, Slovakia has co-ordinated its actions with EU common positions, in line with last year's practice. Slovakia has maintained a good track record as regards implementing **international sanctions and restrictive measures**. Slovakia has confirmed its willingness to adopt the entire CFSP *acquis* upon accession and conform itself to the commitments resulting from it.

Slovakia has ratified the Rome Statute establishing the International Criminal Court. It has passed new anti-terrorism legislation including measures against the financing of terrorism. It has aligned with the EU Plan of Action of September 2001 and with the relevant common positions on combating terrorism, and has acceded to the relevant international conventions relating to terrorism.

Slovakia has confirmed its preparedness to contribute both to EU Rapid Intervention Force missions and to EU civilian instruments for crisis management. It participated in the Capabilities Improvement Conference in November 2001 and in the EU +15 Defence Ministers' meeting in May 2002. It has shown an active interest in participating in the forthcoming EU Police Mission in Bosnia and Herzegovina. In October 2001, the Slovak Parliament adopted an amendment to the Police Act, enabling the participation of Slovak police forces in ESDP crisis management operations. Together with Poland and the Czech Republic it is building up a formation for military ESDP missions.

Slovakia has made considerable efforts to support international peacekeeping missions. It has participated in SFOR and KFOR, and in a series of UN, OSCE and EU peacekeeping and observer operations.

Co-operation within the framework of the Visegrad group has continued.

Overall assessment

Slovakia's relations with its neighbours are generally good. Slovakia has taken a proactive role in promoting enhanced bilateral co-operation and regional integration, especially within the framework of the Visegrad group.

Slovakia has subscribed to the content and principles contained in the EU Code of Conduct on Arms Exports, but more efforts are necessary to ensure implementation of its criteria.

Concerning the administrative capacity to implement the provisions relating to the CFSP, Slovakia has a well-staffed and functioning Ministry of Foreign Affairs. The Ministry has a Political Director and a European Correspondent and is connected to the Associated Correspondents' Network information system through which the EU communicates within the CSFP with the associated partners. This system has been operational since its establishment in 2000.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovakia was well placed to effectively fulfil its obligations in this field. It stated that Slovakia was an active

participant in the dialogue arrangements provided for and when invited supported EU actions within that framework.

Since the Opinion, Slovakia has made steady progress in aligning with the CFSP *acquis*, and its alignment is, overall, well advanced and in general satisfactory at this stage.

Negotiations on this chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is in general meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovakia's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing foreign and security policy, adopting the legislation on economic sanctions and finalising the development of the necessary administrative structures.

Chapter 28: Financial control

Progress since the last Regular Report

Since last year's Regular Report, Slovakia has made further progress in this area.

Slovakia has moved forward with regard to the implementation of its **Public Internal Financial Control** systems. The Act on Financial Control and Internal Audit, which provides the basis for the establishment of both financial management and control and internal audit systems, entered into force as of January 2002. The process of institution building, notably the establishment of internal audit units in line ministries and agencies, has advanced, but is not yet completed. So far, internal audit units have been established in the Ministry of Finance, the Ministry of Environment, the Ministry of Economy, the Ministry of Defence, the Ministry of Justice, the Ministry of Transport, Post and Telecommunication, the Prosecutor's Office and in three regional offices. A central harmonisation unit for financial management and internal audit has been established under the direct authority of the Minister of Finance and has been operational as of October 2001. Slovakia is currently working on the set of implementing instruments for internal audit, such as the Implementation Regulation, the Internal Audit Manuals, Internal Audit Charter, Internal Audit Trails and the Code of Ethics for the Internal Auditor. The Code of Ethics for the Financial Controller was adopted in January 2002. A special issue is to clarify the understanding of the difference between the roles of internal auditor and of ex post financial controller in such a way that redundancy or duplication be avoided.

Slovakia adopted in June 2002 an amendment to the Act on Budgetary Rules, which aims to strengthen managerial controls and responsibilities with regard to public funds, including those stemming from the EC budget. The Act on State Treasury, adopted in May 2002, provides for the establishment of the State Treasury system, which is, however, not yet operational. The Act on Accounting, aiming at harmonisation with international accounting standards (IAS), was adopted in June 2002.

Slovakia has made substantial progress in the area of **external audit**. An amendment to the Act on the Supreme Audit Office (SAO), reflecting the recent changes in the Slovak Constitution, entered into force in January 2002. This amendment expands the scope of the SAO competences, including those to audit the EC funds, which are treated as state

budget resources. It also specifies the position of the chairman and vice-chairman of the SAO and repeals the competence of the Ministry of Finance to audit SAO. The SAO currently has a staff of 233, of which 158 are auditors. In addition to the headquarters in Bratislava, there are regional offices in Kosice and Banská Bystrica. The SAO has adopted a Code of Ethics for its auditors based on the Code adopted by the International Organisation of Supreme Audit Institutions (INTOSAI).

Slovakia has progressed in the area of **control over structural action expenditure**. The Slovak Government approved the instructions for the use of ISPA, SAPARD and PHARE funds and the procedures for financial control of pre-accession instruments. In April 2002 the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency (*see section A.b. – Relations between the European Union and Slovakia*). Slovakia has already started the gap assessment exercise which is the first step leading to the extended decentralised implementation system (EDIS). With respect to EDIS for ISPA, Slovakia has recently taken the first steps to start up the process. Regarding ISPA implementation, progress has been made to establish a management and control system, but further steps need to be taken to meet the requirements for financial control and internal audit.

Progress can also be reported in the field of the **protection of EC financial interests**. A special department within the Office of the Government (Inspection Section) has been designated by the Slovak authorities as anti-fraud co-ordinating service, responsible for the co-ordination of all legislative, administrative and operational activities related to the protection of the Communities' financial interests. Effective co-operation with OLAF and relevant Slovak institutions and bodies should now be put in place. The Act on Control in State Administration, which – among others – specifies the modalities of co-operation between the Office of the Government and the European Anti-Fraud Office (OLAF) was adopted in July 2002.

Overall assessment

With regard to *Public Internal Financial Control*, the Slovak framework legislation is to a very large extent in line with EC standards. Full alignment will be reached upon the adoption of the proper implementation- regulations based on the Act on Financial Control and Internal Audit and of the relevant tertiary legislation. Slovakia also needs to complete the establishment of internal audit units in all budget-spending centres with internal audit focusing on systems-based and performance-audit functions. The newly established internal audit units need to be adequately staffed with well-trained and experienced personnel. Given the continuing need for qualified staff in this area, sustainable training schemes need to be put in place. With regard to financial management and control systems, Slovakia needs to strengthen the *ex ante* financial control function throughout the budget income and spending centres.

In the area of *external audit*, the Slovak Supreme Audit Office (SAO) is operationally and functionally independent and its audit activities cover satisfactorily all public and EU funds. The reporting and follow-up procedures with regard to SAO audit findings have been put in place. The SAO's procedures are to a large extent in line with the INTOSAI audit standards. It needs, however, to continue incorporating these standards and the EU implementing guidelines for these standards into its current work.

With regard to *control of structural action expenditure*, Slovakia should continue its efforts to enhance its capacity to manage the pre-accession funds and future structural funds, in particular through the reinforcement of administrative capacity in this regard. The development of mechanisms for the rapid recovery of lost EC funds is equally important (*see also Chapter 21, Regional Policy*). Slovakia needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in the second semester of 2003.

