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OECD ECONOMIC SURVEYS

2001-2002

Slovak Republic

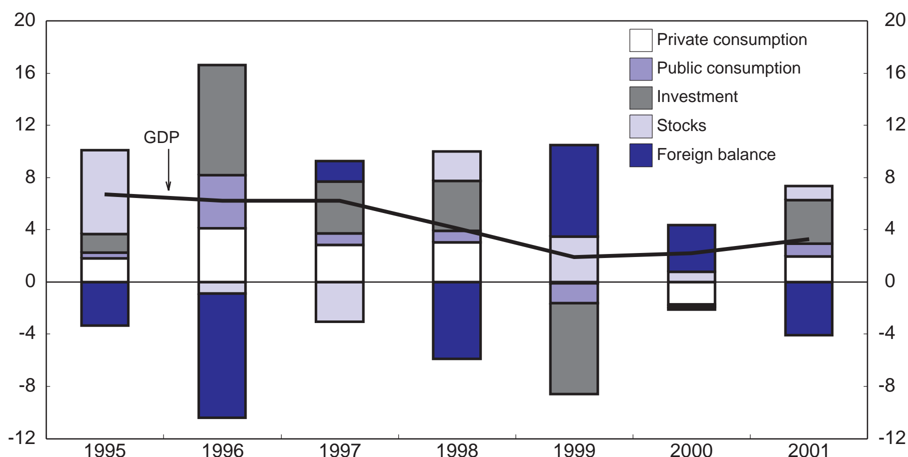
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

I. Recent trends and prospects

The Slovak economy has recovered from its economic downturn of 1998 to 2000, which reduced output growth to an annual rate of 2 per cent. The period of weak growth had resulted from a stabilisation package introduced to correct large imbalances, notably a current account deficit of nearly 10 per cent of GDP in 1998. The package consisted of fiscal tightening (see Chapter II) and a number of structural reforms to advance the development of a market economy (see Chapter IV). The initial result of this policy package was a nearly 10 per cent contraction in final domestic demand over the period 1998 to 2000, although a large positive contribution from external demand enabled the economy to avoid a recession (Figure 1). In 2001, domestic demand rebounded strongly, led by a

Figure 1. **Contributions to GDP growth**

Percentage points



Source: OECD.

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double-digit increase in fixed investment and a recovery in private consumption. The strength of domestic demand was sufficient to boost output growth to 3¼ per cent in 2001, despite the significant slowdown in most other OECD countries, which damped the expansion of Slovak exports. With a pick-up in exports, output growth is projected to accelerate to around 4 per cent in 2002 and 2003.

While growth prospects appear brighter, the economy is faced with both challenges and risks. In particular, the pace of growth has proven to be inadequate thus far to reduce the unemployment rate, which surpassed 19 per cent in 2001. At the same time, the gap between accelerating domestic demand in Slovakia and weaker demand in its major trading partners has more than doubled the current account imbalance to nearly 9 per cent of GDP in 2001. In 2002, at least, privatisation revenues provide sufficient inflows of foreign capital to cover the external imbalance. Finally, inflation, which slowed from a double-digit rate in 2000 to 7.3 per cent in 2001, is projected to fall to 5½ per cent in 2002 due to a pause in upward adjustments in administered prices. In 2003, however, inflation is expected to bounce back to around 7 per cent, well above the central bank's objective of 4½ per cent in 2005. After reviewing the factors responsible for the upturn in Slovakia, this chapter will examine developments in the three imbalances – the current account deficit, the rate of unemployment and the inflation rate.

Factors supporting the economic recovery

Sharp falls in investment in 1999 and private consumption in 2000 produced the double-digit drop in domestic demand recorded over that period (Table 1). To some extent, the rebound in 2001 reflects a bounce back from those

Table 1. **Demand and output**

Percentage change

	1994-2001	1996	1997	1998	1999	2000	2001
Private consumption	3.2	8.0	5.4	5.8	–0.2	–3.4	4.0
Government consumption	3.7	21.0	4.1	4.0	–6.9	–0.9	5.2
Gross fixed capital formation	6.3	32.0	12.0	11.1	–18.8	–0.7	11.6
Final domestic demand	4.2	17.1	7.2	7.2	–7.7	–2.1	6.5
Stockbuilding[1, 2]	1.4	–0.9	–3.0	2.3	3.5	0.8	1.1
Total domestic demand	5.6	16.1	4.3	9.5	–4.6	–1.3	7.3
Exports	8.0	0.7	17.6	12.2	3.4	15.9	6.5
Imports	9.9	17.2	13.1	19.9	–6.0	10.2	11.7
Foreign balance[1]	–1.3	–9.6	1.6	–5.9	7.0	3.6	–4.1
Gross domestic product	4.3	6.2	6.2	4.1	1.9	2.2	3.3

1. Contribution to growth.
2. Includes statistical discrepancy.
Source: Statistical Office of the Slovak Republic.

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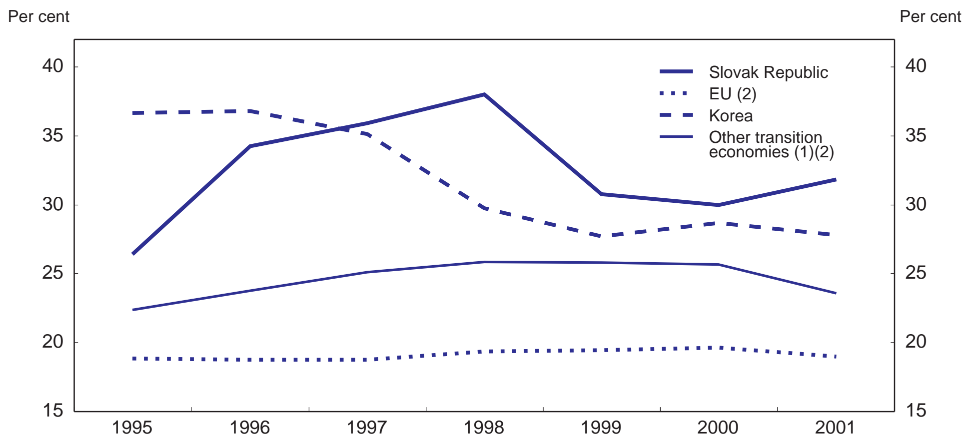
depressed conditions. In addition, there were a number of specific factors boosting investment and consumption, which are discussed below.

The boom in fixed investment

Gross fixed investment rose by 11½ per cent in 2001, reaching 31 per cent of GDP, well above the other OECD transition countries and the highest in the OECD area (Figure 2). The rebound in investment stopped the contraction of the construction sector, whose share of GDP has dropped from 6½ per cent of nominal GDP in 1998 to less than 5 per cent in 2000. The surge in total investment reflected a recovery in business-sector confidence (Figure 3). Indeed, in the industrial sector, confidence reached a record high at the beginning of 2001, although it subsequently declined during much of the year. Confidence may have been boosted by progress in structural reform, such as the rehabilitation of the banking sector and further privatisation (see Chapter IV), as well as the slowdown in inflation. In addition, Slovakia has been advancing in accession negotiations with the European Union. These positive trends helped to halve the spread on five-year Slovak Eurobonds from 200 basis points in mid-2000 to around 100 basis points and prompted two major rating agencies to boost the sovereign credit rating of the Slovak Republic to investment grade at the end of 2001.[1]

Figure 2. **Gross fixed investment**
As per cent of GDP



1. Czech Republic, Hungary and Poland.
2. Weighted average.
Source: OECD.

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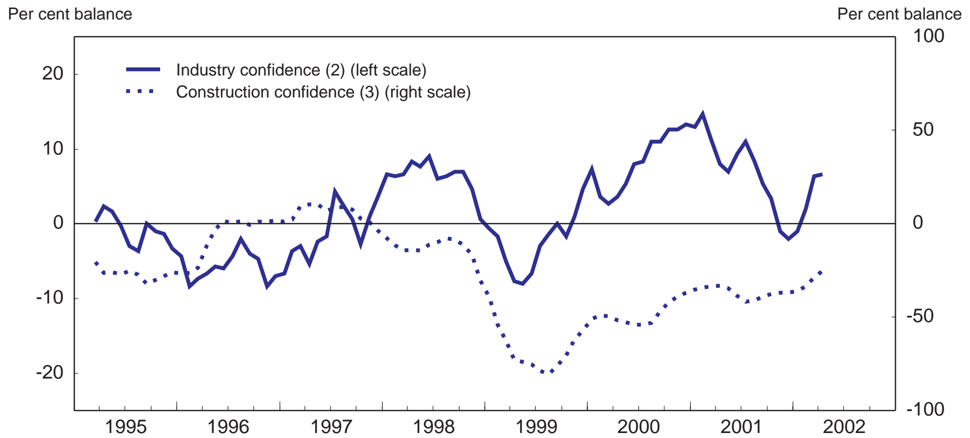
Figure 3. **Business sector confidence**[1]



1. Three-month moving average.
2. Survey of 342 firms representing 62 per cent of turnover.
3. Survey of 333 firms representing 81 per cent of the total volume of construction.

Source: Statistical Office of the Slovak Republic.

