

Country Report

Slovakia

The Unfinished Business of the Fifth Enlargement Countries

The views expressed in this report are those of the authors and do not necessarily reflect the views of the Open Society Institute – Sofia.

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

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About this publication

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

“The Unfinished Business of the Fifth Enlargement Countries” is a policy project of the Open Society Institute – Sofia within the European Policy Initiative (EuPI).

The EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels (www.eupi.eu).

The project was implemented from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyse the post-accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post-accession challenges and, in doing so, contribute to the competitive advantage of the EU as a whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyse the post-accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post-accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural

development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post-accession problem-solving in each policy area and to provide a typology according to the following criteria: active and passive EU leverage,¹ hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.²

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (Part C) in each report, a comparative analysis of the post-accession state of affairs was developed.

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¹ The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

² After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

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E

xecutive Summary

In the last two decades, Slovakia has made a huge step forward in establishing a standard democratic system based on political plurality. At present, a variety of political parties and movements are represented in national politics. The presence of nationally oriented parties (the SNS and the SMK) can be considered as a sign of a still immature political scene in a relatively young democracy.

The process of Slovakia's accession to the EU was strongly influenced by domestic political developments. Slovakia was not invited to the first round of accession negotiations mainly because it had not fulfilled the Copenhagen criteria. The main reason was the deficient state of democratic institutions in Slovakia under the government of Vladimír Mečiar in 1994-1998. Slovakia's exclusion from the first wave of EU enlargement created the external pressure necessary to reverse the negative political and economic development under the Mečiar government. The change of political representation and formation of a new government in 1998 resulted in the country's accession to the EU in 2004.

The reforms implemented in this period made the Slovak economy one of the fastest growing economies in the EU. The significant inflow of foreign direct investments in the automotive and electronic sectors, combined with EU accession, were the main driving force of this rapid economic development. The main challenges standing before the present economic policy are development of the industrial and service sectors with a focus on research and technology development. The most important factors attracting foreign direct investments are the low labour costs and skilled labour force. Despite Slovakia's positive economic performance and strong GDP growth, unemployment remains an important issue. Especially, long-term unemployment is considered as one of the most negative characteristics of the Slovak economy. Long-term unemployment in Slovakia is among the highest in the EU. It is connected to uneven regional development mainly in the east and south-east parts of the country, where the labour force is in most cases low-skilled and low-educated, and industry, agriculture and the service sector are underdeveloped. The majority of these people are from the Roma minority, who live in poor economic and social conditions.

To address this important issue, substantial financial resources have been allocated from the state budget and the Structural Funds.

Slovakia is also on the road of important economic reforms. The pension reform is still one of the most discussed reforms by the present government. The most problematic issue is the impact on the social budget. On the one side, the new system helps to manage the budget deficit caused by an ageing society in the long run. The other side is that in the short run, it creates higher deficits mostly because of underestimation of the population's involvement in the new system.

The implementation of necessary economic reforms in the 1998-2006 period laid the foundations for sustainable GDP growth and convergence to the EU average. The availability of pre-accession assistance for economic development (PHARE), for the environment and transport (ISPA), and for agricultural and rural development (SAPARD) prepared the way for the increased funding available in 2004-2006 – essentially in the same sectors – under the Structural Funds. The main achievement resulting from pre-accession assistance is the increase in administrative capacity and experience that these instruments have brought. The next challenge is the implementation of the new financial perspective for 2007-2013. This considerable amount of financial resources could contribute to balanced development of the most lagging regions. However, significant convergence of the regions to the national level is not expected even in the long term.

The analysis of the development of other sectors shows mostly mixed results. We can find success stories in several areas of each sector, but we can still observe deep and structural institutional weaknesses. The areas in which Slovakia is lagging behind are the R&D and the education sector. There is an urgent need to conduct thorough system-orientated reforms in order to improve the performance of the R&D sector in the national economy.

The obligation to adopt the *acquis communautaire* so as to become eligible for EU accession was a significant influence of the EU institutional and legal framework on the Slovak economy. EU accession further increased the influence of European legislation on national and regional economic policy. Strong influence of European rules is present in the field of fiscal policy and its budgetary rules. The adoption of the common European currency in 2009 has been connected with the obligation to maintain the Stability and Growth objectives. The requirements for Eurozone membership and the implementation of the Schengen agreement have further integrated the Slovak economy into the European economy. Every step leading to closer integration requires the implementation of European legislation in the domestic legal system and creates significant leverage on domestic development. The most important task lying before the EU in the near future is the reform of its institutions, objectives and budget. The experience of Central and East European countries from the transition process could be an important asset in this process. However, this process would require an open and equal discussion among European representatives, focused on the role of the EU and its member states in the future.

A **Analysis of the Post-Accession State of Affairs in Selected Policy Areas**

Subsection B.1:
Political Development and Governance

Subsection B.2:
Economic Development

Subsection B.3:
Welfare System and Social Inclusion

Subsection B.4:
Health System

Subsection B.5:
Educational System

Subsection B.6:
Justice and Home Affairs

Subsection B.7:
Migration

Subsection B.8:
Research and Innovation

Subsection B.9:
Agriculture and Rural Development

Subsection B.10:
Regional Development

Subsection B.11:
Level of Absorption of EU Funds and Their Impact

References

Political Development and Governance

Summary

In the last two decades, Slovakia has made a huge step forward in establishing a standard democratic system based on political plurality. The present political scene represents a mixed spectrum of political parties and movements. The presence of nationally oriented parties (the SNS and the SMK) can be considered as a sign of a still immature political scene in a relatively young democracy.

The accession process was strongly influenced by political developments in Slovakia. Due to the uncertain pro-EU policy of 1994-1998, Slovakia was not invited to the first round of accession negotiations mainly because it had not fulfilled the Copenhagen criteria. The change of political orientation of the 1998-2006 governments resulted in Slovakia's accession to the EU in 2004. The current political system of parties has undergone in recent years consolidation mainly on the left-wing side of the political spectrum. Conversely, the right-centre wing remains divided into three traditional parties: the SDKÚ, the KDH and the SMK.

General Context

Slovakia is a parliamentary democracy with a President as head of state. The President is elected by majority in a general popular vote for a five-year term. The President is responsible for appointing the Prime Minister as the head of government. On the advice of the Prime Minister, the President also appoints the cabinet. The highest legislative body, the National Council of the Slovak Republic (NR SR), has 150 seats and its members (delegates) are elected for a four-year term by general popular vote based on proportional representation.

It is important to introduce briefly the political and economic development in the pre-accession period, which played a crucial role in the fulfilment of the Copenhagen criteria.

The path of Slovakia towards membership of the most important economic and political organisations (the EU, NATO and the OECD) was difficult mainly in the 1994-1998 period. In December 1997, the

Luxembourg Summit of the EU concluded that Slovakia was not ready to be part of the first group of candidate countries negotiating on EU accession. Besides some objections related to fulfilment of economic criteria, the main reason was the deficient state of democratic institutions. Slovakia was not

Fragmentation among the opposition parties, together with a decent parliamentary majority, allows the government coalition to implement its election programme without any difficulties

invited to start negotiations as it had not fulfilled the so-called Copenhagen criteria. This caused Slovakia to lose its comparative advantage (mainly in attracting foreign direct investments), unlike its neighbouring countries which started accession negotiations. In the 1994-1998 period Slovakia was not invited to join NATO and the OECD either. After the elections in autumn 1998, EU, NATO and OECD accession became one of the most important

priorities of the newly formed coalition government. Official EU accession negotiations were opened after the conclusion of the Helsinki Summit in December 1999.