The designation of a Slovak anti-fraud co-ordinating service constitutes an important step forward with a view to ensuring suitable *protection of EC financial interests*. However, the necessary legal framework to allow this service to exercise its co-ordinating functions remains to be further elaborated, and adequate administrative capacity to implement the *acquis* in this area needs to be ensured, including effective co-ordination between the Inspection Section and the other Slovak institutions and bodies as well as with OLAF.

Conclusion

In its 1997 Opinion, the Commission pointed out that it was difficult to assess to what extent the financial control legislation was being effectively implemented and whether the control authorities enjoyed the necessary independence to carry out their duties. It concluded that efforts were essential to strengthen financial control and audit functions.

Since the Opinion, Slovakia has progressed steadfastly, although until 2001, progress has been slow in developing the necessary Public Internal Financial Control functions.

Negotiations on the chapter have been provisionally closed. Slovakia has not requested any transitional arrangements in this area. Slovakia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to be ready for membership, Slovakia will need to give urgent attention to adopting the remaining implementing and tertiary regulations in the area of Public Internal Financial Control; to completing the establishment of the internal audit function throughout all ministries and agencies; to strengthening of the *ex ante* financial control function; as well as to further reinforcing the legal framework and the administrative capacity for the protection of the Communities' financial interests. In order to tackle these weaknesses, Slovakia is in the process of strengthening its administrative capacity, in particular by increasing human resources and carrying out training. Efforts should be stepped up.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

Slovakia has made some progress in this area since the last Regular Report.

Further progress has been achieved concerning the **national budget and EC co-financed measures**. An amendment to Slovakia's framework budgetary legislation, the Act on Budgetary Rules, was approved by the Slovak Parliament in June 2002 and provides for important new measures in the area of financial relations between the state budget of Slovakia and the general budget of the European Communities. The revised Act will

ensure that EC funds receive from accession the same treatment as state budget revenue and that these funds are monitored, controlled and reported on in line with established Community procedures.

The revised Act on Budgetary Rules also introduces multi-annual budgeting in Slovakia with effect from January 2003, and provides the legal base for the transfer of Slovakia's contributions to the EC own resources as of accession.

The Ministry of Finance has started a reform of budgetary procedures and public expenditure management in order to make further improvements. The reform is concentrated on central financial control, the management of state budgetary expenditure, and familiarisation with budgetary requirements related to Slovakia's accession to the EU. The number of extra-budgetary funds has been reduced to just two, compared with eighteen two years ago.

As regards the **own resources system**, some further progress can be noted. In January 2002 an Act on the Market Organisation in Selected Agricultural Products entered into force. Although currently there are no procedures for the collection of sugar levies, these will be introduced in 2003 on the basis of this new Act.

An amendment to Slovakia's Value Added Tax Act became effective from January 2002, further aligning with EC legislation by adjusting the currently applied tax deductions and excessive deductions refund. For the purposes of calculating the GNP resource, further progress was made with the new State Statistics Act, which entered into force in January 2002 and provides for further harmonisation with the ESA-95 standards. A third and final phase of implementation of ESA-95 methodology in the national accounts is currently under way.

As regards the administrative capacity necessary to co-ordinate financial relations with the EC, the co-ordinating Unit in the Budget Section of the Ministry of Finance has been strengthened through the recruitment of extra staff and on-going staff training.

Overall assessment

The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. Regarding medium-term budget expenditure, all programming and monitoring mechanisms, including co-financing, have been established. The integration of the medium-term financial outlook into the 2002 budgetary process is a positive step in this context, as is the ongoing reform of budgetary procedures and public expenditure.

Overall preparations for application of the *acquis* on own resources are progressing well, although there is room for further improvement.

As regards traditional own resources, Slovak customs legislation is already largely in line with the EC *acquis* and being applied in accordance with the EC Customs Code and its implementing provisions. However, for the purpose of own resources, Slovakia needs to develop its reporting system on cases of fraud and irregularity, and certain other reporting and accounting requirements (the 'A' and 'B' accounts) still need to be set up in time for accession. Also, the systems and procedures necessary for sugar levies are not yet in place. Slovak law does not currently include any provisions requiring that producers of

sugar, isoglucose or insulin syrup pay levies on sugar production, nor has an entity been identified to carry responsibility for levy collection.

As regards VAT, as a result of the most recent legislative amendments that came into force in January 2002, Slovakia has achieved a good degree of alignment, although a number of issues remain to be tackled. For the purposes of own resources, considerable efforts are required in order to be able to calculate the weighted average rate (WAR) in accordance with ESA-95 and to determine the impact on the VAT base of any special arrangements agreed under the Taxation Chapter. Slovakia should continue to participate in the VAT simulation exercise, which is the key tool for effectively testing Slovakia's capacity regarding the VAT resource. Sustained efforts are also needed to improve the actual collection and control of VAT.

As regards the GNP resource, Slovakia's statistical system is largely in line. Slovakia should continue implementation of the ESA-95 concept, with the ongoing process of quality and methodology improvements in the calculation of GNP and the national accounts, including enhancing their exhaustiveness.

As regards administrative capacity, all the institutions necessary for applying the own resources system already exist, except for sugar levies. A permanent co-ordinating unit within the budget section of the Ministry of Finance has been in existence since March 2001. This unit is currently co-ordinating the establishment of the necessary procedures, infrastructure and capabilities to fulfil the administrative conditions in the area of own resources and will co-ordinate from accession the calculation, control and payment of own resources and contacts with and reporting to the Commission in this area. Although it currently has only three staff members, it has been decided that three additional officials will be recruited to cover respectively each type of own resource. Two further officials will be recruited to cover own resources issues in the Ministry of Agriculture and Statistics Office respectively. Such capacity-building will be particularly important in view of the required improvements referred to above and this unit's planned responsibility for the final calculation of the VAT base, based on data submitted by the Statistical Office and the Tax Directorate.

With regard to the control of future EC own resources, Slovakia should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the financial interests of the EC can be protected.

In addition to the need for central co-ordination for the proper collection, monitoring and payment of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report, such as Financial Control, Agriculture, Customs, Taxation and Regional Policy.

Conclusion

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, Slovakia would have to overhaul its existing customs system. Furthermore, for the purposes of accurately calculating the GNP resource, considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would

also be essential for drawing up the VAT own resources base, which would mean bringing Slovakia's VAT system fully into line with the Community directives.

Since the Opinion, Slovakia has made considerable progress in these areas, in particular as regards the alignment of its customs system and progress in applying the ESA-95. Overall, the legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget, as well as the administrative structures are largely in place.

Negotiations with Slovakia on this chapter are ongoing. Slovakia is generally meeting its commitments made in the accession negotiations.

In order to complete preparations for membership and to ensure the capacity to establish properly and make available the country's contribution to each of the own resources of the Communities, Slovakia's efforts now need to focus in particular on improving its calculation of the VAT base and guaranteeing the exhaustiveness of the national accounts for determining the GNP resource, together with completing the implementation of the ESA-95 methodology. Also, the responsible service needs to be designated and the necessary procedures established for collecting sugar levies.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Coordination Units in each country.

The Central Translation Unit within the Slovak Institute for Approximation of Law is responsible for the translation of the *acquis* into the Slovak language. It currently employs 15 persons. A total staff number of 20 is envisaged.