The increased availability of internal resources, due to improved profitability and the decline in the corporate tax rate from 40 to 29 per cent in 2001, was crucial in funding investment since structural changes in the financial sector (see Chapter IV) have resulted in credit-crunch conditions. Gross profit margins in private, domestic firms exceeded 5 per cent, compared to less than 2 per cent in 1999 (Figure 4), while the performance of foreign-controlled firms also improved. The increase in profitability was not limited to a small group of enterprises but rather reflected the fact that a number of loss-making companies returned to profitability or went out of business. Indeed, the ratio of firms earning profits to those making losses rose from 1.3 in 1999 to 1.9 in the first half of 2001, with the figure increasing in all sectors except agriculture (Figure 5). Moreover, the ratio of value added produced in profitable firms relative to that in loss-making firms jumped from 2.8 to 10.3 (Panel B), with the largest ratio recorded in manufacturing. The strong profit performance raised enterprises' own capital by 10 per cent in the non-financial corporate sector, with a 25 per cent gain achieved in the manufacturing sector.

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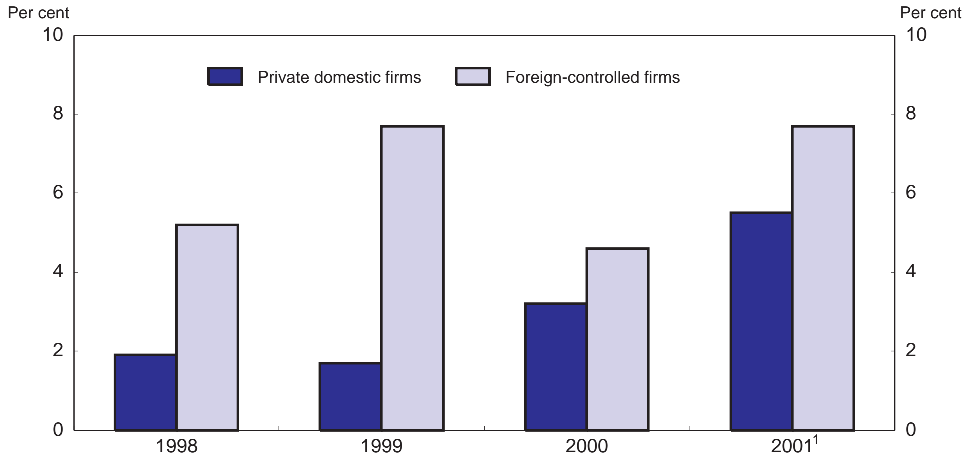
Figure 4. **Corporate profitability**
Gross profits as per cent of costs



1. First half of the year.
Source: Statistical Office of the Slovak Republic.

Large inflows of foreign direct investment (FDI) since 2000 (Table 2) have been a factor promoting the growth of fixed investment. Nearly half of the inflows in 2000 and 2001, though, were related to privatisation, which represents a change in ownership rather than investment. Indeed, the key inflow in 2000 was the sale of a 51 per cent stake in Slovak Telecom to Deutsche Telekom. Nevertheless, the requirement that the new owner invest 1 billion euros in Slovak Telecom's core business and complete full digitalisation of the fixed network by the end of 2004 is boosting investment. Moreover, the non-privatisation FDI inflow in 2000 presumably included a substantial amount of greenfield investment, although no figures are available. This appears to have continued in 2001, as the largest company in Slovakia (Volkswagen) expanded their plant in Bratislava in preparation for producing a new model in 2002.

The turnaround in consumption

The second key factor boosting domestic demand in 2001 was the 4 per cent rebound in private consumption, reflecting positive developments in both

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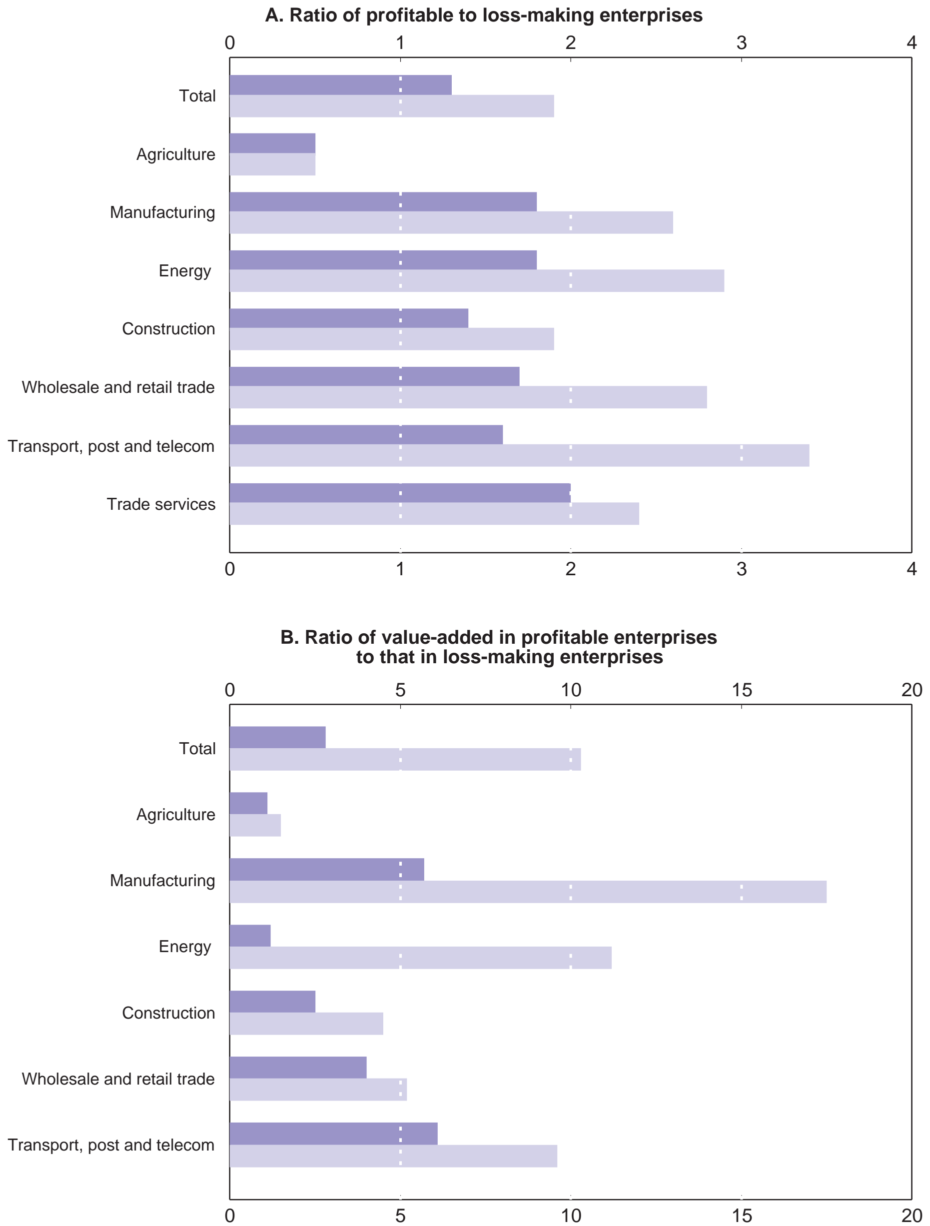
Figure 5. **Profitability of the corporate sector**



Source: Morvay (2001).

Table 2. **Foreign direct investment inflows**
US$ millions on a net basis[1]

	1998	1999	2000	2001	Cumulative total	Per cent of total
A. By country						
Germany	79.9	76.9	552.1	62.0	1 064.2	22.8
Netherlands	158.9	6.7	581.6	113.3	975.5	20.9
Austria	32.0	–10.6	134.2	306.4	819.2	17.5
United Kingdom	79.2	–41.1	–69.8	86.8	180.5	3.9
Belgium	13.7	–2.0	22.6	2.2	107.3	2.3
Italy	–5.1	3.9	16.3	446.8	500.2	10.7
France	–13.7	–4.1	23.4	33.7	96.6	2.1
Spain	0.2	4.6	0.0	0.6	4.8	0.1
Luxembourg	0.2	1.8	3.8	3.6	10.7	0.2
Denmark	0.9	2.4	9.2	2.6	18.1	0.4
Finland	3.4	1.8	0.0	0.0	4.4	0.1
Sweden	–0.2	–2.1	3.3	0.0	15.8	0.3
EU Total	349.3	38.2	1 276.7	1 058.2	3 797.1	81.3
United States	77.4	66.2	–19.3	45.6	282.4	6.0
Czech Republic	3.8	–13.0	24.3	30.3	231.6	5.0
Hungary	–1.1	14.3	149.3	4.8	182.0	3.9
Switzerland	2.2	3.9	–2.5	9.9	43.0	0.9
Other countries	26.1	27.6	7.3	37.3	133.9	2.9
Total	**457.7**	**137.2**	**1 435.8**	**1 186.1**	**4 670.0**	**100.0**
B. By sector						
Manufacturing	305.5	80.4	839.9	130.6	2 009.2	43.0
Financial intermediation	61.1	–35.1	21.8	774.3	1 224.0	26.2
Transport and communications	2.0	1.6	551.3	48.3	650.7	13.9
Real estate	31.9	20.8	–1.3	25.0	135.9	2.9
Wholesale and retail trade	55.0	58.1	11.2	105.6	525.7	11.3
Mining and quarrying	0.1	0.0	15.0	3.2	34.4	0.7
Construction	3.2	–0.7	1.1	1.4	29.7	0.6
Hotels and restaurants	–1.5	8.4	–1.7	5.4	32.2	0.7
Other services	0.6	2.1	–1.2	2.9	13.2	0.3
Electricity, gas and water supply	0.0	–1.5	–0.9	68.1	7.9	0.2
Agriculture, hunting and forestry	–0.1	3.2	–0.4	0.0	3.9	0.1
Private households	0.0	0.0	0.0	19.4	0.0	0.0
Health and social work	–0.1	–0.1	1.0	0.2	1.6	0.0
Extra-territorial bodies	0.0	0.0	0.0	1.5	1.5	0.0
Total	**457.7**	**137.2**	**1 435.8**	**1 186.1**	**4 670.0**	**100.0**
Share of GDP	2.5	2.0	10.3	5.9	23.4	