Issue: Current dynamics of party development – state of traditional parties, emergence of new political parties, reshaping of existing party platforms

The major parties currently elected to the National Council of the Slovak Republic (NR SR) are SMER Sociálna demokracia (Social Democracy), HZDS (Movement for a Democratic Slovakia), SNS (Slovak National Party), SDKÚ (Slovak Democratic and Christian Union), KDH (Christian Democratic Movement), and SMK (Hungarian Party Coalition). After the 2006 elections, three parties – the SMER, the HZDS and the SNS – formed a parliamentary majority and a government headed by Róbert Fico (Prime Minister). The present government coalition is clearly dominated by the SMER. The SMER is at the same time the strongest party in parliament. Fragmentation among the opposition parties, together with a decent parliamentary majority, allows the government coalition to implement its election programme without any difficulties.

The current political system of parties has undergone in recent years consolidation mainly on the left-wing side of the political spectrum. The SMER integrated most of the relevant left-wing parties. Conversely, the right-centre wing remains divided into three traditional parties: the SDKÚ, the KDH and the SMK. The emergence of new parties or splitting of existing ones is very common. However, these newly formed parties have only little chance to pass the 5% electoral threshold for the National Council of Slovakia.

Issue: Major veto players and their relations

Slovakia is a parliamentary democracy. The position of veto players is based on this fact and is defined in the Constitution. The key veto player in this respect is the President. His veto authority is still restricted. He is

allowed not to sign or to return particular legislation to parliament within 15 days after receiving the version approved by parliament. Repeatedly approved legislation by parliament does not need to be approved by the President. The President rarely uses this right.

Issue: Stability of government and capacity to reform

The new government, formed in 2006, brought different policy orientation and priorities than the previous one. The present government coalition led by the SMER chose to follow a different path of policy reform, but did not make substantial changes to the reforms already conducted by the previous, SDKÚ-led government. The health care reform based on the strategy of the previous government was stopped and the pension system is subject to various and repeated legislative changes. One of the main reasons for that approach can be the strong focus on social issues and the effort to fix the social insurance budget deficit. Generally, the government is strongly concerned with the social dimension and this is starting to impact on the overall economic environment. The government's effort to regulate health care companies, gas prices or pension funds is obvious from several policy decisions. This can be considered as a violation of competitiveness rules.

The most important problem with the political capacity to form a coalition is the different political affinity. Naturally, centre- and left-wing political parties are not able to manage a coalition with right-wing parties. In Slovakia's case, the problem comes also from the presence of two nationally oriented parties – the Slovak SNS and the Hungarian minority's SMK. These two parties are bound to be on opposite sides of the political spectrum.

It is observable that right-wing parties have a strong reforming potential. Left-wing parties concentrate on a strong social dimension and expansive fiscal policy. The recent government applies social democratic principles. This significantly decreases the present reforming capacity. Resurrection of the reform process can be expected after the change of political orientation of the government.

Issue: Populism and extreme nationalism

The presence of the SNS in the government has provoked debates on the question of minorities (mainly the Hungarian and the Roma minority). There are strong political tensions between the two nationally oriented parties, the SNS (Slovak) and the SMK (Hungarian minority). This has led to several problems, which have been addressed on a bilateral, Slovak-Hungarian, level and even on EU level. Some evidence of intolerance between nationalities is present mostly on the policy level. This cannot be considered as issues of serious risk to political stability. Such nationalistic tensions can be considered as a sign of a still immature political scene in a relatively young democracy.

Extreme nationalism is not significantly present in Slovakia's political or social development, although a small minority of extremists is present on both sides of the political spectrum. However, these groups have insignificant influence on political development. Extreme-oriented parties or civic groups are under constant observation and in the case of law violation are dissolved by the Ministry of Internal Affairs. Recent legislative measures undertaken by the government have increased the punishment for any demonstration of racial or ethnic intolerance or extremism.

Issue: Euro-scepticism

After four years of EU membership, we can observe widespread support for the EU in Slovakia. According to the Eurobarometer 2008 Spring Report, about 67% of the Slovaks have confidence in the EU institutions.

Issue: Participation at EU level

The first elections for members of the European Parliament were held on 13 June 2004. Seventeen parties and coalitions competed for the mandate to represent the Slovak Republic as the first ever Slovak MEPs. Only five of these parties won seats in the European Parliament. Slovakia has at present 14 seats. Three each are held by the SDKU, HZDS, SMER and KDH, and two by the SMK.

Ján Figel, who is responsible for Education, Training, Culture and Youth, represents Slovakia in the European Commission.

Slovakia participates in decision-making in other EU bodies as well. In the Council of Europe, it is represented by seven votes. It has nine members in both major advising EU bodies: the Committee of Regions and the European Economic and Social Committee.

Issue: Corruption perception

According to 2007 data from Transparency International Slovakia, the Slovak Republic is ranked 49th in the TI Corruption Perception Index. Its score has slightly improved when compared with the previous year. The value of the index reached 4.9 points in 2007 and 4.7 points in 2006 out of a possible 10 points. The most visible corruption cases are mostly connected with the process of public procurement (lack of transparency, overpricing, dubious contracts, etc.). Currently the public procurement of an electronic toll system is under investigation by the EU.

Conclusion

In the last twenty years, Slovakia has developed a stable and reliable democratic system based on plurality of political parties. The EU accession process created a strong momentum towards economic and political

reforms. Approximation with the *acquis communautaire* together with the necessary creation and development of institutions provided an institutional anchor for further improvement of democratic institutions and prepared the country for EU membership. After the accession of Slovakia in 2004, no

significant EU leverage on political development can be observed. The only intervention regarding the political development in Slovakia was the suspension of the membership of the ruling SMER (Social Democracy Party) in the Party of European Socialists (PES) after the constitution of the present government. The main reason was the participation of the SNS (Slovak National Party), which was considered nationalistic and xenophobic, and the HZDS (Movement for a Democratic Slovakia) of the former prime minister Vladimír Mečiar in the present government. However, the suspended membership was resumed in 2008 with no significant influence on government change.

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Economic Development

Summary

The Slovak economy is one of the fastest growing economies in the EU.

The significant inflow of foreign direct investments in the automotive and electronic sectors plays a key role in this development process.

A set of economic reforms as well as EU accession can be considered as the main driving forces of economic growth.

The main objectives of recent economic policies are to continue the development of the industrial and service sectors with a strong focus on research and technology development. One of the key factors attracting FDI is the low cost and high skill of the labour force.

Despite Slovakia's positive economic performance and GDP growth, unemployment still remains a problem. Long-term unemployment is considered as one of the most negative characteristics of the Slovak economy.

Issue: GDP per capita

Slovakia experienced favourable macroeconomic development in 2000-2007. The implementation of necessary economic reforms in the 1998-2006 period laid the foundations for sustainable GDP growth as well as improvement of other macroeconomic indicators.