As at September 2002, 30 200 pages of revised text and 16 600 of non-revised text were registered in the dedicated Commission database. According to Slovak sources, approximately 62 000 pages of the Official Journal have so far been translated into Slovak, of which more than 30 000 have been revised. Sustained further efforts are required in this area.

Due attention must also be paid to the training of conference interpreters.

3.3. General evaluation¹³

Since the Opinion, Slovakia has made very good progress in legislative alignment and, increasingly, in strengthening administrative capacity. Structural weaknesses, which persist in a number of areas like company law, transport policy, environment and financial control, have been continuously remedied to a large extent.

Over the past year, Slovakia has further advanced in aligning with the *acquis* and strengthening its administrative capacity. Particular progress has been achieved in the areas of free movement of goods, freedom to provide services, agriculture, transport, energy, environment, and justice and home affairs. Sectors, in which only limited progress was made in the reporting period include regional policy and co-ordination of structural instruments.

Overall, Slovakia has achieved a high degree of alignment with the *acquis* in many areas and is reasonably well advanced towards reaching adequate administrative capacity to implement the *acquis* in a considerable number of fields, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Concerning the *internal market*, Slovakia has achieved a good degree of alignment and is relatively well advanced in having appropriate administrative capacities in place. As regards *free movement of goods*, alignment is largely complete and administrative capacity broadly in place. Slovakia's standardisation and accreditation bodies function well. The focus needs to be put on the outstanding transposition of the foodstuffs *acquis* and the strengthening of the related administrative structures. In particular, an appropriate market surveillance infrastructure still needs to be fully set up and structures for public procurement need to be reinforced. In the area of *freedom of movement of persons*, where preparations are generally well advanced, legislation for the mutual recognition of qualification, in particular, must be completed and the administrative capacities for the future co-ordination of the social security systems need to be reinforced. Concerning *freedom to provide services*, good progress has been achieved in the field of financial services over the past year. Despite an advanced level in this area, Slovakia needs to concentrate its efforts on completing alignment, notably in the insurance sector, and strengthening the administrative structures, in particular with respect to financial supervision. Alignment in the area of *free movement of capital* is well advanced; Slovakia needs to focus, in particular, on reinforcing administrative capacities to fight money laundering.

As regards *company law*, Slovakia has reached a good level of alignment and is relatively well advanced in terms of administrative preparations. Over the past year, legislative progress can be particularly noted in the field of trademarks, design and patents. Administrative structures to combat piracy and counterfeiting need to be reinforced. Concerning *competition policy*, a good level of alignment has been achieved, and operational administrative structures put in place. Over the past year, a considerable track record of enforcement in the State aid area has been built up. However, in the steel sector, state aid granted in Slovakia is not compatible with Protocol 2 of the Europe Agreement.

¹³ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Administrative capacities in this field, as well as in the area of anti-trust, however, need to be further reinforced.

As regards *agriculture*, Slovakia is advanced in transposition and implementation of the *acquis*. Over the past year, in particular, good legislative alignment has been achieved in the phytosanitary and veterinary area. Administrative strengthening requires further attention. Efforts are required for the construction and proper functioning of the Border Inspection Posts and food processing establishments need to be upgraded. Serious efforts are needed to ensure that a fully functional Integrated Administration and Control System (IACS) is put in place. A timetable has been drawn up to remedy the identified shortcomings for the IACS.

Legislative alignment and administrative preparation in the area of *energy* are advanced. Overall administrative capacities need to be further strengthened. As regards nuclear energy, Slovakia has committed itself to close the two Bohunice V1 reactors by 2006 and 2008 respectively. Slovakia should refine its project pipeline to ensure satisfactory projects for the decommissioning of the two reactors. In *transport policy*, Slovakia has aligned with the *acquis* to a considerable extent and significant steps have been undertaken to strengthen the administrative capacities. Alignment, in particular in the area of rail transport and inland waterways, needs to be completed. Co-ordination between the different ministries and bodies involved in this sector has to be improved.

With respect to *taxation*, Slovakia has reached a good level of alignment and the reform of its tax administration is ongoing. Alignment both in the areas of direct and indirect taxation remains to be completed. Modernisation and strengthening of the tax administration needs to be reinforced as the general tax collection remains weak. Slovakia has a comprehensive and consistent reform agenda in place to address the identified shortcomings. As regards *customs union*, Slovakia has completed its legislative alignment and has, in principle, developed and reinforced the necessary administrative capacity. Attention should continue to be paid to the enforcement of the transposed legislation. Considerable efforts on IT systems to allow for the exchange of electronic data with the European Community and its Member States have been made in the taxation and customs areas, but these still require further work.

Alignment in the area of *telecommunications and information technologies* has reached a high level and administrative structures are being put in place, though completion of legislative alignment and further strengthening of administrative structures as well as proper separation of regulatory and operational functions are needed. The evaluation of the economic implications of full implementation of the universal service *acquis* is awaited.

In the field of *social policy and employment*, Slovakia is advanced in terms of legislative alignment. Administrative structures are mostly in place, but require further strengthening. There is a particular need to co-ordinate the supervision and enforcement of the transposed health and safety *acquis*. Administrative preparations for the future management of the European Social Fund need to be reinforced.

Slovakia has aligned with the *acquis* in the area of *regional policy and co-ordination of structural instruments* but effective administrative structures are only in place to a limited extent. Over the past year, the management structures and paying authority for the implementation of the Structural Funds and Cohesion Fund have been designated. A clear

definition of the final implementation structure, however, is missing. There is a substantial need to reinforce the administrative capacities in this area. The technical preparation of projects eligible for Community funding has to be considerably improved. The remaining administrative weaknesses have been identified in the commitments made in the framework of the negotiations as well as in the Action Plan, and the necessary steps are being taken to remedy these shortcomings. Ongoing efforts need to be substantially stepped up.

Concerning the *environment*, Slovakia is advanced in alignment with the *acquis* and in having the necessary administrative capacity to implement it. Slovakia has recently increased its environmental investment significantly. Efforts need to focus now on finalising transposition, in particular in the area of Integrated Pollution Prevention and on implementation in the area of Control and Discharge of Dangerous Substances, as well as on strengthening administrative capacities. As regards *consumer protection*, legislative alignment and administrative strengthening is advanced but not yet completed.

With respect to co-operation in the fields of *justice and home affairs*, Slovakia is to a considerable extent aligned with the *acquis* and administrative structures are generally in place. Implementation of the Schengen Action Plan is progressing well. The focus needs now to shift to strengthening implementation of the transposed *acquis* and to further reinforcing administrative capacities, in particular in the areas of border control and the fight against illegal immigration and crime.

As regards *financial control*, Slovakia is advanced with regard to legislative alignment and the necessary institutional structures are being put in place. It needs to pay attention to strengthening and building up the necessary administrative capacity, notably in the area of public internal financial control. Concrete actions have been planned and are being implemented to remedy the identified shortcomings. Efforts should be stepped up.

Concerning the *administrative capacity*, Slovakia has largely achieved a sufficient, though still rather fragile, capacity to ensure effective implementation and enforcement of the *acquis*, notably in the area of the internal market and the various Community policies. Slovakia needs to ensure the full operation of the administrative structures, in particular with a view to guaranteeing the uniform and predictable implementation of the *acquis*. Particularly close attention is required regarding the structures necessary to implement that part of the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Slovakia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovakia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Slovakia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovakia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

C. Conclusion¹⁴

Whereas the 1997 Opinion and the 1998 Regular Report concluded that Slovakia did not fulfil the political criteria, the 1999 Regular Report came, for the first time, to a positive evaluation in this respect. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Slovakia continues to fulfil the Copenhagen criteria.