1. Based on enterprise statements.
Source: National Bank of Slovakia.

employment and wages (see below) and a sharp deceleration of inflation from double-digit rates. This boosted households' real income by 2 per cent, reversing the decline of the two preceding years (Figure 6). The effect of higher income on consumption was amplified by a marked decline in the saving rate, which

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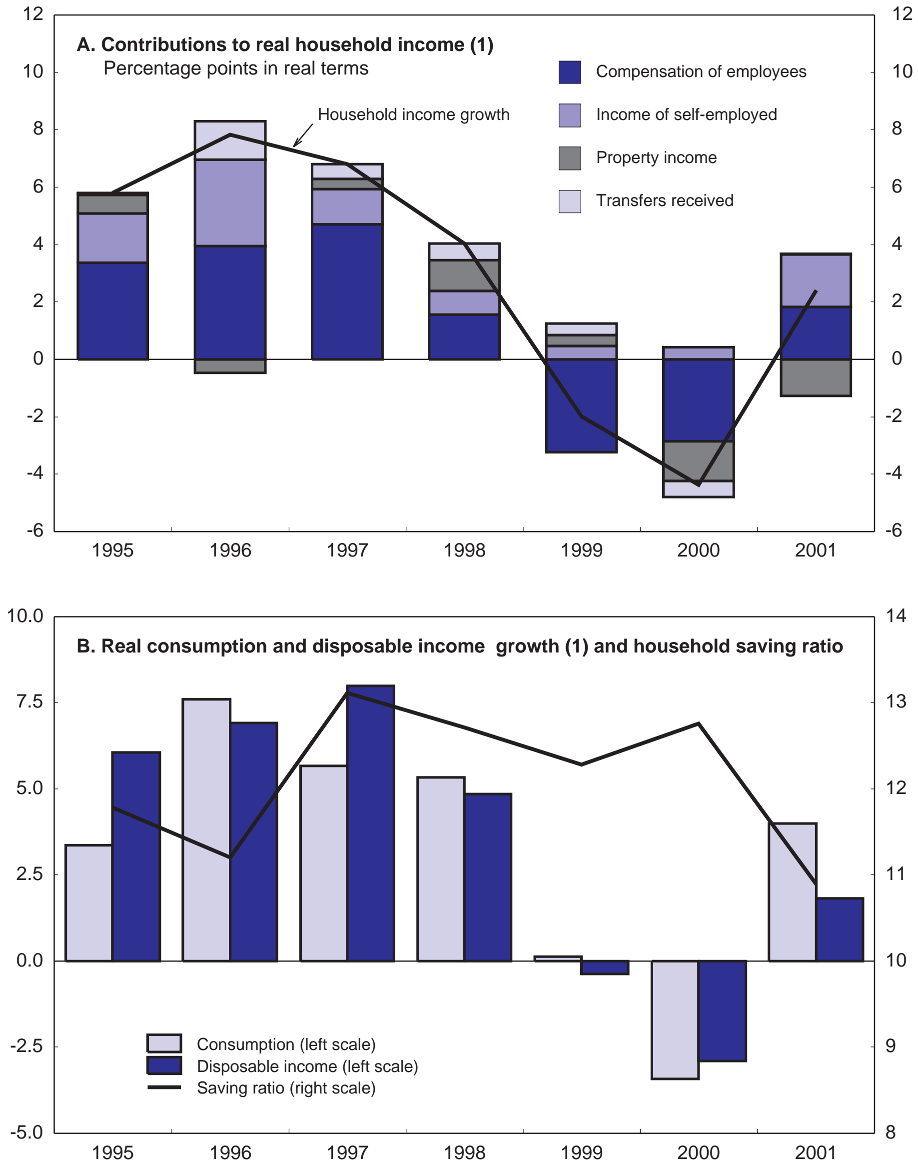
Figure 6. **Household income and private consumption**



1. Deflated by the private consumption deflator.
Source: OECD.

reflected the one-off effect of bond redemption (Panel B). The redemption of SKK 30 billion (3 per cent of GDP) in National Property Fund bonds provided a boost to cash flow that appeared to have been largely spent. Approximately half of this amount went to households in the second half of 2001,[2] with the average benefit amounting to about three-fourths of the average monthly gross wage. Finally, the construction of a number of new shopping malls, primarily by foreign investors, may have encouraged consumers to spend. The rise in private consumption was accompanied by a rebound in public consumption, which rose 5 per cent in 2001 (see Chapter II), boosting growth by one percentage point.

The impact on the economic imbalances

The domestic demand-led recovery resulted in a sharp widening of the current account deficit in 2001, indicating that the reduction in 1999 and 2000 was only temporary. At the same time, there was a significant slowing in inflation, aided by the unwinding of oil price increases.[3] In the labour market, the upturn reversed the declining trend in employment but was not sufficient to lower the unemployment rate.

A widening current account deficit

The growth of Slovak exports of goods and services in volume terms fell by more than half to 6½ per cent in 2001, reflecting slower growth of foreign demand. Exports are sensitive to economic cycles in Europe,[4] given the fact that cars and iron and steel products account for a third of Slovakia's sales abroad. Indeed, export growth slowed from 19 per cent in the first half of 2001 (year-on-year in local currency) to 5 per cent in the second half. In addition, a slight deterioration in Slovakia's export performance[5] also slowed its overseas sales (Figure 7). This decline is probably due to the worsening in competitiveness indicators for Slovakia. Indeed, although the effective exchange rate in early 2001 was virtually unchanged from 1997, the higher rate of inflation in the Slovak Republic during the past four years implies a loss of competitiveness relative its trading partners of 13 per cent in terms of consumer prices and double that in terms of unit labour costs (Panel B). Nevertheless, Slovakia's export performance during that period has been quite positive, with an average annual gain of 3 per cent (Panel C). Such a gain probably reflects the increased integration with the European Union as a result of direct investment in Slovakia. However, Slovakia's export performance is well below that of the other OECD transition economies.

While export growth decelerated, imports of goods and services picked up from 10.1 per cent in volume terms in 2000 to 11.7 per cent in 2001, driven by the large increases in fixed investment and private consumption. The surge in imports lifted its share of GDP to a record 86 per cent, compared to less than 60 per cent during the mid-1990s, reflecting the integration of the Slovak economy

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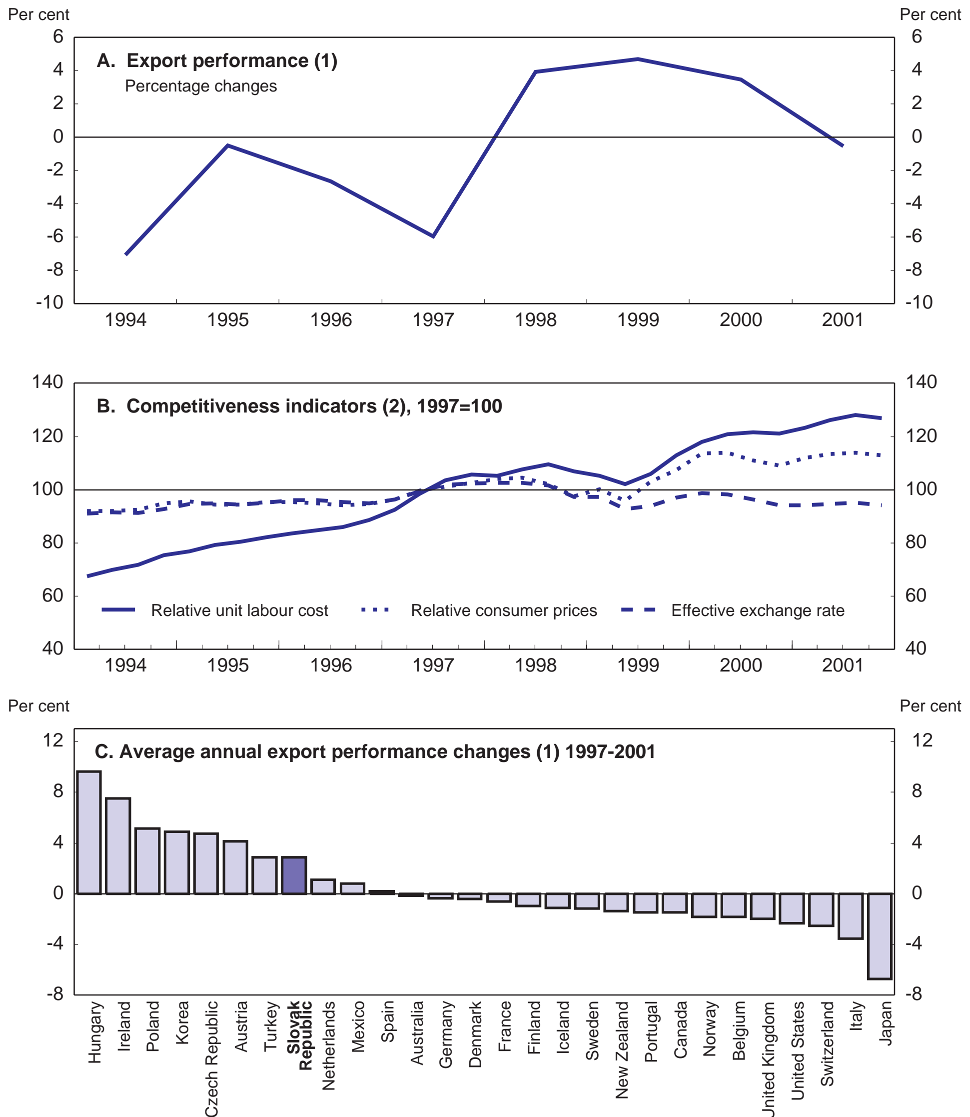
Figure 7. **Export performance and competitiveness indicators**



1. Calculated as the ratio of export volumes to export market growth for total goods. Export market is calculated on the basis of the trade structure in 1995 so that performance is obtained with respect to the 1995 market structure.
2. Calculated *vis-à-vis* forty-one countries. A decline indicates a gain in competitiveness.