The main comparative economic indicator, GDP per capita in PPP, also shows that Slovakia has made an important step forward. In 2004, Slovakia's GDP per capita in PPP was at the level of 57.5% of the EU-27 and 50.6% of the EU-15 average. Eurostat's latest estimates for 2008 indicate that it has reached 70.7% of the EU-27 and 63.8% of the EU-15 average.

Issue: Economic growth

From 2001 to 2007, Slovakia's year-on-year GDP growth was above the EU-27 average. In

this period Slovakia achieved an average GDP growth of 5.6%, which was 3.2 percentage points above the EU-27 average. The main problem in the country's economic development in the 1994-2004 period came from the contradictive impacts of domestic demand and foreign trade on GDP. The main reason was high import intensiveness and low export performance. The multiplicative effects of an expansive budgetary policy on GDP were diminished by increased imports. A number of important investments in

2004-2006 changed the structure of industry and thereby increased the export performance of the Slovak economy.

Issue: Public finances, adoption of the Euro and economic convergence with the EU

The fulfilment of budgetary convergence criteria became a strong political obligation after Slovakia's accession to the ERM II in November 2005

A very important aspect of the impact of EU membership is the influence on public finances. EU member states that have not yet entered the Eurozone are obliged to prepare annual convergence programmes. Stability programmes are prepared by countries which are already members of the Eurozone. The main objective of these documents is to facilitate better control and budgetary discipline in the member states and to present their medium-term budgetary strategy.¹ The framework of the convergence programme together with the obligation to adopt the single European currency has created a strong leverage on domestic fiscal policy. The fulfilment of budgetary convergence criteria became a strong political obligation after Slovakia's accession to the ERM II in November 2005. Changes adopted in the public finance system together with robust economic growth have resulted in favourable development of the general government deficit measured as a percentage of GDP as well as government debt, allowing the adoption of the common European currency in 2009. The budgetary criteria to qualify for the adoption of the Euro in 2009 were fulfilled in 2008. The only risk which may have postponed Slovakia's accession was the inflation criterion. Despite unfavourable predictions and widespread speculations, the inflation criterion (more on inflation in the following paragraphs) has been met.

¹ Stability and convergence programmes contain the following information (European Commission, 2008):

- a medium-term objective representing a budgetary position that safeguards against the risk of breaching the 3% of GDP threshold and ensures the long-term sustainability of public finances, the adjustment path towards the medium-term objective (the year-by-year target figures until it is achieved) and the expected path of the debt ratio;
- the underlying economic assumptions (growth, employment, inflation and other important economic variables);
- a description and assessment of policy measures to achieve the programme objectives;
- an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;
- the medium-term monetary policy objectives and their relationship to price and exchange rate stability (for non-Euro-area countries only);
- the information provided covers the preceding and current year and at least three years ahead.

The main components of the public finance reform included the introduction and implementation of the ESA 95 accounting principles, strengthening of multi-annual budgeting, founding of the State Treasury and Debt and Liquidity Management Agency, fiscal decentralisation, programme budgeting and implementation of the EU budget transaction into the national budget.

Although the Maastricht convergence criteria have been successfully fulfilled, the real convergence of the Slovak economy is still a continuing process. There are still differences in wage level, labour productivity, price level and unit labour costs as well as other differences.

Issue: Regulatory business environment and rating of the country in terms of business environment, economic freedom, competitiveness

The effort to join the EU together with the necessary adoption of the *acquis communautaire* created a strong leverage effect on the Slovak business environment and regulatory framework. The institutional framework transposed from European law, including regulatory and other legal issues, together with reforms conducted in the 1999-2006 period, had an indisputable impact on the business and legal environment. Despite the positive tendencies, some barriers still exist which need to be eliminated. The last Global Competitiveness Report 2008-2009 identifies the most problematic factors for doing business (based on a poll conducted for the needs of the report; the figures after the factors represent the responses weighted according to their rankings):²

- Restrictive labour regulations (17.3)
- Access to financing (13.0)
- Inefficient government bureaucracy (12.6)
- Inadequately educated workforce (11.6)
- Tax rates (10.9)
- Inadequate supply of infrastructure (9.3)
- Inflation (9.1)
- Policy instability (6.4)
- Tax regulations (5.5)
- Poor work ethic in national labour force (2.2)
- Corruption (1.4)
- Poor public health (0.6)
- Crime and theft (0.3)

² The figures in brackets represent scoring points according to the Global Competitiveness Report methodology (Global Competitiveness Report, p. 355).

In the summary competitiveness index Slovakia gained 4.7 points, which qualified it for 29th place from 134 countries included in the report.

According to the Index of Economic Freedom elaborated by the Heritage Foundation, Slovakia ranked 35th in 2008, as compared with 48th in 2004. Since its EU accession in 2004, Slovakia's performance in the overall index has improved by 4 points. The improvement in this indicator was mainly due to an increase in fiscal and trade freedom, government size and freedom from corruption.

Since Slovakia's EU accession, the rating of the country has been constantly improving. The current rating of the Slovak Republic assigned in November 2008 by Standard & Poor's is A+ with stable outlook, in July by Moody's A1 with positive outlook, and in July by Fitch A+ with stable outlook.

Issue: FDI flows

One of the positive contributions of EU membership has been the inflow of foreign direct investments (FDI) and development in foreign trade. Huge foreign direct investments in the automotive sector and electronics have occurred in Slovakia. These investments have contributed to the growth of industrial production as well as the creation of new working positions and increase in demand for services. Production caused by investments as well as removal of foreign trade barriers reflected in a significant increase of exports in 2005. On the other hand, the high openness of the Slovak economy led to an increase in imports.

Issue: Inflation rate

In the description of inflation in Slovakia, we can recognise three periods of development. These periods are connected with the political leadership as well as the key goals of economic policies. In the 1993-1998 period, there was a decrease in inflation. The creation of the Slovak Republic, tax reform as well as the beginning of economic transition led to high inflation in 1993. In the following years, inflation was pushed down. One of the instruments of keeping inflation down was not increasing the prices of goods controlled by the state (gas, electricity, etc.). This was one of the goals of the pro-social oriented policy. This in fact led to strong internal price imbalances, which had to be managed by the next government. The 1998-2006 period is characterised by high inflation rates (up to 13%). These inflation rates were based on adjustment of regulated prices and changes in indirect taxes. Core inflation in this period was up to 4%. The last period of inflation development began in 2006. Entering the ERM II mechanism with the goal of Euro adoption focused monetary policy on inflation control. Slovakia succeeded in fulfilling the Maastricht inflation criteria and is to adopt the Euro on 1 January 2009.

Issue: Structure of the economy, export-import competitiveness

The present structure of the Slovak economy was largely determined by the pre-transition period. Slovakia's post-war industrialisation was concentrated on development of heavy industries as well as primary production of raw materials and agriculture products. The economy was based on large state-owned companies. The non-existence of a private sector diminished the sector of small and medium-sized enterprises. Services were concentrated in huge conglomerates and cooperatives. The transition period brought privatisation and the creation of a private sector as well as increasing foreign competitiveness. Large enterprises were hard to sustain in an environment of strong competition. A number of large companies went bankrupt and foreign investors privatised the rest. The present structure of FDI flows to Slovakia is concentrated on skilled labour force mainly in machinery and the electronic sector. The SME sector is quite well-developed, but there is still a need to develop it further. This sector suffers from difficult legal requirements for setting up an enterprise as well as difficult access to financial loans. Support from EU funds is still not sufficiently distributed to the SME sector. Support of the SME sector is one of the key issues in each government programme. These tasks are still far from being accomplished. The largest gap is in cooperation in the field of innovation, research and development.