Progress was achieved with regard to the structure and functioning of the administration, notably by setting up a Civil Service Office and building up decentralised, regional administrations. Delays have occurred in implementing the Civil Service Law. The proper functioning of the self-administration may be hampered, as the transfer of competencies from state to regional level is not going hand in hand with fiscal decentralisation.

Further important steps were taken to strengthen the independence of the judiciary. In particular, further key legislation was adopted and a Judicial Council was set up. The new legislation and institutions should be used to the full, so as to guarantee the judiciary's professional impartiality and political neutrality.

Some progress can be noticed in the fight against corruption, which remains a cause for serious concern, notably by further implementing the relevant action plans and drawing codes of ethics for the public sector. These efforts must be continued.

Slovakia continues to respect human rights and freedoms.

In particular, legislation and administration was reinforced to fight trafficking in human beings. A new Asylum Act was adopted, providing, *inter alia*, for the establishment of an independent body to act as the second instance in the asylum procedure.

Considerable efforts were made in further developing and putting into practice approaches to protect minority rights. In particular, the Office of the Government Plenipotentiary for Roma affairs was strengthened and the relevant strategy enhanced and financial means increased. These efforts must be continued and reinforced as a matter of priority, to effectively combat discrimination and improve the living conditions of the Roma community. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

The 1997 Opinion already acknowledged the reform efforts undertaken by the Slovak authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Slovak authorities' commitment to the economic requirements of EU accession has been sustained.

¹⁴ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Hence, it is concluded that the Slovak Republic is a functioning market economy. The continuation of its current reform path should enable the Slovak Republic to cope with competitive pressure and market forces within the Union.

Improvements can be made to the macroeconomic situation, which requires urgent measures to reduce both the fiscal and current account deficits. Expenditure reforms, in particular in the health and pension area and as regards subsidies and guarantees, are essential. The unemployment problem necessitates a whole range of structural reforms, including the elimination of disincentive effects in the social protection system and a more flexible labour legislation. Supervision of the financial sector can be further strengthened. The effective implementation of the legal framework for a market economy needs to be further enhanced.

Since the Opinion, Slovakia has made very good progress in legislative alignment and, increasingly, in strengthening administrative capacity. Structural weaknesses, which persist in a number of areas like company law, transport policy, environment and financial control, have been continuously remedied to a large extent.

Over the past year, Slovakia has further advanced in aligning with the *acquis* and strengthening its administrative capacity. Particular progress has been achieved in the areas of free movement of goods, freedom to provide services, agriculture, transport, energy, environment, and justice and home affairs. Sectors, in which only limited progress was made in the reporting period include regional policy and co-ordination of structural instruments.

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Concerning the *environment*, Slovakia is advanced in alignment with the *acquis* and in having the necessary administrative capacity to implement it. Slovakia has recently increased its environmental investment significantly. Efforts need to focus now on finalising transposition, in particular in the area of Integrated Pollution Prevention and on implementation in the area of Control and Discharge of Dangerous Substances, as well as on strengthening administrative capacities. As regards *consumer protection*, legislative alignment and administrative strengthening is advanced but not yet completed.

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In the accession negotiations, 27 chapters have been provisionally closed. Slovakia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovakia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the

Commission considers that Slovakia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovakia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

Slovakia's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare Slovakia for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of Slovakia in each domain.

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

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

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for Slovakia in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Slovakia to develop jointly an Action Plan to strengthen Slovakia's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for Slovakia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Slovakia with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

Political criteria

Implementation of the civil service law has now started, although delays have occurred in issuing secondary legislation. As set out in the Action Plan, the *Civil Service Office* has been established, even if some months later than previously foreseen. The recruitment of the Office's staff is proceeding according to schedule. The *implementation of the public administration reform strategy* has continued; as regards the element of decentralisation, the first regional elections took place in December 2001. Transfer of responsibilities from state to regional level, however, does not yet proceed satisfactorily hand in hand with fiscal decentralisation. The issues of *training and remuneration* need to be tackled. Slovakia has made considerable progress *with strengthening the independence and the efficiency of the judiciary by, inter alia, adopting a number of laws*. As foreseen in the Action Plan, the Act on the Judicial Council has been approved and the relevant Council established. *The training system for judges has received attention, but no comprehensive training structure exists yet. The provision of equipment and administrative staff is ongoing.* A *court case management system* has been introduced at pilot level. The amendment to the Code of Criminal Procedure, foreseen in the Action Plan, which contains provisions to avoid the overlap between the functions of the police authorities and police investigators, has helped *ensure the accountability and transparency of the investigation procedures*. Further legislative steps and implementing measures were carried out to *step up the fight against corruption and economic crime, in particular through continuing to implement the Action Plan to combat corruption*. The function of a *special prosecutor for the fight against corruption and organised crime*, as foreseen in the Action Plan, has not yet been established. The situation of the *Roma minority* has improved continuously through intensified implementation of the relevant strategy, including increased financial support at national and local level, albeit still insufficient. Employment opportunities, increased access to education and better housing conditions need further particular attention. One additional person has been recruited to the Office of Government responsible for Roma project management, as envisaged in the Action Plan. *Implementation of the minority language legislation* needs further to be pursued further. The system for *redress against police misconduct* has been improved, inter alia, by adopting a Code of Ethics, now being gradually implemented, as foreseen in the Action Plan. Overall, the Accession Partnership priorities related to the political criteria have been met to a considerable extent. Implementation of the measures under the Action Plan is on track.

Economic criteria

Some progress towards *ensuring medium-term sustainability of public finance* can be recorded. *Improvements in public finance management* have been introduced. Some reform steps have been instituted in the *health and pension systems* but the bulk of the measures required to achieve fiscal sustainability is still outstanding. The *remaining state-owned banks and the insurance company have been privatised* so financial sector restructuring is now almost completed. *Bad-debt recovery mechanisms* are being better implemented. The economic priorities of the Accession Partnership have been partially met.

Ability to assume the obligations of membership

Chapter 1: Free movement of goods

Some progress has been achieved as regards implementation of the acquis in the field of *public procurement*, and the Public Procurement Office is functioning well. Staff increases as foreseen in the Action Plan have been made. However, further strengthening of surveillance and complaint procedures is required. Alignment with *New Approach Directives* is almost complete and preparations for their full implementation and that of the law on *technical requirements for products and on conformity assessment* is on-going, as are steps to upgrade market surveillance and conformity assessment structures and to eliminate all previously mandatory certification. In the sectors covered by *product specific legislation*, including the fields of pharmaceuticals and chemicals, alignment is largely complete and administrative capacity has been improved. However, alignment in the field of motor vehicles is required, and as regards *pharmaceuticals*, a central procedure for authorisations for the placing of medicines on the market, as well as the procedure for mutual recognition of registrations still need to be implemented. Delays in the transposition of *foodstuffs* acquis have been occurring, and particular efforts will be required in this sector to complete the necessary preparations before accession. In line with the Action Plan, an inter-ministerial Food Safety Commission has been established, however. Other planned administrative measures in the foodstuffs area are on-going. In the *non-harmonised area*, screening of Slovak legislation to ensure it is in compliance with Article 28 to 30 of the EC Treaty has begun. However, concerted efforts will be required to ensure its timely completion. Administrative arrangements for future monitoring in this area are being established. Overall, the Accession Partnership priorities in the area of free movement of goods have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 2: Free movement of persons