Source: OECD.

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with Europe. The differing trends in domestic demand in Slovakia and in its trading partners doubled the trade deficit to over 10 per cent. A larger surplus in services, though, kept the current account deficit's share of GDP in single digits (Table 3). One factor boosting the service surplus was a 49 per cent rise in receipts from foreign tourists.

The current account deficit reflects the restructuring of the Slovak economy through significant inflows of FDI and imports of capital goods. The resulting upgrading of the country's capital stock is a positive factor fostering convergence

Table 3. **The balance of payments**

US$ millions

	1996	1997	1998	1999	2000	2001[1]
Current account	–2 089	–1 961	–2 127	–1 156	–694	–1 756
As per cent of GDP	–10.6	–9.6	–9.3	–5.0	–3.8	–8.8
Trade balance	–2 282	–2 084	–2 351	–1 109	–895	–2 134
Exports	8 824	9 641	10 720	10 201	11 896	12 632
Imports	11 106	11 725	13 071	11 310	12 791	14 766
Services balance	38	73	16	55	436	480
Credits	2 066	2 167	2 292	1 899	2 241	2 490
Debits	2 028	2 094	2 276	1 844	1 805	2 010
Income	–46	–123	–158	–300	–355	–313
Credits	224	315	437	268	268	322
Debits	270	438	595	568	623	634
Transfers	201	173	366	198	120	212
Credits	483	540	645	466	344	500
Debits	282	367	279	268	224	288
Capital and financial accounts	2 298	1 781	1 982	1 946	1 562	1 719
Capital account	30	0	71	158	91	78
Financial account	2 268	1 781	1 911	1 788	1 471	1 641
Direct investment	303	79	417	730	2 030	1 460
Portfolio investment	17	12	784	652	821	–217
Other investments	1 948	1 690	710	406	–1 380	398
Errors and omissions	162	280	–333	–14	51	180
Overall balance	371	100	–478	776	919	143
As per cent of GDP	–1.9	0.5	–2.2	3.9	4.9	0.7
Change in reserve position[2]	–370	–100	478	–776	–919	–143
Reserve assets	–245	–47	545	–725	–794	–143
Fund credits and loans	–125	–52	–67	–52	–125	0
Memorandum item:						
FDI inflow as per cent of current account deficit	14.5	4.0	19.6	63.1	292.5	83.0

1. Preliminary.
2. A negative sign represents an increase in reserves.
Source: National Bank of Slovakia.

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with EU countries. At nearly 9 per cent of GDP in 2001, however, the deficit is approaching the levels reached between 1996 and 1998, a turbulent period that saw a marked fall in the exchange rate and a downgrading of Slovakia's sovereign credit rating. The string of current account deficits in recent years has boosted gross external debt from 39 per cent of GDP in 1996 to 56.5 per cent in 2001 (Table 4). More than two-thirds of this debt is held in the private sector, primarily in firms. Short-term liabilities – debt with maturity of less than one year – account for almost 40 per cent of the external claims on the private sector.[6] The central bank has foreign reserves of $4.2 billion, equivalent to about a fifth of GDP, though this only covers three months of imports.

Taking account of its foreign assets, Slovakia's net foreign debt is currently about 14 per cent of GDP. A continuation of recent trends, though, would significantly increase this ratio in the coming years. To stabilise the ratio of net debt at 30 per cent of GDP would require reducing the current account deficit to between 2 and 3 per cent, assuming a nominal growth rate of 7 to 9 per cent.[7] Such a reduction in the external deficit from 9 per cent to the 2 to 3 per cent range would take some time to accomplish. However, the large inflows of FDI make the current account deficit less of a risk than it was in the mid-1990s. Between 1996 and 1998,

Table 4. **External debt and foreign reserves**

US$ millions at end of year

	2000	Per cent of GDP	2001[1]	Per cent of GDP
Total external debt of the Slovak Republic	**10 804.2**	**56.3**	**11 268.5**	**56.5**
Official debt of the Government and the NBS	2 916.5	15.2	2 784.6	14.0
Government agencies	371.9	1.9	574.1	2.9
Municipalities	95.7	0.5	96.9	0.5
Foreign liabilities of the commercial sector	7 420.2	38.7	7 812.8	39.2
Commercial banks	683.5	3.6	1 100.9	5.5
Entrepreneurial entities	6 736.8	35.1	6 712.0	33.6
Medium and long-term foreign liabilities	5 005.2	26.1	4 729.1	23.7
Commercial banks	316.7	1.7	306.4	1.5
Entrepreneurial entities	4 688.5	24.4	4 422.7	22.2
Short-term foreign liabilities	2 415.0	12.6	3 083.8	15.5
Commercial banks	366.8	1.9	794.5	4.0
Entrepreneurial entities	2 048.3	10.7	2 289.3	11.5
Foreign reserves	**5 560.8**	**29.0**	**5 438.2**	**27.3**
Official reserves of NBS	4 076.8	21.2	4 188.7	21.0
Months of imports	3.4	–	3.0	–
Reserves of commercial banks	1 484.0	7.7	1 249.5	6.3

1. Preliminary figures.
Source: National Bank of Slovakia.

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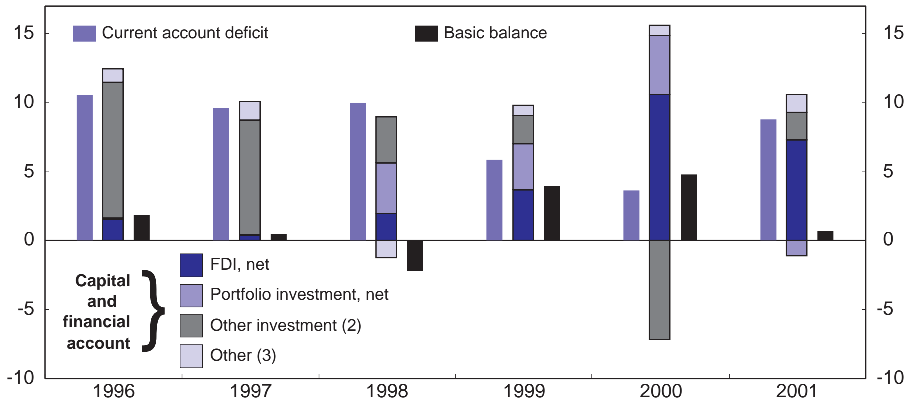
Figure 8. **Financing the current account deficit**
Per cent of GDP[1]



1. The difference between the current account and the capital and financial account equals the overall balance. If the current account deficit is less (greater) than the capital and financial account surplus, reserve assets increase (decrease) by that amount.
2. Primarily loans.
3. Capital account and errors and omissions.

Source: National Bank of Slovakia.

direct investment covered less than a fifth of the external deficit, with capital inflows – primarily loans – providing the bulk of the financing (Figure 8). In contrast, FDI was significantly greater than the current deficit in 2000, and in 2001 it covered more than four-fifths of the deficit. Financing the external imbalance through direct investment significantly reduces the risk of financial instability.

A *deceleration in inflation*

Inflation trends are driven, in part, by changes in administered prices for such items as energy, water and rent. Together, administered prices account for almost one-fifth of the consumer price index. These prices have been raised significantly in recent years to bring them closer to market prices. In particular, energy prices had been kept low, resulting in a high level of energy intensity. For example, the price of electricity to households in 1997 was only half the level of major EU countries and low even relative to neighbouring transition economies. During the period 1999 to 2001, the government raised energy prices in order to cover a greater proportion of the costs of production. Consequently, the price of electricity has tripled since 1999 and now nearly covers its cost. Gas prices, meanwhile, have doubled but a further increase of 50 per cent is envisaged.

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Administered prices increased 32 per cent in 2000, accounting for about half of the 12 per cent headline inflation rate (Figure 9). This was followed by a 17 per cent rise in 2001, as the authorities raised the prices of electricity, gas, public transport, water and sewage, postal services, apartment rents and car insurance. Hikes in administered prices also have secondary effects. For example, the rise in the price of electricity and gas for enterprises by 12 and 20 per cent, respectively, tended to push up prices to consumers by an estimated 0.5 per cent in 2001. The overall effect of increases in regulated prices accounted for about half of the 7.3 per cent headline inflation figure in 2001.

The increase in core – or non-regulated – prices fell to a record low of 4.3 per cent for the year 2001. Several factors, such as intensified retail competition resulting from the construction of new shopping malls, helped to restrain price increases. Another positive development was the elimination of the import surcharge at the beginning of 2001. It had been set at 5 per cent in the first half of 2000 and at 3 per cent in the second. The decline in oil prices and the modest appreciation of the exchange rate in the second half of 2001 put further downward pressure on inflation. By the end of the year, the core inflation rate had fallen to 3.2 per cent year-on-year, considerably below the expectations of the central bank, primarily as a result of the fall in oil prices.