Slovakia is an extremely open economy. Concentration on the raw materials industry before the transition period led to low capacity for final production. Lack of final production resulted in extreme import intensiveness of internal demand. Some analyses show that 1% growth of internal demand causes more than 0.6% growth of import (Kvetan, Radvanský, 2008). An underdeveloped technology base impacts high import intensiveness of investments. This results in extreme import dependence. On the other hand, low labour costs as well as relatively good quality of production results in price competitiveness in foreign trade. Recently developed industries are increasing the competitiveness of Slovak production even on the technological level. High import intensiveness of exports still remains a problematic factor. This means there is a need to import raw materials and semi-products to produce final production. There are estimates that 1% increase in export causes an additional more than 0.5% of import. On the other hand, Slovakia's coefficient of economy openness³ increased from 1.8 in 2004 to more than 2 in 2008.

Issue: Labour market (employment, unemployment and salaries)

Slovakia's labour market is strongly impacted by the structure of the economy. The decline in traditional industrial production and agriculture

³ Coefficient of economy openness is calculated as a ratio of the sum of export and import to GDP.

as well as transition recession led to an extreme increase in unemployment. Although Slovakia is one of the fastest developing economies in the EU, high unemployment rates remain one of the most important problems in the country. This fact increases labour migration to the capital, neighbouring countries as well as to other EU member countries. One of the key issues of the labour force

is long-term unemployment and social exclusion. Slovakia has the highest long-term unemployment rate in the EU. There are positive signs of EU Social Funds impact. There is still an extreme need for implementing the programme "New Skills for New Jobs". A key comparative advantage of the Slovak economy is the still low unit labour cost. Monthly labour cost in Slovakia grew from €517 in 2003 to €711 in 2006. For comparison, in Romania labour costs were €244 in 2003 and €434 in 2006, and in the EU-27, €2 672 in 2006 (according to Eurostat).

Although Slovakia is one of the fastest developing economies in the EU, high unemployment rates remain one of the most important problems in the country

Conclusion

One of the most important milestones of the Slovak economy in the near future is the accession to European Monetary Union and adoption of the single European currency. Fiscal and monetary policy is being focused to support this process. Despite the positive tendencies, some barriers still exist which need to be eliminated. Although the Maastricht convergence criteria have been successfully fulfilled, the real convergence of the Slovak economy is still an ongoing process. There are still differences in wage level, labour productivity, price level and unit labour costs as well as other differences. The effort to join the EU together with the necessary adoption of the *acquis communautaire* created a strong leverage effect on the Slovak business environment and regulatory framework.

Although the Slovak economy is performing very well, it suffers from rather high unemployment and, at the same time, high demand for skilled labour force. The key issue in this respect is to adjust the labour force structure by means of better utilisation of European Social Funds.

Welfare System and Social Inclusion

Summary

Although Slovakia is one of the fastest growing economies in the EU, it has a significant unemployment problem. The level of long-term unemployment is the highest in the EU. There are regional disparities, with a high proportion of low-skilled and low-educated people living in rural areas with no developed industry, agriculture or services. The majority of these people are from the Roma community, with poor living conditions. Wide support from the budget as well as from EU Structural Funds plays a key role in diminishing the social exclusion of these groups.

Slovakia is also on the road of important economic reforms. The pension reform is still one of the most discussed reforms by the present government. The most problematic issue is the impact on the social budget deficit.

Issue: Employment

Even though Slovakia is one of the fastest growing economies in the EU (with a GDP growth of 10.3% in 2007), it suffers from one of the highest unemployment rates and the highest long-term unemployment rate. At present, the key reason for the high unemployment rate lies in the structure of labour supply. The economic transition resulted in significant structural changes. The collapse of agriculture cooperatives and of a number of industrial enterprises had a negative impact mostly on the low-skilled labour force. In combination with mobility problems and demographic specifics, this situation resulted in a huge increase in the number of long-term unemployed. After the recovery of the Slovak economy, these people still lack appropriate skills to be integrated in the labour market.

They have even lost all working habits. The worst situation is found among the young generation. A significant number of long-term unemployed have never worked. The main reason is in the educational system, which is not adjusted to the needs of the labour market.

Low-educated people suffer from the highest rate of unemployment. At the same time, this unemployed population group is the core group of long-term unemployed (unemployed for more than one year). Insufficient working skills and nearly lost working habits make these people the most problematic for any pro-active policy of employment. Most of these people live in rural areas and in problematic regions with underdeveloped physical infrastruc-

ture. They used to work in the agriculture sector or low-skilled construction and industrial auxiliary field. The collapse of the agriculture sector in these regions as well as the general increase in labour productivity in all sectors dramatically decreased demand for such workers. There is an urgent need to retrain these people and so bring them back to the labour market.

Slovakia scores well in terms of employment rates. The total employment rate in the 15-to-64 age group increased from 56.5% in 2000 to 60.7% in 2007, which corresponds to the Lisbon agenda goals. On the other hand, there is a significant difference by gender. The employment rate of males increased by almost 7 percentage points, but that of females only by less than 2 percentage points. The female employment rate is slightly affected by the retirement age, which is earlier for women. However, there is further need to increase the female employment rate.

The organisation of the labour market is based on the Labour Code. The last amendment made in 2007 secured correspondence of this code with EU legislation. It secures balanced position of both sides – employees and employers. The Slovak Labour Code reflects frameworks of Flexicurity – flexible and firm working conditions, flexible working schemes, equality of rights and duties of employees and employers, equal treatment and strengthening of social dialogue, etc.

The Code of Employment Services has been implemented into legislation to address the problem of long-term unemployment. Act No. 5/2004 has been amended several times (almost every year since it was adopted) to provide better conditions to job seekers. Special care is given to disadvantaged groups: persons over 50 years old, long-term unemployed, parents of three and more children attending elementary school, disabled persons, persons with asylum status, persons with lower education, etc. This code provides for partnership of central government bodies, local governments, NGOs and employees to strengthen the effort.

The main tool of employment services is Active Labour Market Proceedings. The most important are registering the unemployed and job vacancies, provision of information and consultancy, education and training, subsidies to unemployed for self-employment, subsidies to employers to attract disadvantaged employees, subsidies for mobility, creation of social enterprises, etc.

Issue: Social inclusion and social security system

To secure equal treatment of all people, an Antidiscrimination Code has been adopted. This code provides for equal opportunities and treatment and deals with both positive and negative discrimination based on race, religion, age, health status and gender. Equal opportunities in the field of social security, health care and education as well as in employment and business relations are the key fields of interest.

Social security in Slovakia consists of three basic elements – social insurance, social help and social support. The key role of social insurance

is to protect citizens in different living situations (maternity, working disability) mostly connected to employment. This means that social benefits are derived from the sum of contributions paid to the system.