Concerning the *alignment of mutual recognition of professional qualifications and diplomas and the introduction of required administrative structures, education and training programmes*, much work remains to be done. The Centre for Equivalence of Diplomas, expected to be an organisational unit of the Ministry of Education, has still to be designated as the contact point and national co-ordinator for the general system directive, as foreseen in the Action Plan. With respect to the urgent priority of *professional qualifications obtained before harmonisation*, Slovakia has not yet introduced all measures to ensure that all its professionals can, from accession, meet the requirements laid down by the directives in the medical sector. As regards the *reinforcement of the administrative structures for the co-ordination of social security*, progress can be reported. As foreseen in the Action Plan, the staff resources (numbers) and staff qualifications of the liaison bodies and other institutions designated for the implementation of the co-ordination of social security schemes has been strengthened, but social insurance databases still need further improvements. Thus, the Accession Partnership priorities in the field of free movement of persons have been partially met. Implementation of the measures under the Action Plan is partially on track.

Chapter 3: Freedom to provide services

Alignment and implementation of directives on financial services legislation has made good progress. Slovakia's legislation is in line with the relevant banking acquis; the

implementation of EC rules in the field of investment services and securities markets has further advanced but is not yet completed. However, further progress in the insurance sector is needed, in terms of legislative alignment and administrative capacity, including hiring more staff in 2002 as foreseen by the Action Plan. The overall framework for the *supervision of financial services* has been strengthened. As foreseen in the Action Plan, the *administrative capacity of the data protection office* has been strengthened with 4 new lawyers in 2002. The Accession Partnership priorities in the field of free movement of services have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 4: Free movement of capital

Restrictions on institutional investors have been progressively relaxed. Steps have been taken to *strengthen supervisory institutions and procedures* although, as regards administrative capacity, the National Bank of Slovakia Banking Supervision Department faces a shortage of qualified supervision resources. Co-operation between the two supervisory institutions has been established. As regards *payment systems*, progress has been made with the establishment of a sound and efficient payment infrastructure as foreseen by the Action Plan. Concerning the fight against money laundering, Slovakia is ensuring its compliance with the *recommendations of the financial action task force*. The *strengthening of the Financial Intelligence Department*, as foreseen in the Action Plan, is ongoing. Overall, the Accession Partnership priorities in the field of free movement of capital have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 5: Company law

With the further alignment of trademarks and copyright legislation achieved during the reporting period, *legislative alignment* in the *intellectual and industrial property* area is largely complete and preparations for outstanding laws are on track. *The urgent priority for enforcing intellectual property rights, strengthening administrative capacity and the fight against counterfeiting* is gradually being addressed. Training measures as foreseen in the Action Plan for enforcement bodies including for judges and prosecutors, is ongoing and needs to be continued. Overall, the Accession Partnership priorities in the area of company law have been partially met. Implementation of the measures under the Action Plan is partially on track.

Chapter 6: Competition policy

While not yet fully aligned, *legislation in both the state aid and anti-trust* fields is now largely in line; the *administrative capacity of the State Aid Office* has been significantly strengthened; and *enforcement of the rules* in anti-trust and state aid including the alignment of incompatible aid schemes has been improved. Improvements to the preparation of the *state aid inventory and annual reports* in line with Commission requirements are also to be noted. Work should continue to increase *awareness* of the rules among all market participants and aid grantors; and in order to intensify the *training of the judiciary in the competition field*. Under the Action Plan, the planned merger of the State Aid Office with the Anti-Monopoly office has been withdrawn. Overall, the Accession Partnership priorities in the area of competition have largely been met. The measure of the Action Plan has been reviewed and subsequently cancelled.

Chapter 7: Agriculture

With the adoption of the new Veterinary Framework Act and the amendment to the Phytosanitary Care Act, considerable progress has been achieved in meeting the urgent priority of ensuring *alignment of veterinary and phytosanitary legislation*. As regards the urgent priority of *upgrading inspection arrangements*, in particular the Border Inspection Posts (BIPs) at the future external borders, only the construction of the BIP in Vysné Nemecké has been completed. The EC quality requirements have not been fully met. With regard to the implementation and enforcement of legislation on *Transmissible Spongiform Encephalopathies (BSE)*, including testing of animal diseases, Slovakia is implementing the BSE testing measures almost at the same level as in the EU. Relevant administrative preparations are proceeding in accordance with the Action Plan. Alignment with the *acquis* has been achieved as regards epidemio-surveillance, the rendering system, the removal and disposal of specific risk materials from the feed ban and the ban on feeding the meat and bone meal to ruminants. Slovakia has upgraded the *administrative capacity* at the Ministry of Agriculture, the State Veterinary and Food Administration and the Central Control and Testing Institute for Agriculture; however, further enforcement of the proper institutional structures is necessary. The *Integrated Administration and Control System* has not yet been established. The strategy for the implementation of this system is envisaged by the Action Plan for the first quarter of 2003. The *vineyard registration* is currently being carried out in accordance with the Action Plan. The decision on the establishment of the *Paying Agency* upon accession has been taken, however the legal basis still needs to be adopted. Alignment has been achieved with regard to the *classification of pig carcasses* and training activities foreseen by the Action Plan are ongoing. The reinforcement of the administrative structures needed for the design, implementation, management, monitoring, control and evaluation of EC-funded *rural development programmes*, and the adoption of the agro-environmental programme by the Government, as foreseen in Action Plan, have not yet been carried out. With regard to food safety, the Action Plan foresees the *upgrading of food processing establishments*. While all processing establishments have already been inspected and upgrading plans drawn up, further work is required concerning the detailed implementation of these plans. The establishment of the new body for food safety, the State Veterinary and Food Administration, has been achieved in compliance with the Action Plan. Overall, the Accession Partnership priorities in the area of agriculture have been partially met. The Implementation of measures under the Action Plan is mostly on track.

Chapter 9: Transport

As regards *legal alignment and the strengthening of administrative capacity, addressed also in the Action Plan* in road transport, progress has been achieved. However, further efforts still need to be made for the transposition and implementation of social rules for domestic road transport operations. Some efforts are needed to improve the administrative capacity of the inland waterway sector. In the railways sector significant steps forward have been made as regards the future organisation of the Slovak Railways. Further efforts are required to align fully with the revised railway *acquis*. As regards *the setting up and the efficient operation of an independent aviation accident investigation authority*, the legislation is in place. It must now be ensured that the body becomes operational. Thus, the Accession Partnership priorities in the field of transport have been partially met. Implementation of the Action Plan is overall on track.

Chapter 10: Taxation

Alignment of legislation has progressed on both VAT and excise duties, but further action is needed particularly on excises. Some *discriminatory measures* remain in place on the imports of a limited range of products. A review of legislation to ensure *compliance with the Code of Conduct for business taxation* is in progress. The Council Directive on the holding, movement and monitoring of products subject to excise duty has not yet been fully transposed. Even though additional measures are needed, a wide-ranging reform is ongoing to *strengthen administrative capacity*, as envisaged in the Action Plan. Preparations are on track to address the urgent priority to develop *IT systems to allow for exchange of data with the Community and Member States*, as set out in the Action Plan. Thus, the Accession Partnership priorities in the field of taxation are in the process of being met. Implementation of the Action Plan is overall on track.