Little progress in reducing unemployment

Employment increased in the fourth quarter of 2000 (year-on-year) for the first time since the beginning of 1997 and further gains were recorded in 2001. The rise in employment was largest in market services and significantly boosted the number of self-employed persons, a category accounting for a relatively low proportion of the labour force in Slovakia (see Chapter III). Despite the turnaround in job trends, the number of employed persons was still almost 5 per cent below its peak in 1996 (Figure 10). With the working-age population fuelling growth of the labour force, the number of unemployed topped ½ million in 2001. Consequently, the unemployment rate has increased sharply from around 11 per cent in 1996 to 19 per cent in 2001, according to the labour force survey (Panel B). An additional 2 per cent of the labour force was employed on temporary public-works jobs.

As noted above, the rebound in employment was accompanied by wage growth of almost 9 per cent in 2001, led by substantial gains in both industry and market services (Figure 10, Panel C). This boosted the gap with workers in agriculture and public services.[8] Given the deceleration in inflation, the nominal wage hike translated into a real wage gain in 2001, reversing the declines recorded in the two previous years. In sum, the growth in wages and employment stabilised labour's share of national income, which had fallen from 45 per cent in 1997 to 41 per cent in 2000.

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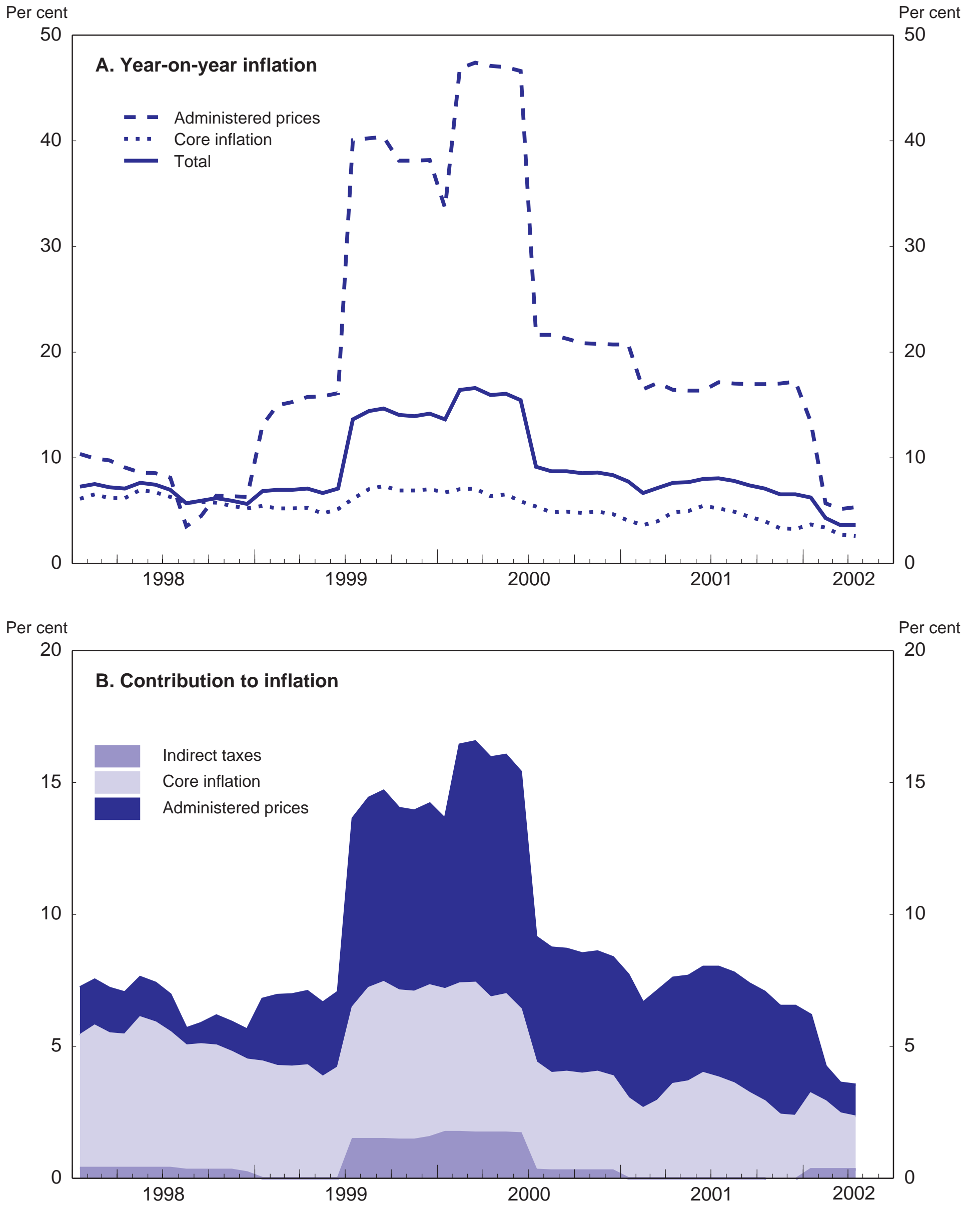
Figure 9. **Inflation**



Source: Statistical Office of the Slovak Republic.

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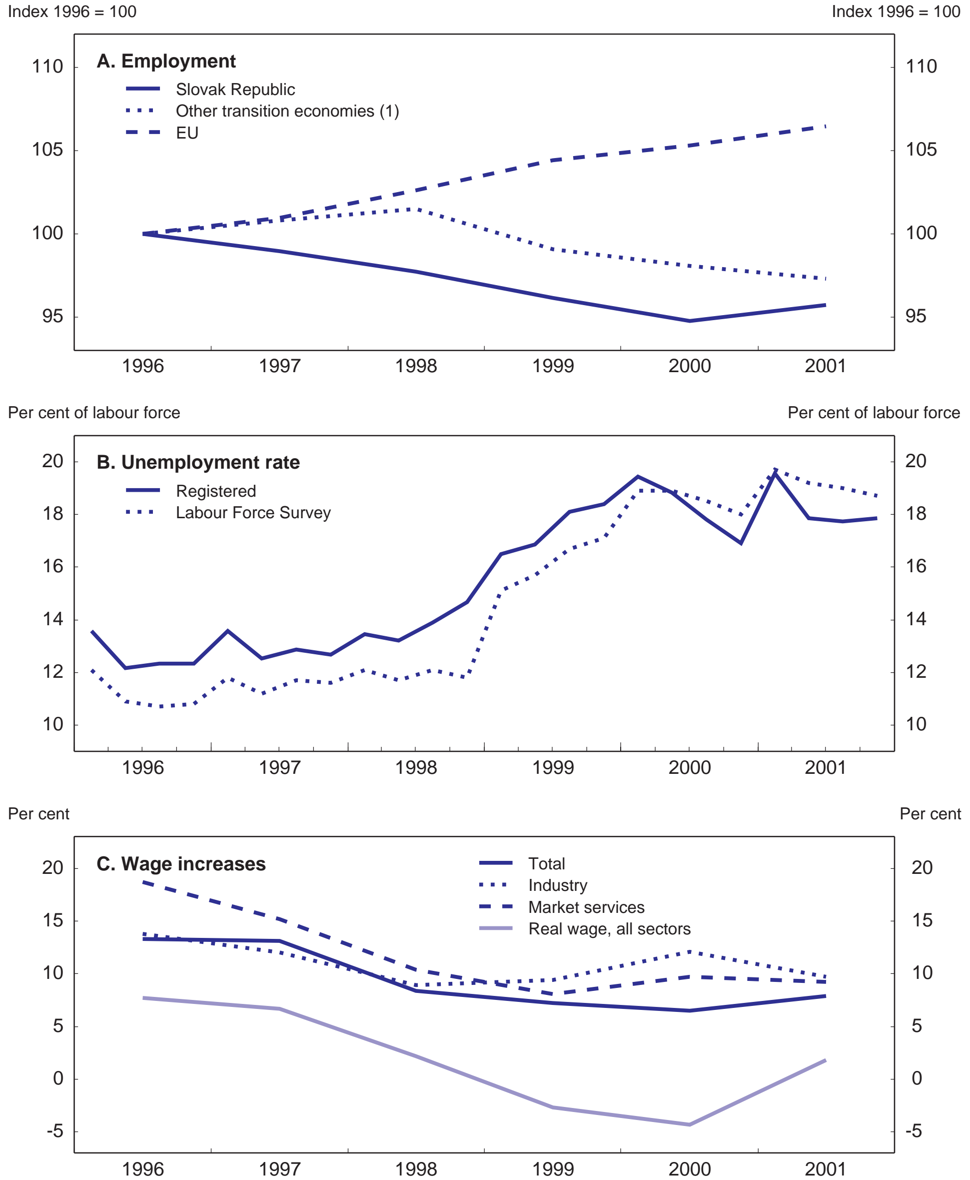
Figure 10. **Recent trends in the labour market**



1. Czech Republic, Hungary and Poland.
Source: OECD.

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Economic prospects

The short-term outlook through 2003

The positive trends in domestic demand are expected to continue, though at a slightly slower pace, supplemented by stronger external demand as recovery takes hold in Europe. The overall effect is projected to boost output growth to around 4 per cent in 2002 and 2003 (Table 5). This projection is based on the following assumptions, which were built into the OECD *Economic Outlook* of June 2002:

– the exchange rate stabilises at around its April 2002 level of SKK 47.4 per dollar and SKK 41.6 per euro.[9]

– growth in Slovakia's export markets picks up from 5¼ per cent in 2002 to 9½ per cent in 2003.