Social help is focused on secure supplementary resources for the needy from the most vulnerable groups of population. These resources have to be only temporary compensation and not permanent income.

Social support is based on the social budget. It is aimed at direct assistance in some extraordinary living conditions (e.g. birth, nutrition and education of children, death of family members). This claim is not based on contributions or income conditions of eligible persons.

Issue: Poverty

“Poverty” is not recognised in the Slovak legislation framework. A possible legitimate equivalent is “material need” – a situation when personal income is below the subsistence minimum, which is set by a separate law. The main reason that causes poverty growth is unemployment and increase in the cost of living. Poverty is based mostly on social-demographic and geographical characteristics. The highest percentage of people suffering from material need in Slovakia is in the NUTS 2 region of Vychodne Slovensko. The lowest percentage is in Bratislavsky kraj and the NUTS 2 region of Zapadne Slovensko (Ivančíková, Kubíčková, 2008). There are significant regional differences in this respect. Poverty data can be considered as slightly biased. There is a strong focus on the income side. Most of the people who are considered to be on the poverty line live in rural areas. These people are able to engage in subsistence farming, which in fact increases their income. On the other hand, poverty is also closely connected with the cost of living. People living in cities have an incomparably higher cost of living (cost of renting or paying for housing, food, etc.).

Issue: Roma/other minorities’ integration and citizenship issues

The highest proportion of people below the poverty line are from the Roma minority. Basic characteristics are described in Subsection B.7 on Migration and demography. These people form a substantial part of the long-term unemployed. They are characterised by low education and social maladjustment. Most of the problems are based on ghettoisation (living in separate settlements and parts of towns). The low emphasis on education of Roma children is making this problem long-lasting. There is also an issue concerning various direct instruments for change. The most important is their self-identification as an ethnicity. There are estimates that the Roma population in Slovakia numbers approximately 300 000, but in population censuses only about 80 000 declare themselves as Roma. On the other hand, there is a tricky situation with respect to the Nondiscrimination Act. Based on this act, it is not even possible to keep registers of Roma

population. Furthermore, this act persecutes also positive discrimination. Since we do not know the number of these people and positive discrimination is banned, there is restricted space for direct support. The National Strategic Reference Framework priority consists of a horizontal priority – support to marginalised social groups. This is one of the few tools for direct improvement of their situation.

The highest proportion of people below the poverty line are from the Roma minority

Issue: Housing

Another important social welfare indicator is the development of housing. Under the past regime, access to housing was one of key instruments of family support. This period was characterised by massive construction of standardised types of flats. Cheap and fast construction ultimately led to low-quality housing with poor local infrastructure and urban dimension. Immediately after the changes, such construction was almost abandoned. The first instrument implemented to increase housing construction was the creation of building societies (starting in 1992). These societies were saving houses, where people could make savings with support from the state (state premium on interest rate) as well as obtain credit on soft terms. This was an important source of private housing savings before a mortgage market was developed.

Housing construction has been increasing since 2000. The most important merit is the strong development of mortgage markets. Housing construction has accelerated since EU accession. The enormous inflow of foreign capital as well as the entry of foreign development companies in the Slovak real estate market has led to a significant increase in residential housing construction. This can be the answer to the question of why the number of finished flats is growing and the number of finished family houses remains stable. At the same time, the average size of finished flats is decreasing. The main problem on the real estate market is the prices. Prices are based on the economic situation in the place of residence. Naturally, the highest prices are in the capital. The prices there are even higher than in Vienna, which is 60 km away. The extreme price difference between two economically different regions is the key element that negatively impacts labour force mobility. On the other hand, migration from cities to neighbouring rural areas is a common issue in recent times.

Issue: Pensions

The age structure of Slovakia's population is stable; however, Slovakia is facing a serious ageing problem in the near future. The pension system was reformed in the 2002-2006 period. The framework of this reform provides for three pillars (two compulsory and one voluntary) of future pension income.

The pension reform conducted in 2002-2006 and mainly the two compulsory pillars are subject to strong criticism from the present government

The first compulsory pillar is based on the pay-as-you-go system. It provides for redistribution of contributions paid by employers and employees, which are based on monthly wages. This pillar has a strong solidarity aspect. This system has been inherited from the past, when the pension system was widely supported by the state.

The second pillar is based on compulsory savings. The sum derived from the wage is saved on personal accounts in the specialised Pension Funds Managing Companies. Upon retirement, the saver is allowed to make a decision whether to pick up all saved assets at once or to gain permanent payment from the company. These funds are also subject to inheritance. This pillar is strongly income-oriented. People with higher lifelong earnings will have higher pension income.

The third pillar is based on voluntary savings. The system is similar to the second one, except that it is entirely voluntary. The employer can also contribute a certain amount to the employee's personal bill. These contributions reduce the employer's tax base.

This reform and mainly the two compulsory pillars are subject to strong criticism from the present government. The main reason is in the underestimation of the popularity of the second pillar. More people than expected have chosen the second pillar, leading to a strong deficit in the Social Insurance Company (responsible for the pay-as-you-go system). Due to the strong socially oriented policy of the present government and to the hard budget constraints, outflow of sources from Social Insurance is considered as crucial.

There are strong pressures to diminish the position of Pension Funds Managing Companies and to keep the entire pension system based on the pay-as-you-go system. Due to the expected extreme demographic changes (in the next 25 to 30 years), there is a high risk of an unsustainable public deficit. Preferring short-term solutions and neglecting future risks can be considered as short-sighted and as burdening the next generations.

Conclusion

The Slovak welfare system is significantly influenced by the unfavourable development of the labour market. Slovakia is characterised by a relatively high unemployment rate. The key problems are in the low mobility and low education of unemployed people. The key instrument of European support in this respect is the European Social Fund. Several projects are being implemented with respect to increasing the education and skills of unemployed. This is in line with the idea of "New Skills for New Jobs". ESF programmes are focused mostly on marginalised social groups, including Roma. Gender problems and improving the system of the labour market are

on the main agenda too. Problems with Roma are based on several specific factors. A key problem in providing direct EU support comes from their low self-identification as Roma and restricted positive discrimination. Ideas of a common EU approach to this problem are quite contradictory. On the one side, it is obvious that this is Europe-wide problem. On the other, there are other problematic minorities in other countries.

Inclusion of vulnerable and socially excluded minorities is key to maintaining social justice and stability. The main EU leverage in this respect is implemented through the National Strategic Reference Framework and its horizontal priority "marginalised Roma communities".

H Health System

Summary

Rebuilding the health care system was one of the key issues in the transition period. During this period a decentralised system of health care providers and financing was established.

The present system of financing health care is based on competition between state-owned and private health care insurance providers. Reforming the health care system and introducing forms of co-payment was a priority of the 2002-2006 government.

The present government discontinued the reforms.

Strengthening control over private insurance companies makes the future development and possible restructuring of the health care sector extremely uncertain.

Issue: Reform of the health sector

The basic legislative framework of social and health care was developed in 1992, including the law on social and health insurance as a basic pillar. Národná poisťovňa or NP (National Insurance Company) was established to manage all the funds – social, retirement, health care insurance and sickness insurance. The NP was divided into several specific organisations in 1995 by legislation approved in 1994. Sociálna poisťovňa or SP (Social Insurance Company) was established as an institution to deal with social security. The SP is responsible for several payments: social benefits, retirement contributions and payments in the sickness period (Kvetan, 2007).