Chapter 12: Statistics

The Slovak Statistical Office has made efforts to ensure that adequate IT, human and financial resources are allocated to *further strengthen statistical capacities, including at regional level*. In particular, as planned in the Action Plan, the Statistical Office staff was reinforced in 2002. This Accession Partnership priority has been met to a considerable extent. Implementation of measures under the Action Plan is on track.

Chapter 13: Social policy and employment

Progress has been made in enforcing social *acquis*, in particular in the field of *health and safety at work*. *Administrative and enforcement structures* have been strengthened to a certain extent. As foreseen in the Action Plan, the *labour inspectorates* have been strengthened, a competent national body has been established under the Posting of Workers Directive and a Labour Protection Information Centre has been established. The increase of staff is taking place according to the Action Plan. There has been no progress with the adoption of *legislation against discrimination* and an appropriate implementing body as foreseen in the Action Plan still has to be created. In the field of *public health*, progress has been made in the area of *surveillance and control of communicable diseases*. As set out in the Action Plan, Slovakia's co-operation with the EU in the area of field studies is on track, but more work is needed to develop Slovakia's health monitoring system to ensure that data and indicators are comparable with the EU. Promotion of *bipartite social dialogue* has continued. Preparation for *future participation in the European strategy on social inclusion* has started. The Accession Partnership priorities in the area of social policy and employment have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 14: Energy

Slovakia has accepted the *recommendations of the Council Report on "Nuclear Safety in the Context of Enlargement"*, and is currently implementing them. An *"Updated Conceptual Bohunice VI nuclear reactors Decommissioning Plan"* was elaborated in May 2002 but still needs to be refined further, adopted and implemented. In line with the Action Plan, work to further upgrade *nuclear safety* at Bohunice V2 and Mochovce nuclear power plants continues. Slovakia has made good progress with *strengthening the oil stock body*, including increasing its staff in 2002 as set out in the Action Plan and with preparatory works for the *internal market* (electricity and gas directives), including the establishment of a transmission system operator. However, there is a need to further

strengthen the internal energy market's administrative capacity. As foreseen in the Action Plan, Governmental Regulations on Energy Labelling of Household Appliances entered into force in May 2002, but overall progress in the field of *energy efficiency and use of renewable energy sources* is slow. Overall, the Accession Partnership priorities in the energy sector have been partially met. Implementation of the Action Plan is on track.

Chapter 19: Telecommunications and information technologies

Slovakia has not yet completed its *alignment with the acquis*. Whereas further progress was achieved in the postal sector with the adoption of the Act on Postal Services, alignment in the telecommunication sector did not advance, as the Slovak Parliament rejected to adopt further necessary amendments in the reporting period. The separation of regulatory and ownership functions, as also set out in the Action Plan, has not yet been completed, as the relevant Ministry continues to exercise the state's property rights. Thus, this Accession Partnership priority has been met only to a limited extent. Implementation of measures under the Action Plan is partially on track.

Chapter 20: Culture and audio-visual policy

The administrative capacity of the Council of Radio and Television Broadcasting has been strengthened in line with the Action Plan, both financially and in terms of staff. Overall, the Accession Partnership priorities in the area of Culture and audio-visual policy have been met. Implementation of the measures under the Action Plan is on track.

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

Slovakia has met the urgent priority of ensuring a territorial organisation allowing for the effective implementation of the Structural Funds regulations. The legal framework, which allows for the implementation of the *acquis*, has been almost completed. The bodies in charge of the implementation of Structural Funds and the Cohesion Fund, in particular the Managing authorities and the single Paying authority have been designated, in line with the Action Plan. Nevertheless, the priority concerning a clear division of responsibilities, the establishment of effective inter-ministerial co-ordination and notably the improvement of the administrative capacity, has been met to a limited extent. The elaboration by the relevant ministries of the planning documents for the implementation of EC Structural Funds is proceeding with some delay. As regards the monitoring and evaluation system, no progress can be reported. The measures foreseen in the Action Plan concerning the financial management and control procedures are scheduled for 2003. The priority related to the development of technical project preparation for Structural and Cohesion Fund projects, as also set out in the Action Plan, has not been met. Overall, the Accession Partnership priorities in the area of regional policy have been partially met. The time schedule set in the Action Plan is being partially respected.

Chapter 22: Environment

As regards the *transposition of the acquis*, in the areas of air quality, industrial pollution control and risk management and waste, some progress can be reported. In the fields of water quality, and nature protection, good progress has been made. Close attention should still be paid to the *implementation of the acquis* with regard to waste management, water quality and in particular industrial pollution control. The *principle of integration of environmental protection requirements into the definition and implementation of all other sectoral policies* requires continued attention. Slovakia has carried out a range of

actions to develop its *administrative capacity* in the field of the environment. However, Slovakia's administrative capacity to implement the EC environmental acquis still requires close attention, as also set out in the Action Plan. For 2002, an increase of 199 staff for the institutions financed from the state budget was approved; these efforts need to be sustained also for the future. The Accession Partnership priorities in the field of environment have been met to a considerable extent. The implementation of the Action Plan is overall on track.

Chapter 23: Consumers and health protection

Alignment of legislation is continuing, although some outstanding legislation still needs to be transposed. Implementation of the measures under the Action Plan concerning *completion of the establishment of market surveillance and enforcement authorities* is largely on track. The administrative structures are in place and it now needs to be ensured they effectively fulfil their market surveillance function up to and beyond accession in an evolving legislative environment. Overall, the Accession Partnership priority in the area of consumers and health protection has been met to a considerable extent. Implementation of measures under the Action Plan is on track.

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

Slovakia is making progress in *implementing the Schengen Action Plan*, which has also been updated. The Government has carried out the administrative measures, foreseen in the Action Plan, with respect to the Schengen Information System. Substantial progress has also been made with ensuring *alignment of data protection practices*, in particular through the entry into force of the new Act on Protection of Personal Data in September 2002. The Government has undertaken several administrative and legal measures to *continue to upgrade and modernise the infrastructure at the EU's future external borders*. However, continued efforts should be made to strengthen Slovakia's *border control capacity to fight against illegal immigration*. Slovakia has made good progress in *aligning its visa policy* with that of the EU, in particular with the adoption of the new Act on the Stay of Foreigners, which entered into force in April 2002. In line with the Action Plan, a Central Visa Office has been operational since February 2002 and a National Unit to fight against illegal migration was established as of April 2002. The new Act on Asylum, adopted in June 2002, foresees the *establishment of an independent review authority as the second instance in an asylum procedure*. In the field of police co-operation and the fight against organised crime, Slovakia has continued to make encouraging progress in aligning its legislation, with the adoption of the amendment to the Code of Criminal Procedure. However, continued efforts need to be made in *the fight against organised crime, including trafficking in human beings and drug trafficking*. As outlined in the Action Plan, the Department for the fight against trafficking in human beings and sexual exploitation of the Bureau of Organised Crime of the Presidium of the Police Force started its effective operation. The departments of the Police corps responsible for the fight against organised crime should still be strengthened in the course of 2002-2003 by additional staff. *The capacity to deal with money laundering* has also been strengthened and Slovakia is ensuring its compliance with the recommendations of the financial action task force; the strengthening of the Financial Intelligence Department foreseen in the Action Plan is ongoing. *The implementation of a national anti-drugs programme* has continued. Further progress has been made with ensuring the implementation of the Community instruments in the area of *judicial co-operation in civil matters* and with *ensuring better co-ordination between services and agencies*

involved in the area of justice and home affairs. The first necessary steps to complete alignment with the Convention on the Protection of the Communities' Financial Interests and its Protocols have been taken. The pre-requirements for the conclusion of a co-cooperation agreement with *Europol* are ongoing. Overall, the Accession Partnership priorities in the area of justice and home affairs have been met. Implementation of the measures under the Action Plan is on track.