Table 5. **Short-term prospects**[1]

Percentage change in constant 1995 prices

	Share of GDP in 2000	1999	2000	2001	2002	2003
Demand and output						
Private consumption	53.4	–0.2	–3.4	4.0	3.5	3.5
Government consumption	19.0	–6.9	–0.9	5.2	6.0	4.5
Gross fixed capital formation	30.0	–18.8	–0.7	11.6	8.0	8.0
Final domestic demand	102.4	–7.7	–2.1	6.5	5.4	5.1
Stockbuilding[2]	0.1	3.5	0.8	1.1	–0.2	–0.6
Total domestic demand	102.5	–4.6	–1.3	7.3	5.0	4.4
Export of goods and services	73.5	3.4	15.9	6.5	8.4	9.5
Import of goods and services	75.9	–6.0	10.1	11.7	9.5	9.5
Foreign balance[2]	–2.4	7.0	3.6	–4.1	–1.2	–0.5
GDP	100.0	1.9	2.2	3.3	4.0	4.1
Prices						
GDP deflator		6.6	6.5	5.3	6.6	7.5
Consumer price index		10.6	12.0	7.3	5.5	7.0
Labour market						
Employment growth		–3.0	–1.4	1.1	1.5	1.6
Wage rate, private sector		9.2	7.8	8.9	6.3	9.1
Unemployment rate		16.4	18.8	19.3	19.1	18.6
Balance of payments						
Current account (US$ billion)		–1.0	–0.7	–1.8	–1.8	–1.7
As percentage of GDP		–5.0	–3.8	–8.8	–7.9	–6.8

1. These projections are identical to those that were published in the *Economic Outlook* 71.
2. Contribution to GDP growth.
Source: OECD.

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– oil prices remain stable in inflation-adjusted terms at their current level of $25 per barrel.

– both the short-term interest rate (two-week REPO rate) and the long-term government bond yield increase from 7¾ per cent to around 8 per cent in 2003.

– the budget deficit stays near 6 per cent of GDP (on an ESA95 basis).

Domestic demand growth is projected to moderate somewhat from more than 7 per cent in 2001 to a more sustainable pace at between 4 and 5 per cent, underpinned by fixed investment. A number of factors, including the rebound in business confidence at the beginning of 2002 (Figure 3), large gains in corporate profits and a further decline in the corporate tax rate from 29 to 25 per cent, suggest that investment will remain relatively buoyant. Private consumption is likely to be sustained by a continued rise in employment and real wage increases. Meanwhile, the external sector will become less of a drag on growth as a recovery takes hold in Europe. Exports are likely to pick up in line with stronger demand from Slovakia's trading partners in 2002 and 2003. With domestic demand growth decelerating somewhat, import growth is projected to fall below 10 per cent. Such developments could lead to some reduction in the current account deficit to around 7 per cent of GDP.

As noted above, headline inflation is largely driven by price deregulation, as the authorities allow the prices of energy and other products to move toward market levels. The only changes in administered prices planned in 2002 occurred in January: a 19 per cent rise in the price of gas charged to companies and a 7 per cent increase in household heating charges. As a result, headline inflation is likely to slow to around 5½ per cent this year, with core inflation continuing to fall. However, a resumption of price deregulation may boost headline inflation back toward the 7 per cent level in 2003. While the pace of growth is unlikely to push up core inflation in 2003, it will probably rise slightly as a result of the spillover effects of administered price increases. Given structural problems in the labour market, the pace of growth is unlikely to generate sufficient job gains to reduce the unemployment rate significantly, given a 1 per cent annual rise in the working-age population. The unemployment rate is thus projected to remain above 18 per cent through 2003.

There are risks to the economic outlook in a country with a current account deficit of 9 per cent of GDP, with no significant decline expected in the short run. As noted above, the deficit is in large part related to the surge in investment, which is a positive factor enhancing Slovakia's growth potential. However, there is a risk of problems in financing such a large deficit. Should such problems occur, there would likely be serious macroeconomic consequences, including pressure on the exchange rate, as was experienced in the 1997 to 1998 episode. Inflows of foreign capital related to the privatisation of the gas utility in 2002

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(see Chapter IV) are sufficient to finance the deficit at least for this year. However, the privatisation of state-owned enterprises is not a permanent solution to financing the external deficit.

Another risk to the projection of a continued expansion is fiscal policy. Slippage in meeting the annual targets for deficit reduction would tend to put upward pressure on the current account deficit. Moreover, it would weaken international confidence in Slovakia and damp capital inflows. While some overshooting of spending targets is assumed in 2002, an election year, there is a risk of an even greater overrun.

Medium-term growth perspective

The challenge for Slovakia is to converge with income levels in EU countries. The under-utilisation of labour and low labour productivity are major constraints to faster growth and a more rapid catch-up. Increasing labour productivity is also essential to provide scope for higher wages and remove disincentives to work. The level of GDP per capita in Slovakia (on a purchasing power parity basis)[10] is 48 per cent of the EU average, while labour productivity is 43 per cent. In its medium-term economic programme, the government has targeted a per capita income of between 50 and 55 per cent of that in the EU by the time of accession. Under current trends, the 50 per cent objective would be reached by 2003. However, OECD calculations (Table 6) suggest that little further convergence is likely in the medium term unless the government perseveres in the implementation of

Table 6. **Convergence with the European Union**[1]

Per cent

	Unemployment rate[2]		Labour productivity growth[2]		Real GDP growth[2]		Relative per capita GDP (Slovakia/EU)		Relative labour productivity[3] (Slovakia/EU)	
	A	B	A	B	A	B	A	B	A	B
2000	19	19	4	4	2	2	48	48	43	43
2001	19	19	3	3	3	3	49	49	43	43
2002	19	19	3	3	4	4	49	49	44	44
2004	19	15	3	4	4	7	50	54	45	46
2006	19	12	3	4	4	6	51	58	45	48
2008	19	10	3	4	4	6	51	61	46	50
2010	19	6	3	4	4	7	52	66	47	52

1. Calculations are based on steady state assumptions for all variables other than the ones examined. In Slovakia, total population growth is assumed to be 0.2 and working-age population growth to be 0.9. In the EU, total population is assumed to be constant. Calculations refer to 14 EU member countries, Luxembourg is excluded. Column A assumes an unchanged unemployment rate and productivity growth. Column B assumes a declining unemployment rate and higher productivity growth.
2. Figures for 2000 to 2002 are actual figures or OECD estimates.
3. Productivity growth in the EU countries is assumed to be 1.75.

Source: OECD.

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structural reforms in the labour and product markets to increase both employment and labour productivity (see Chapters III and IV). If the unemployment rate were reduced by about 2 percentage points per year over the period 2003 to 2010, with productivity growth remaining at that recorded in 2000, per capita income would reach 66 per cent of that in the European Union by the end of the decade. The current large gap in labour productivity between Slovakia and the EU countries suggests that there is scope for productivity growth at a rate even faster than 4 per cent, compatible with employment growth, if the necessary structural reforms are put in place.

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Notes

1. Slovakia had been downgraded in 1998. Standard and Poors raised Slovakia's rating to investment grade in October 2001. It was followed in November by Moody's, which raised Slovakia to Baa3, the lowest investment grade. However, a third agency, Fitch, still rates Slovakia one step below investment grade.
2. These bonds were issued in place of vouchers at the time of the second wave of privatisation so that citizens would be able to get cash rather than property. Roughly half of households sold their bonds on the secondary market to financial institutions prior to their redemption.
3. In 2001, fuel prices slowed core inflation by 0.7 percentage point and headline inflation by 0.4 percentage point. Core inflation slowed from 5.7 per cent in 2000 to 4.3 per cent in 2001, while headline inflation decelerated from 12.0 per cent to 7.3 per cent.
4. Europe, including the countries in the Central European Free Trade Area (CEFTA), accounts for over 90 per cent of Slovak exports. The 12.9 per cent growth in exports (in Slovak koruna value) to the EU in 2001 was slightly above the 10.6 per cent rise to CEFTA, which includes the Czech Republic, Poland, Hungary, Bulgaria, Romania and Slovenia, despite the relatively high economic growth rates recorded in CEFTA. This may reflect the fact that major foreign-owned producers, such as Volkswagen and US Steel, are aimed at the EU market.
5. Export performance is the ratio between the growth of export volume and export markets for total goods.
6. However, the share of short-term liabilities in total debt is lower at 27 per cent.
7. Potential output growth appears to be in the range of 4 to 5 per cent. Inflation in the range of 3 to 4 per cent would produce nominal growth of 7 to 9 per cent. The current account deficit that stabilises net debt as a share of GDP depends on the initial size of the net debt and the growth of nominal GDP.
8. This includes public administration and defence, education, health and social work and other community and social services, including public works.
9. OECD projections are made on the basis of unchanged exchange rates, except in the case of some high inflation countries.
10. Purchasing power parities with a 1999 benchmark are used. For a description, see P. Schreyer and F. Koechlin (2002).
11. Two other motivations for the new Act were to harmonise the legal framework with that of EU countries and to create a framework for bank supervision that complies with Basle principles.
12. The National Bank of Slovakia has announced the objective for the country to join the European Economic and Monetary Union by 2007.