The successor to the NP in the field of health care insurance was Všeobecná zdravotná poisťovňa or VZP (General Health Insurance Company). The legislation also allowed private health insurance companies to enter the market. This was designed to ensure a functioning and competitive market of health care insurance. The reality is that competition in this field was established only at the beginning of this process. One state-owned and several private health insurance companies were established. Employed persons had the right to choose an insurance company based on provided services. Retired persons, students and children were insured by the state-owned health care insurance company. Private insurance companies really differed by the services offered after the liberalisation of health care insurance. At the end of the transition period, they differed only by the size of their debts. One of the main reasons for the deficit was redistribution of contributions and low contributions of the state.

One of the reasons for this debt can be in the low contributions paid by the state for its insured. Slovakia's entire population is insured by state or private health insurance companies. There are three groups of contributors in general – employees, employers and the state. Employees contribute to the system based on their income. Employers contribute based on the level of employees' wages. This group also includes the self-employed, whose contributions are based on the previous year's profit. The state covers the health care insurance of children, retired persons and, via the National Labour Office, registered unemployed. The basis of their contribution is derived from the minimal wage. The minimal wage is significantly lower than the average wage. In the mid-1990s, a coefficient decreasing the state contribution was introduced to decrease the state budget deficit. This coefficient helped to decrease (or prevented from increasing) the central government deficit. On the other hand, this was the main reason for the increase in the debt in the health care budget (Páleník et al, 2005).

A new reform of health care was started by the second Dzurinda government. The main goal was restructuring health care providers as well as introducing the main pillars of health care services. The co-payment scheme was introduced at a level of SKK 20 (€0.66) per patient visit and SKK 50 (€1.66) per hospital day.⁴ The main purpose of these co-payments was to decrease the misuse of health services and introduce elements of self-responsibility for health status. The main problem of this reform was that it was introduced too late and could not yield the expected results.

The unclear outcome of this reform was a key issue in the SMER election programme. After Robert Fico became Prime Minister, this reform was one of the first to be revised. Most of the co-payment system was abandoned. The wide social policy of the Fico government with a strong focus on the social dimension led to introduction of control over private health insurance companies, involving strong supervision with regard to "appropriate profit".

The idea of restructuring the health care system is not fully clear. However, the ageing population will result in strong pressure on the health care system. Surveys conducted by the Institute of Economic Research have shown that even if based on optimistic assumptions, financing of health care system is not sustainable in the long run (Kvetan, Páleník, Mlýnek, Radvanský, 2007).

Issue: General state of the sector and quality of health services

The present system of health care is based on a multi-level approach. Primary care is provided by state or private general practitioners. They provide first contact and service as the gatekeeper for professionals. General inpatient care is provided in selected health care districts. Health

⁴ Values in € are recalculated at an exchange rate of SKK 30.1260/€1.

Even though primary care can be described as satisfactory and progressively reformed, inpatient care remains almost unchanged

care districts are administratively selected areas of providers of general or specialised assistance in the sense of securing a minimal health care network. Organising the minimal health care network is within the competence of regional self-government. The minimal network is organisation of minimal

possible number of accessible health care providers in a certain area. The key goal of the minimal network is to provide effective, accessible, continuous, permanent and professional health care. It is constructed with respect to number of inhabitants, mortality, morbidity, migration and state security. A minimal network does not have to be created in the field of ambulant emergency service and pharmacy.

Even though primary care can be described as satisfactory and progressively reformed, inpatient care remains almost unchanged. The Slovakian inpatient system consists of a high density of unprofitable hospitals with bad structure of specialisation. There is still no clear conception of hospital care mostly with respect to bed policy. Reconstructing the hospital sector is also problematic because of the aforementioned high density and different size of hospitals. The objective of the health care reform is to set a minimal network, which will be based mostly on large hospitals. Endangered small and medium hospitals are acting intensively against this approach. This difficult situation can be solved by privatisation of hospitals. On the other hand, the position of private hospitals is quite tricky. As they do not belong to the state-guaranteed network of health care providers, they have difficulty in obtaining finances from state health insurance funds.

Issue: Financing

Financing of health care is based on contributions to health insurance companies. Contributions of economically active population are based on the nominal wage. Employees pay a contribution equal to 4% of their nominal wage. Employers contribute 10% of the nominal wage of their employees. Self-employed persons contribute 14% of nominal wages. The upper limit of the contribution basis is three times the minimal wage. This system is valid both for private and state employees. The state also pays contributions for registered unemployed, retired and children. The state contribution for these groups, which represent one fifth of all insured people in Slovakia, is significantly lower. A low contribution from the state is one of the key factors for the health care deficit. The contributions are redistributed on the basis of health care insurance regarding the different composition of insurers.

The increasing health care deficit led to a situation of secondary insolvency. State-owned hospitals owed money to the private sector as well as state network industries. At the same time, hospitals had claims

in health insurance. Health insurance companies were in debt because of unpaid contributions from private companies as well as public bodies. This situation was solved in two ways. The current debts and claims of hospitals were transferred to the state-owned company Veritel. This company was established in 2003. Its main field of interest was to bilaterally clear debts and claims. The rest of the debts were paid by the government budget. There are estimates that the establishment of Veritel saved the government budget SKK 850 million.

The present problem of health care financing is in control over health care insurance performance. The key focus is on profit. Legislation controlling "appropriate profit" has been introduced recently. These steps can be characterised as an impact to restricting market competition. One health insurance company has already had to shut down.

Conclusion

The transition of the health care system is one of the most problematic in Slovakia. The reforms conducted so far have not restructured the system in a satisfactory way. This results in a permanent deficit of the system. The possible solutions are in reducing the network, increasing contributions (mostly for state employees) or improving financial management. A key problem is in political decisions, where several lobbyist groups play an important role. The whole process of health care transition is affected by a significant lack of transparency.

There was no real direct influence of EU leverage in the transition process. A task solved in this respect was the creation of a mutual European health insurance system, which provides health care services to all EU citizens in all EU countries. Another task is tackled in the present programming period, in which establishing an up-to-date health care system is one of the specific priorities of the National Strategic Reference Framework.

Educational System

Summary

The reform of the Slovak educational system is extremely delayed. Reform of primary and secondary education has been launched only recently, while reform of university education has been underway since 2002-2004. The reforms follow the EU agenda of developing a knowledge-based economy. The key problems of the education system are lack of finances, which leads to outflow of skilled teachers and professionals. New systems of evaluation are starting to be adopted. An insufficiently clear conception of education and insufficient adjustment to the needs of the labour market can lead to serious problems in future.

Issue: General situation

Slovakia's educational system is divided into three levels. Primary education lasts nine years and children enter the school system at the age of six. Secondary education is provided in a wide range of secondary schools. At present, secondary schools are oriented mostly to general education and preparing students for universities. Vocational education, which was highly developed in the past and provided skilled labour force, is facing extreme decline. Higher education is provided in the dense network of universities and colleges. Most of the university programmes consist of five years of education. There are exceptions of four- or six-year-long

study programmes. At present, two levels of higher education are widespread. A bachelor's degree is obtained after three years and another two years are necessary to obtain a master's degree. Most of the universities offer PhD programmes. PhD programmes are offered also by the Academy of Sciences. According to internal regulations, the Academy provides these programmes in cooperation with universities.