Chapter 25: Customs Union

Regarding the urgent priority of accelerating the *implementation of the IT strategy of the Slovak customs administration*, since the last Regular Report Slovakia has made considerable efforts on its customs IT systems. Work on the new computerised entry-processing system, which is to be installed in all customs offices, began in June 2002. Concerning the *proper management of all aspects of Community policies managed by the customs authorities*, and in particular with respect to the Common Agricultural Policy, a working group was created, as foreseen in the Action Plan, within the Customs Directorate with the task of preparing the conception of customs administration procedures for implementing relevant provisions of the CAP. Regarding the *establishment of all the necessary specialised organisational units* foreseen in the Act on state administration bodies *in the field of customs and the efforts to strengthen customs ethics*, a Customs Criminal Office should be established, in line with the Action Plan, by the end of 2002. Thus, the Accession Partnership priorities in the field of customs have been met to a considerable extent. The implementation of the Action Plan is overall on track.

Chapter 26: External relations

Slovakia has continued to inform the European Union of negotiations aimed at the conclusion of new trade agreements with third countries. However, Slovakia needs to make further efforts to take the necessary measures to renegotiate or renounce all *international agreements and treaties, including bilateral investment treaties*, concluded with third countries that are incompatible with its future obligations as a EU Member State. Overall, this Accession Partnership priority has been partially met.

Chapter 28: Financial Control

With regard to the urgent priority of *completing the implementing legislation* for Public Internal Financial Control, Slovakia is currently working on the set of implementing instruments for internal audit, such as Internal Audit Manuals, Internal Audit Charter and Internal Audit Trails in line with the Action Plan. The Code of Ethics for the Internal Auditor has been adopted. So far Internal Audit Units have been established in 6 line ministries, the Public Prosecutor's office and 3 regional administration. The establishment of internal audit units in all budget-spending centres still needs to be completed. A central harmonisation unit for financial management and internal audit has been established directly under the authority of the Minister of Finance and became operational as of October 2001.

With regard to *external audit*, the overall operational capacity of the Supreme Audit Office (SAO) has well expanded, comprising now 229 employees. The SAO has reached a satisfactory degree of organisational, operational and financial independence. The SAO has met to a large extent the criteria for compliance with the International Organisation of Supreme Audit Institutions (INTOSAI) audit standards, however, it needs to continue

incorporating these standards into its current work. Concerning the *protection of the Communities' financial interests*, a special department within the Office of the Government (Inspection Section) has been designated as anti-fraud co-ordinating service. The legislative framework and administrative capacity to protect the Communities' financial interests should now be further developed. With regard to ensuring the correct use, control, monitoring and evaluation of *EC pre-accession funding*, Slovakia has, in line with the Action Plan, adopted procedures for Financial Control of the Pre-accession Instrument. The SAPARD Agency was accredited in April 2002. The implementation of measures agreed by the Government on the basis of the report elaborated by the High Level Working Group is underway. Overall, the Accession Partnership priorities in the area of financial control have been largely met. The time schedule set in the Action Plan is being largely respected.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
15 September 2002***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------------------------------------------------------|----------------------------------------|--------|--------|--------|---------|
| Basic data | in 1000 | | | | |
| Population (average) | 5,383 | 5,391 | 5,395 | 5,401 | 5,380 |
| | in km2 | | | | |
| Total area | 49,030 | 49,035 | 49,035 | 49,035 | 49,035 |
| National accounts | 1000 Mio Slovak Koruna | | | | |
| Gross domestic product at current prices | 708.6 | 775.0 | 835.7 | 908.8 | 989.3 |
| | 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 18.6 | 19.6 | 18.9 | 21.3 | 22.8 |
| | ECU/euro | | | | |
| Gross domestic product per capita a) at current prices | 3,500 | 3,600 | 3,500 | 4,000 | 4,200 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 5.6 | 4.0 | 1.3 | 2.2 | 3.3 |
| Employment growth | -1.1 | 1.5 | -3.2 | -2.5 | : |
| Labour productivity growth | 6.8 | 2.4 | 4.7 | 4.9 | : |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita a) at current prices | 9,600 | 10,100 | 10,500 | 10,500 | 11,100 |
| Structure of production | % of Gross Value Added b) | | | | |
| - Agriculture | 5.6 | 5.3 | 4.7 | 4.5 | 4.6 |
| - Industry (excluding construction) | 27.5 | 27.1 | 29.2 | 28.9 | 27.5 |
| - Construction | 7.2 | 7.1 | 5.5 | 5.3 | 5.2 |
| - Services | 59.8 | 60.5 | 60.7 | 61.4 | 62.7 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 74.3 | 75.9 | 76.1 | 70.7 | 73.2 |
| - household and NPISH | 50.3 | 51.7 | 52.7 | 52.1 | 53.9 |
| - general government | 21.7 | 21.8 | 19.8 | 18.6 | 19.3 |
| - Gross fixed capital formation | 34.3 | 36.2 | 30.3 | 29.3 | 31.9 |
| - Stock variation | 1.0 | -1.5 | -2.1 | : | : |
| - Exports of goods and services | 56.1 | 59.2 | 61.0 | 71.8 | 75.9 |
| - Imports of goods and services | 65.6 | 69.9 | 65.4 | 74.2 | 84.6 |
| Inflation rate | % change over the previous year | | | | |
| Consumer price index | 6.0 | 6.7 | 10.8 | 12.3 | : |
| Balance of payments | Mio ECU/euro | | | | |
| -Current account | -1,725 | -1,893 | -1,088 | -772 | -1,960g |
| -Trade balance | -1,836 | -2,097 | -1,035 | -994 | : |
| <i>Exports of goods</i> | 8,503 | 9,555 | 9,572 | 12,872 | : |
| <i>Imports of goods</i> | 10,339 | 11,652 | 10,607 | 13,866 | : |
| -Net services | 66 | 17 | 47 | 475 | : |
| -Net income | -110 | -140 | -283 | -380 | : |
| -Net current transfers | 154 | 327 | 184 | 128 | : |
| <i>-of which: government transfers</i> | 8 | 0 | -1 | -6 | : |
| - FDI (net) inflows | 154 | 504 | 306 | 2,317 | 1,414g |
| Public finance | in % of Gross Domestic Product | | | | |
| General government deficit/surplus | -5.7 | -4.7 | -6.4 | -12.8 | -5.6p |
| General government debt | 29.7 | 28.9 | 40.2 | 45.2 | 44.1p |