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13. Such reserves accumulate interest at a fixed rate of 1.5 per cent. The reduction in the requirement will be accompanied by a modification of reserve base calculation and the introduction of market-related remuneration in 2004.
14. Year-on-year increases in December of each year.
15. The negative real interest rates on bank deposits during the last few years prompted the emergence of non-bank financial institutions offering extremely high returns to attract investors. In fact, many of these institutions are pyramid schemes. A number of these institutions closed in early 2002 (see Chapter IV).
16. Calculated relative to the currencies of 41 other countries.
17. The average daily volume of currency traded in the first ten months of 2001 was $356 million, with spot transactions averaging $55 million and futures and swap operations accounting for the remainder.
18. The GFS methodology is used in the Staff Monitored Programme (see Box 1), except for the exclusion of the operations of the National Property Fund. This results in some discrepancy in the accounts with respect to those produced by the Slovak authorities.
19. The 7 per cent surcharge, which was introduced in June 1999, was lowered in January 2000 to 5 per cent and to 3 per cent in July 2000, before being eliminated in January 2001.
20. As explained in Chapter III, social assistance includes two programmes – *social support* and *social assistance*. This chapter will use the latter term to refer to both programmes.
21. Three of the five health insurance funds are privately-owned. These funds, though, play only a minor role.
22. Since the fiscal performance of state funds, social security funds and local governments is, at this stage, only known from below the line, there is a risk that imbalances might be accumulated in the form of arrears and emerge only in years ahead.
23. According to the preliminary conclusion of the IMF mission in March 2002 to review the Staff Monitored Programme, the deficit could exceed 5 per cent of GDP. On an ESA95 basis, however, the OECD Secretariat estimates that the deficit may remain close to its 2001 level of 6.4 per cent of GDP.
24. Current practice is based on a broad interpretation of Article 40 of the Constitution. It guarantees citizens "the right to free healthcare and medical equipment for disabilities". But since Article 40 also specifies that "on the basis of medical insurance under the terms to be laid down by law", it should be possible to make legal changes to define those services that are fully covered by a basic insurance benefit package.
25. There are currently five funds, of which the two public funds are dominant.
26. Poland embarked on the path towards a model of competing funds but seems to be making a 180-degree turn towards a model with a single national fund. The reform experiment that began in 2000 encountered many difficulties. This was because of the absence of a clearly defined basic benefit package, insufficient risk equalisation, weak regulation and governance of regional funds and a vast diversity of contractual arrangements with service providers that were variously perceived by the public as chaotic and as depriving them of access to needed care.
27. The split between GPs and specialists is roughly 40:60 in Slovakia.
28. The transition process of state healthcare institutions is expected to be completed by January 2003. Of the 77 state-run hospitals (type I, II and III) only 15 will remain under the jurisdiction of the Ministry of Health (type III {regional} hospitals and university

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hospitals). Fifteen hospitals will be transformed from state-run into not-for-profit institutions. The remaining 45 hospitals, type I (municipal) and type II (district), will be transferred to the jurisdiction of local governments. This transformation will also enable these institutions to seek financing from sources other than health insurance funds.

29. See OECD (1994), OECD (1997) and OECD (1999*d*).
30. See Revenga *et al.* (2000).
31. However, the incidence of long-term unemployment is significantly higher for those with primary education than for those with tertiary education.
32. Women can retire between the ages of 53 and 57, depending on the number of children born, while the minimum retirement age for men is 60. The government has recently introduced legislation to gradually increase the age for women to 60.
33. The statistics on vacancies are thought to give an accurate indication of job availability because employers have a legal obligation to report vacancies and because active labour market policies, such as wage subsidies and loans, depend on such reports.
34. It may also suggest an increasing unwillingness of employers to hire from the pool of registered unemployed.
35. See Boeri *et al.* (1996).
36. To encourage people to accept jobs, a guaranteed labour income set at 20 per cent above the Minimum Subsistence Income was introduced by topping up earnings with social assistance when necessary. However, this measure was repealed in January 2001.
37. The unemployment insurance fund, which is administered by the NLO, is separate from the state budget. However, the NLO's annual budget has to be approved by Parliament. Moreover, only Parliament can change the level of benefits and eligibility conditions. The director general of the NLO is appointed by the Minister of Labour, Social Affairs and Family, who also serves as chairman of the NLO's Board of Directors.
38. The United States substantially reformed its welfare system during the 1990s with a view to increase the labour market involvement of welfare recipients. Although the impact of the reform is difficult to separate from the benefits of strong sustained growth, poverty rates declined throughout the 1990s, as did the number of welfare recipients. The Australian government introduced in 1998 the "Mutual Obligation Initiative", which is targeted at workers aged 18 to 35. It has been extended in 2001 to the unemployed between the ages of 35 to 49. Workers are proposed a menu of activities and asked to work for six months out of every year in unemployment. Failure to accept work makes the unemployed liable to penalties, including loss of income benefits. The programme is seen as very successful in reintegrating workers into activity (see OECD, 2001*a*).
39. Other estimates vary within a wider range of between 60 000 and 180 000 persons, or between 11 and 35 per cent of unemployed workers.
40. The National Labour Office has presented to the Ministry of Labour, Social Affairs and Family a set of measures, including legislation, aimed at curbing such underground employment.
41. This would lower the sickness insurance contributions for all workers, including the unemployed, whose contributions are paid out of the unemployment insurance contributions of workers.
42. The low figure reflects the fact that most income support for the unemployed is provided through social assistance, which is not included as labour market expenditure.

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43. Were the NLO to have insufficient funds to pay for passive policies, the government would provide loans.
44. Participants receive a benefit that is slightly higher than that offered by unemployment insurance during the training, which usually lasts between a few weeks and a couple of months.
45. According to one study (Martin, 2000), "Most evaluations show that subsidies to private-sector employment have both large dead-weight and substitution effects".
46. If the unemployed fall ill during the "protection period", they can receive the sickness benefit from their former employer. After this period, no benefit is provided despite the premium paid by the NLO.
47. This does not include those who commute to work in different regions, which, in any case is relatively low in Slovakia.
48. It should be noted that international comparisons of regional mobility are inherently difficult to make.
49. The high rate of home ownership in the Slovak Republic may also reduce mobility and boost the unemployment rate. A number of studies have found a positive relationship between the rates of unemployment and home ownership. See Bover *et al.* (1989), Hughes and McCormick (1987) and McCormick (1997).
50. Eligibility requires twelve months on the unemployment register or six months for students after school graduation.
51. If a firm wishes to terminate the employment contract of a trade union member, it must gain the approval of the trade union. If such approval is not given, the employer can request the Labour Inspectorate for approval.
52. The survey, which was conducted by the European Bank for Reconstruction and Development and the World Bank (see Revenga *et al.*, 2001), is consistent with the findings of an OECD survey of the Visegrad countries conducted in 1995 (see Lageman *et al.*, 1996).
53. See OECD (1994).
54. According to an OECD survey conducted in 1996, excessive social security contributions together with lack of credit and difficult administrative start-up procedures were the main obstacles to the creation of new businesses. See Lageman *et al.* (1996).
55. Revenue up to SKK 0.5 million is taxed at 2 per cent, SKK 0.5 to 1 million at 2.25 per cent, and SKK 1.0 to 1.8 million at 2.5 per cent. In addition, firms adopting the simplified system are exempt from bookkeeping and reporting obligations.
56. OECD (1999*d*).
57. Loans are classified as *standard* and *special mention*, which are less than 90 days overdue. Non-performing loans included *substandard* (more than 90 days overdue but not classified as doubtful or loss), *doubtful and litigious* (overdue by 91 to 359 days) and *loss* (overdue by more than 360 days).
58. Všeobecná úverová banka (VUB), Slovenská sporiteľňa (SLSP) and Investičná a rozvojová banka (IRB).
59. According to some experts, "Investment activity in some banks was used as an instrument to finance political parties" (Barto and Kmet, 2000).
60. In January 2001, 87 per cent of SLSP, the largest bank, was sold to a foreign investor. One month later, the European Bank for Reconstruction and Development and the International Finance Corporation each acquired 12.5 per cent shares in VUB, the

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second-largest bank. In June, a 69 per cent stake was sold to a foreign investor. Finally, IRB was sold to a foreign investor in April 2002.

61. Excluding two branches of foreign banks.
62. In particular, the maximum period of conservatorship has been reduced from two years to one, and conservators are now obliged to preserve the assets and property of the institutions in order to limit claims on the DIF. In addition, the central bank has been empowered to impose precise guidelines on conservatorships.
63. The only exceptions that require the approval of the MOF are the establishment of a home savings bank and an application of an existing bank to enter the mortgage banking business.
64. These figures exclude the Konsolidačná banka, a state financial institution for workouts, which was dissolved in January 2002. Including this bank, the share of classified loans was 22 per cent. The statutory successor of Konsolidačná banka is Slovenská Konsolidačná, a non-bank agency for problem loans.
65. The experience of the Investicni a Postovni Banka (IPB) in the Czech Republic illustrates that foreign ownership is not a cure-all for problems in bank management (see OECD, 2001*c*). This bank, formerly one of the four large state banks, was sold to foreign investors in 1998. In mid-2000, though, it had to be placed under forced administration by the central bank. The full cost of the IPB losses may amount to as much as 5 to 10 per cent of GDP (Wagner and Iakova, 2001).
66. Implementation of this plan and the increase in the number of examiners is one of the conditions of a Staff Monitored Programme agreed to with the IMF. Another condition was to conduct on-site examinations of at least four banks identified as high risk and implement corrective action plans. The Slovak authorities also agreed to settle the issue of the institutional location of bank supervision. In the end, it was decided to leave it with the central bank until 2005 rather than move it to the Financial Market Authority (FMA), which was established in the Ministry of Finance in the autumn of 2000. Hence, until 2005, a two-pillar supervisory framework will continue, with the NBS responsible for the banking sector and the FMA responsible for the insurance industry and the capital market. A Co-ordinating Commission consisting of members of the NBS, MOF and FMA is to be created to establish, by the end of 2004, the legislative and technical framework for the integration of all supervisory functions in one institution.
67. In July 2001, the Konsolidačná banka transferred SKK 22 billion of such loans to the Slovak Consolidation Agency. This move was aimed at increasing management efficiency since both institutions had common borrowers. Moreover, given the scarcity of workout skills in Slovakia, combining this effort in one institution is likely to be more efficient. As noted above, the Konsolidačná banka was dissolved in January 2002, as it did not meet the criteria to operate as a bank under the new bank act.
68. This company will lose its monopoly in car insurance and in on-the-job accident insurance in 2002.
69. According to one estimate, these assets reached SKK 20 billion (2 per cent of GDP), double the amount invested in the mutual funds of licensed asset management companies (Gajdzica, 2002).
70. The first wave was based on voucher privatisation. Each citizen had the right to purchase a voucher book for 1 000 koruny, with 1 000 coupons that could be invested in the enterprises selected for privatisation. Concerned that this was resulting in an excessively dispersed ownership structure, the second wave of privatisation was based

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largely on direct sales. For details, see Niznansky and Reptova (1999) and Marcincin (2000).