Issue: Reform of the education sector

Education and knowledge are considered to be the key instruments of economic progress in the EU. Slovakia adopted the ideas of Lisbon in the general framework. The actual steps made in the recent past are contradictory. The reform of the educational system is extremely lagging behind. The main focus was given to the reform of higher education. Reform of primary and secondary education is the most recent task. More than 15

Decentralised management at each level of the education system should be ensured

years of decline seems to be a crucial problem, and bringing Slovak education to its pre-transition level will be hard and costly. The key problems are lack of finances for infrastructure, low wages and a rigid system of management. The present educational system is rigid and clumsy. It should be transformed into a system which will flexibly react to changed demand from the labour market and general society. Decentralised management at each level of the education system should be ensured.

The first "cosmetic" reform of primary and secondary education started after the social changes in the early 1990s. This reform was basically oriented to introducing a new "market ideology" into the school curriculum. School boards were also introduced. School boards allowed parents to control school management. This reform also allowed establishing private secondary schools. The transition period had a negative impact on secondary vocational schools. In the pre-transition period they provided a wide range of vocational education and secured sufficient supply of highly skilled labour force. Because of the lack of a clear vision for the educational system and attention to other issues, this part of the educational system remained on the edge of interest. Problems in the manufacturing sector, stagnation of construction led to a decrease in demand for this type of education. After the economic recovery, new industrial enterprises did not focus on this problem either, as there was still some supply of skilled labour force on the labour market. This development led to the present critical situation. This kind of schools practically no longer exist and manufacturing is starting to face a lack of skilled labour force. General secondary education prepares students for universities but not for the labour market.

In August 2000, the government adopted a framework of university education development for the 21st century. In 2002, new university legislation was approved. This legislation was amended in 2003. The key idea of this reform is to guarantee a high level of education for all citizens who are interested and able to finish it. This new legislation has to strengthen basic and applied research and so improve the quality of PhD study. It should create conditions for multi-source financing as well as increase subsidies with the objective of reaching the level of developed OECD countries. Special care should be given to social support for students. Establishing of new private universities should create a suitable competition environment. The key motto of the reform is student orientation of education. The idea of the new educational system is based on innovative approaches to involve students in higher participation in the system.

Issue: External evaluation, inspection and quality of education

Evaluation and supervision of education quality is within the competence of the state school inspectorate. This inspectorate serves as a state control

over the pedagogical management level, level of education as well as physical facilities of schools. The head of the inspectorate is the General School Inspector.

Quality of education is reported in annual reports on the state and level of education and schooling in school and school facilities. The last report is for the 2006/2007 school year. It reports that the level of primary school education is very good in less than 6% of the inspected schools. A good level of education is provided in more than 73% of the inspected schools and, a fair level in about 20%. An insufficient level of education was not found in any school. The level of education in secondary schools is considered (by the same report) to be good or fair in the majority of schools. The critical issue is that "very good" assessments were reported very seldom. The level of university education can be considered problematic. None of Slovakia's universities or even colleges are present in the last list of the world's top 500.

Issue: Teacher training and career

Projects on primary and secondary school teacher's training and careers have started only recently. With the support of the ESF as well as the legislative framework, teachers are able to increase their qualifications. The main idea of encouraging teachers to increase their qualifications is connected with an increase in earnings. Teachers receive qualification points while attending extra training and education. These points are taken into account in determining their salaries.

Training of university teachers is connected to strengthening university research programmes and PhD and post-PhD programmes. One of the key issues in this respect is the low finances in universities. The fresh and new knowledge of PhD graduates is quite often wasted due to lack of financial resources. After completing their PhD studies, these people leave university without further dissemination of their knowledge to students.

Issue: Financing of education

Free education is one of the constitutional rights. This is reflected in the financing of the school system. Education (except private schools) is free of charge. Experiments to introduce paid university education were made in 2004. This idea did not meet with understanding from the public, especially from new students, and naturally failed. At present, universities are financed based on the number of students. This is reflected in the increase of supply of university education, which leads to an increase in the number of students. Because of demographic changes and decreasing young people, the growing supply of university education is naturally reflected in the quality of students and education.

One of the key problems is the inexistence of any clear education conception and analyses of future demand for people's education at all

levels. This can end in a situation where we will have a really well-educated population, which will not meet the needs of the labour market.

Slovakia's educational system is in deep recession. There is an urgent need to improve the quality as well as the management of schools. The problematic shape of the sector is also

indicated by the PISA survey. The results have shown that the educational level is below average. The share of students who reached the highest level is decreasing and those at the lowest level is increasing. Based on these results, the most necessary is the reform of primary schools. The highest impact on results was caused by socio-economic factors. One of the most problematic issues in the test was the selection of important information and facts (Rehus, 2008).

Slovakia's educational system is in deep recession. There is an urgent need to improve the quality as well as the management of schools

Conclusion

The educational system in Slovakia is under deep reconstruction in recent times. Not much was done during the transition period in this respect. Extreme effort is needed to rebuild the Slovak educational system and secure its competitiveness in the EU environment. It is highly necessary to use EU support as well as public expenditure to create a modern educational system which will provide a skilled and educated labour force. One of the important factors is the use of wide European support and knowledge to rebuild the educational system. Implementation of all EU requirements and recommendations meets with important obstacles in terms of financing.

J

ustice and Home Affairs

Summary

Since EU accession, the number of statistically recorded criminal offences has been declining; however, the rate of resolved crimes is showing a mixed result. The numbers of hidden or latent crimes, which are not part of the statistics, make it difficult to get a clear picture.

A Special Court with nationwide jurisdiction was established in 2004. Its objective is to break local and countrywide links among the individual state and justice bodies and improve the conditions for independent and effective criminal proceedings in corruption cases.

Land and sea border checks have been abolished as of December 2007, while restrictions on air borders were lifted in March 2008, according to the decision taken at the Council meeting in Brussels. Slovakia is currently conducting its Schengen action plan for the years 2008-2009.

Issue: Crime rate, criminality

Since Slovakia's accession to the EU in 2004, there has been positive improvement in crime development indicators. The overall recorded criminal offences were lower in 2007 by 20 442 offences (approximately -16%) as compared with the year of accession. The rate of resolved crimes also went up and reached 41.5 %. A more detailed look at the specific types of criminal offences confirms this trend. The number of homicides went down from 122 homicides a year to 89 homicides a year with the rate of resolved crimes at 78.7%. The number of recorded robberies went down by 727 but the percentage of resolution is still not reaching satisfying values. The rate of resolved crimes of this type was only 54.4% in 2007. Although the total number of burglaries went down by 16 253 cases, the rate

of resolved crimes has not been improving since 2004. In the 2004-2007 period, the rate of resolved crimes went down from 30.2% to 23.2%.