| Financial indicators | in % of Gross Domestic Product | | | | |
|--------------------------------------------|---------------------------------------|-------|-------|-------|-------|
| Gross foreign debt of the whole economy f) | 31.1 | 39.8 | 41.7 | 33.4 | : |
| | as % of exports | | | | |
| Gross foreign debt of the whole economy f) | 53.7 | 65.0 | 67.8 | 45.6 | : |
| Monetary aggregates | 1000 Mio ECU /euro | | | | |
| - M1 h) | 4.3 | 3.4 | 3.6 | 4.3 | 5.3 |
| - M2 h) | 11.8 | 10.9 | 12.4 | 13.8 | 15.9 |
| - M3 | : | : | : | : | : |
| Total credit h) | 12.4 | 12.2 | 13.6 | 13.9 | 16.1 |
| Average short-term interest rates | % per annum | | | | |
| - Day-to-day money rate i) | 24.6 | 14.5 | 11.5 | 8.0 | 7.4 |
| - Lending rate | 15.1 | 14.5 | 10.7 | 9.8 | 9.7 |
| - Deposit rate | 11.4 | 15.3 | 14.5 | 8.9 | 6.2 |
| ECU/EUR exchange rates | (1ECU/euro=..Slovak Koruna) | | | | |
| - Average of period | 38.11 | 39.54 | 44.12 | 42.60 | 43.30 |
| - End of period | 38.43 | 43.21 | 42.40 | 43.93 | 42.78 |
| | 1990=100 | | | | |
| - Effective exchange rate index | 72.2 | 70.0 | 63.0 | 63.7 | 61.1 |
| Reserve assets | Mio ECU/euro | | | | |
| -Reserve assets (including gold) h) | 3,261 | 2,820 | 3,722 | 4,715 | 5,045 |
| -Reserve assets (excluding gold) h) | 2,922 | 2,497 | 3,358 | 4,338 | 4,691 |

| External trade c) | Mio ECU/euro | | | | |
|--------------------------|----------------------------|--------|--------|--------|--------|
| Trade balance | -1,836 | -2,097 | -1,025 | -980 | -2,383 |
| Exports | 8,503 | 9,555 | 9,602 | 12,876 | 14,104 |
| Imports (FOB) | 10,339 | 11,652 | 10,627 | 13,856 | 16,487 |
| | previous year = 100 | | | | |
| Terms of trade | : | : | : | : | : |
| | as % of total | | | | |
| Exports with EU-15 | 47.1 | 55.7 | 59.4 | 59.0 | 59.9 |
| Imports with EU-15 | 43.8 | 50.1 | 51.7 | 48.9 | 49.8 |

| Demography | per 1000 of population | | | | |
|--------------------------------------------|-------------------------------|------|------|------|------|
| Natural growth rate | 1.3 | 0.8 | 0.7 | 0.4 | -0.2 |
| Net migration rate (including corrections) | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 |
| | per 1000 live-births | | | | |
| Infant mortality rate | 8.7 | 8.8 | 8.3 | 8.6 | 6.2 |
| Life expectancy : | at birth | | | | |
| Males: | 68.9 | 68.6 | 69.0 | 69.1 | : |
| Females: | 76.7 | 76.7 | 77.0 | 77.2 | : |

| Labour market (Labour Force Survey) | % of population | | | | |
|--------------------------------------------|-------------------------------|------|------|------|------|
| Economic activity rate (15 - 64) | : | : | 69.0 | 69.6 | 70.4 |
| Employment rate (15-64), total | : | : | 58.0 | 56.3 | 56.7 |
| Employment rate (15-64), male | : | : | 64.0 | 61.6 | 61.8 |
| Employment rate (15-64), female | : | : | 52.1 | 51.1 | 51.8 |
| | in % of total | | | | |
| Average employment by NACE branches | | | | | |
| - Agriculture and forestry | 9.2 | 8.3 | 7.2 | 6.9 | 6.3 |
| - Industry (excluding construction) | 30.2 | 30.1 | 29.4 | 29.3 | 29.1 |
| - Construction | 9.1 | 9.3 | 9.0 | 8.0 | 7.9 |
| - Services | 51.5 | 52.3 | 54.3 | 55.8 | 56.7 |
| | % of labour force | | | | |
| Unemployment rate, total | 11.8 | 12.5 | 15.9 | 19.1 | 19.4 |
| Unemployment rate, males | 10.9 | 11.9 | 16.0 | 19.4 | 20.1 |
| Unemployment rate, females | 12.8 | 13.2 | 15.9 | 18.6 | 18.6 |
| Unemployment rate of persons < 25 years | 21.7 | 23.6 | 32.0 | 36.9 | 38.9 |
| | as % of all unemployed | | | | |
| Long-term unemployment share | : | : | 47.6 | 54.7 | 58.3 |

| Infrastructure | in km per 1000 km2 | | | | |
|-----------------------|---------------------------|-----|-----|-----|-----|
| Railway network | 75 | 75 | 75 | 75 | 75 |
| | km | | | | |
| Length of motorways | 219 | 288 | 295 | 296 | 296 |

| Industry and agriculture | previous year = 100 | | | | |
|----------------------------------------------|----------------------------|-------|------|-------|--------|
| Industrial production volume indices d) | 101.3 | 103.6 | 97.3 | 108.6 | 106.9 |
| Gross agricultural production volume indices | 99.0 | 94.1 | 97.5 | 87.7 | 107.8E |

| Standard of living | per 1000 inhabitants | | | | |
|-----------------------------------------------------|-----------------------------|-------|-------|-------|-------|
| Number of cars | 211.0 | 222.0 | 229.0 | 236.0 | 240.0 |
| Main telephone lines | 258.6 | 285.5 | 308.2 | 314.0 | 289.3 |
| Number of subscriptions to cellular mobile services | 35.7 | 92.2 | 123.1 | 205.0 | 399.2 |
| Number of Internet subscriptions e) | 35.3 | 92.7 | 111.2 | 93.9 | 124.1 |

E=estimate

p=provisional

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- b) Including FISIM.
- c) Data since 1997 are processed according to the Ministry of Finance of the SR's Notice No.167/1997 and they are not comparable with data for year 1996; data up to the year 1999 are definitive; year 2000 - preliminary ones; annual average of exchange rates quoted by National Bank of Slovakia is used for recalculation of the value expressed in Euro.
- d) Data up to the year 1998 are indices of the goods industrial production, since 1999 indices of the industrial production are compiled according to the EU methodology. Data are not comparable.
- e) Source: Ministry of Transport, Post and Telecommunication of the Slovak Republic.
- f) Series break after 1997.
- g) Source: Website of the National Bank
- h) 2001 figures refer to September.
- i) 2001 figures refer to October.

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices). The recording is based upon the special trade system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs. Exports and imports are recorded here on FOB basis. Recording of data in case of exports is realised with the date the commodities cross the state border, in case of imports - with the date the commodities are released into circulation in the country.

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

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by a country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

Basic concepts and definitions: All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

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

have no work,
are actively seeking a job and
are ready to take up a job within a fortnight.

Duration of unemployment is defined as:

- (a) the duration of search for a job, or
- (b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons are those who are not classified as persons in employment nor as unemployed persons.

Employment rates represent employed persons aged 15-64 as a percentage of the same age population.

Unemployment rates represent unemployed persons as a percentage of the active population aged 15 years and more.

Economic activity rates represent the active population aged 15-64 as a percentage of the population of the same age.

Since year 2000 the data refer to calendar quarters (formerly seasonal quarters).

Infrastructure

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

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

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

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

Industry and agriculture

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

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

Standard of living

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

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

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

Sources

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

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