71. The law on large privatisations also forbid the privatisation of six companies producing armaments and general machinery, two pharmaceutical firms and 12 enterprises involved in agriculture, forestry and water management.
72. The previous government even initiated a national referendum in 1998 to support a proposed constitutional ban on the sale of these strategic industries. However, the referendum was ruled void as voter turnout was less than one-half.
73. Such problems are described in Pazitny (1999).
74. As part of the restructuring of this sector, the monopoly of Slovak Telecom in the local and international markets will end in 2003. Moreover, Deutsche Telekom is required to invest 1 billion euros in Slovak Telecom's core business and complete full digitalisation of the fixed network by the end of 2004.
75. Natural gas is accessible to 85 per cent of the population, the highest proportion in the OECD area after the Netherlands.
76. At the end of 2001, the government sold a 49 per cent stake in Transpetrol, the oil pipeline, to a Russian company. The new investor promised to boost the utilisation of the pipeline from 40 per cent of capacity at present to 100 per cent by 2006. The government maintains a majority stake as a guarantee for the protection of the strategic interests of Slovakia. The presence of a foreign investor, though, will limit the practice of using transit fees from foreign countries to subsidise the below cost sale of gas to households.
77. Meanwhile, gas prices have increased by 105 per cent for residential use and by 53 per cent for commercial and industrial users.
78. Consumers will be eligible to purchase power from alternative suppliers if their annual consumption is above 100 GWh in January 2002, 40 GWh in January 2003, 20 GWh in January 2004 and 9 GWh in January 2005.
79. This survey, by the Institute for Public Affairs (2001), is based on replies by 64 managers and 13 analysts.
80. Work is underway to supplement the new law with something parallel to the block exemptions adopted under European competition law. These changes will have important effects in terms of fine-tuning and adding greater precision to the general competition law.
81. In comparison, the threshold is set at 4 million euros in Hungary and 50 million euros in Poland, while the Czech Republic does not set a threshold.
82. There was one procedure for health and safety, two for taxes, two for labour and three for screening.
83. Of this amount, SKK 200 million was from the state budget, SKK 200 million from the EU under the PHARE programme and SKK 100 million from commercial banks.

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Annexe I

Chronology of recent events

2001

January

The government issues SKK 83.7 billion in special Treasury bonds to replace state guaranties in the portfolios of three restructured banks, Všeobecná úverová banka (VUB), Investičná a rozvojová banka (IRB) and Slovenská sporiteľňa (SLSP).

An 87.2 per cent stake in Slovenská sporiteľňa (SLSP), the country's largest commercial bank, is sold to Erste Bank of Austria for SKK 17.7 billion.

The import surcharge introduced in May 1999 is phased out.

February

Parliament passes an amendment to the Slovak constitution allowing the decentralisation of public services and the establishment of regional self-governments.

Regulated prices are increased for a number of items, including electricity (25 per cent for households and 10 per cent for business) and gas (25 per cent for households, 15 per cent for retailers and 30 per cent for large customers). In addition, prices for rail transport are raised by 15 per cent, bus transport by 20 per cent, postal services by 9.9 per cent, water and sewage by 20 per cent, housing rents by 45 per cent and heating by 20 per cent.

March

The government approves the establishment, effective in January 2003, of a regulatory body for energy.

The National Bank of Slovakia cuts official interest rates by 25 basis points. This lowers rates to 6 per cent for overnight sterilisation operations, 9 per cent for overnight refinancing operations and 7.75 per cent for the two-week REPO rate.

The government introduces new bills on the civil and public services, as well as the draft of a new labour code.

The government issues a statement of economic policies in the context of a Staff Monitored Programme with the International Monetary Fund.

April

Parliament amends the Act on the National Bank of Slovakia and the Banks Act in order to harmonise the legal framework with the EC *acquis communautaire*.

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May

Four chapters of the *acquis communautaire* required for EU accession – telecommunications, company law, free provision of services and social policy and employment – are provisionally closed.

June

Two chapters covering the free movement of people and capital are provisionally closed as part of the EU accession process. A two-year transition period, renewable for three years and then two years, is agreed to in the chapter governing the movement of people. A seven-year transition period is established for the sale of farms and forestland to EU citizens.

The government adopts an IMF Staff-Monitored Programme, which is a pre-condition for receiving a World Bank Financial Sector Adjustment Loan (EFSAL).

The IMF staff approves the statement of economic policies made by the Slovak government in March 2001.

July

Parliament approves the creation of eight regional self-governments.

September

The World Bank extends a Financial Sector Adjustment Loan (EFSAL) of EUR 200 million with maturity of 14 years and a five-year grace period. The facility is designed to help the government finance its bank-restructuring programme.

The National Bank of Slovakia declares Devin Bank, a medium-sized financial institution, insolvent and starts liquidation procedures.

The customs tariff on imports for personal use and priced between EUR 175 and EUR 250 is lowered from 5 to 4 per cent.

October

Standard and Poor's upgrades Slovakia's sovereign debt to investment grade. The rating on long-term foreign currency denominated debt is boosted to BBB- from BB+, while that for long-term domestic currency debt is raised to A– from BBB+.

November

A 94.5 per cent stake in Všeobecná úverová banka (VUB), Slovakia's second largest bank, is sold to Italy's IntesaBCI. The preliminary purchase price is set at SKK 23.7 billion.

Moody's upgrades the rating for sovereign foreign currency bonds and notes from Ba1 to Baa3 and for foreign currency bank deposits from Ba2 to Ba1.

The National Property Fund completes the redemption of privatisation bonds issued in 1996 and held by domestic residents.

December

With the agreement on the chapter on financial control, 22 of the 31 chapters required for EU accession are provisionally closed.

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The 2002 state budget is approved with a deficit ceiling of SKK 38 billion.

Elections are held for chairmen and deputies of the eight new regional self-governments.

2002

January

The corporate income tax rate is cut from 29 to 25 per cent, while personal income tax rates are reduced from 42 to 38 per cent at the high end and from 12 to 10 per cent at the low end. The number of brackets is lowered from seven to five.

The excise tax on tobacco is raised from 29.4 to 32 per cent while the price of gas for business increases by 19.3 per cent.

February

The World Bank grants a credit line of USD 23.5 million, to be released over five years, for reform of the administration of social benefits.

The government approves the Act on Social Security, which permits the opening of individual accounts, a first step toward reform of the pension system.

March

The sale of natural gas monopoly Slovensky Plynarensky Priemysel (SPP) to a consortium of Ruhrgas of Germany and Gaz de France for a price of USD 2.7 billion is approved.

April

The new labour code and Civil Service and Public Service laws take effect.

The National Bank of Slovakia increases interest rates by 50 basis points, thus boosting the two-week REPO rate to 8.25 per cent, the overnight sterilisation rate to 6.5 per cent and the overnight refinancing rate to 9.5 per cent.

The excise tax on cigarettes is hiked from 32 to 36 per cent.

The chapter on transportation – the 24th in the EU accession process is provisionally closed. A two-year transition period will be granted to Slovak companies when they start operating in the unified market.

The Anti-Monopoly Office approves the sale of a 66.8 per cent stake in Slovenska Poistovna (SP), the largest Slovak insurer, to Allianz AG of Germany at a price of EUR 114.9 million.

Hungarian savings bank OTP Bank becomes the owner of 92.6 per cent of Investičná a rozvojová banka (IRB).

May

The sale of 49 per cent shares in each of the three electricity distributors is approved. Zapadoslovenska Energetika (ZSE) is sold to EON of Germany for EUR 330 million, Stredoslovenska Energetika (SSE) to électicité de France for EUR 158 million and Vychodoslovenska Energetika (VSE) to RWE Plus of Germany for EUR 130 million.

Parliament passes a child allowance law, effective in July 2002, which does not require testing of family income.

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The government approves a timetable for adjusting tobacco excise taxes to the EU level of 57 per cent over a five-year period. By December 2008 a fixed-rate tax of EUR 64 per 1 000 cigarettes will be introduced.

Parliament passes a law increasing parental allowances from SKK 2 740 to SKK 3 790, effective in November 2002.

The government approves a 5 per cent increase in pension benefits, effective in July 2002.

The government agrees to sell 49 per cent stakes in four bus companies (SADs) to private investors for a total of SKK 488 million.

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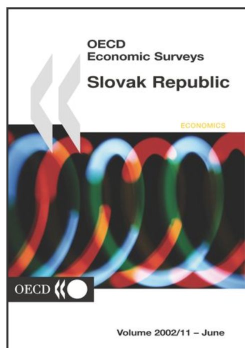

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