Development of criminal offences according to group classification shows a mixed picture. The number of criminal offences related to economic criminality went down by 17 053, but the percentage of resolved crimes remains very low (23.5% in 2007). Violent criminality went down by 4 135 offences but the rate of resolved crimes also went down by two percentage points, to 70.1%. In the moral criminality group only minor changes occurred. On the other hand, in the field of other criminality the

number of criminal offences went up by 1 241 cases and the rate of resolution dropped by 3 percentage points.

In general, the development in the field of criminality is constantly improving. The number of statistically recorded criminal offences has been declining. On the other hand, the rate of resolved crimes is showing a mixed result. The numbers of hidden or latent crimes, which are not part of the statistics, make it difficult to get a clear picture. In Slovakia, there is no possibility to obtain relevant numbers related to hidden criminality; therefore it is very difficult to make any definitive conclusion about the real development of criminality. According to statistics, the development is quite positive. However, the real number of criminal offences can be much higher than the statistics show.

The number of statistically recorded criminal offences has been declining

Issue: Functioning and reform of the justice system

In Slovakia, there is a difference between general courts and a separate court, which is the Constitutional Court of the Slovak Republic.

The system of courts is composed of:

- The Supreme Court of the Slovak Republic
- regional courts
- district courts
- and military courts

The courts decide in civil and criminal matters, they also review the lawfulness of decisions by administrative bodies. They decide in panels of judges unless the law provides that a single judge shall decide in the matter. The Slovak Republic has a two-level court system. District courts are in charge of proceedings at first instance. Regional courts hear cases as appeal courts. The Supreme Court of the Slovak Republic has the function of an appellate review court. Being the supreme judicial body, the Supreme Court of the Slovak Republic never acts as a first instance court. With the accession to the EU, an Agent before the EC Court of Justice and the EC Court of First Instance was appointed (Juraj Čorba).

Making the fight against corruption and organised crime more effective requires specialisation and coordination of the work of all criminal justice agencies. A Special Court with nationwide jurisdiction was established in 2004. Its objective is to break local and countrywide links among the individual state and justice bodies and improve the conditions for independent and effective criminal procedure in corruption cases. The powers of the Special Court include the most serious criminal offences in the area of financial, property crime, crime of corruption, and organised crime. In recent years, several reforms have been implemented, which include the following measures:

- Self-governance of judiciary;
- Increase in the financial remuneration of judges and other respective personnel;
- Upgrade (modernisation) of the judiciary and prisons;
- Implementation of new procedures improving the overall efficiency of the judiciary;
- Re-codification of criminal law;
- Implementation of alternative solving of disputes;
- Maintaining national sovereignty in criminal and family law.

Despite these positive changes, there are still lots of problems to be solved. The most pressing issues are connected with effective law enforcement, which is seen as the main liability in the judicial system.

Issue: External border management and Schengen agreement implementation

Land and sea border checks have been abolished as of December 2007, while restrictions on air borders were lifted in March 2008, according to the decision taken at the Council meeting in Brussels. Prior to the accession to the Schengen area, a large number of tasks had to be done. The Schengen Action Plan, a document adopted by the government in September 2001, was the common basis for cooperation between relevant ministries and headed by the President of Slovak police. According to the document, 15 special working groups were created, composed of the respective representatives of government institutions related to the implementation of the *acquis*. The most relevant areas covered were asylum policy, visa policy, external border checks, and implementation of the Schengen Information System (SIS).

The obligation to fulfil the criteria in the accession treaty as well as in the next phase of the Schengen agreement implementation created a strong leverage on domestic policy. The strongest influence on implementation in this particular area of European cooperation was in Slovakia in the last year before entry into the Schengen area. The delays in implementation of various aspects of the Schengen *acquis* endangered the accession of Slovakia to the Schengen area. Numerous revisits of the SCHVEAL working group (Schengen assessment committee for Slovakia) oriented on the evaluation of personal data safety, external border checks, aerial borders and the national headquarters SIRENE, together with increased efforts in Slovakia, contributed to the accession to the Schengen area together with its other neighbouring EU countries. Slovakia is currently conducting its Schengen action plan for the years 2008-2009.

Conclusion

The leverage of EU policies in the field of justice and home affairs was strongly present in the accession negotiations as well as in the post-accession period. The Schengen Treaty implementation was one of the most demanding tasks to be carried out in Slovakia. The necessary legal and institutional changes related to *acquis* implementation brought several positive contributions to Slovak law. The abolition of border checks, increase in police cooperation between member states, simplification of legal contact between institutions in justice affairs, implementation of modern technical means in legal assistance for citizens, mutual acceptance of legal documents and many other measures improved legal standards in Slovakia. The more pressing issue remaining is the efficiency of law enforcement.

Migration

Summary

Migration in Slovakia is based on demographic as well as on economic factors. Increasing life expectancy and decreasing fertility rates are leading to an ageing population with all its consequences.

Regional disparities in economic development are the key driving force of migration. People from all over Slovakia are seeking job opportunities in the capital, Bratislava. Another important movement is from rural areas to regional centres. Mobility within the rest of the country is more complicated due to bad infrastructure. The human factor plays a very important role too. The opening of the labour markets of EU countries resulted in a significant outflow of young and skilled labour force. In some sectors (such as construction) there is already the phenomenon of "hands drain".

Slovakia has become an important destination or transit country for third-country nationals due to EU membership, though the Slovak asylum policy is one of the most restrictive in the EU.

Issue: General demographic trends

Migration should be considered in a wider demographic context. Slovakia is facing (and if not yet for sure will do so) the same demographic problems as the rest of the EU. The country's total population is stagnating at the level of 5.4 million citizens. Present forecasts are that it will decrease in the next few decades, to a level below 5 million. The share of males and females is rather similar, except for a higher share of females in the elderly age group.

Life expectancy has increased from 68.6 years for males and 76.7 for females to 70.5 years for males and 78.08 years for females. We can consider this as a positive development. The difference between life expectancy of males and females remains almost unchanged – eight years. On the other hand, the fertility has significantly decreased. In the last ten years it has declined from 1.37 to 1.25 children born/woman. This trend can be more visibly observed from the beginning

of the transition period, when the total fertility rate in 1988 was about 2.1 children born/woman. The reasons are in the post-transition recession⁵

⁵ In the late 1980s, there was strong state support for families.

and uncertain expectations, but also in the growing opportunities for young people and slight shift from family orientation to self-realisation in the field of career.

Increasing life expectancy and decreasing number of newborns naturally results in an ageing population. Although this problem is not so critical yet, forecasts warn that it will become more and more serious. The old dependency ratio⁶ will increase from less than 20% in 2007 to nearly 40% in the next 15 years and even to almost 60% in the next 25 years. The index of ageing⁷ will decline, and this can cause serious pressure on the social security budget with respect to the pay-as-you-go pension system. The breaking point is estimated to come in 2030, when an extreme year-to-year change in birth rates will occur in full strength. The rather large population cohorts of the late 1980s will retire and at the same time the rather small transition cohorts will be of economically active age.

At present only two regions are with unchanged reproduction behaviour (Northern Slovakia and Eastern Slovakia). The main reason in the northern part of Slovakia (Orava a Kysuce in Žilinský kraj) is basically religious. This region has a devout Catholic population reflected in the number of children. The situation in Eastern Slovakia as well as in other not very developed districts, such as Banskobystrický kraj, is quite different. The natural increase is kept by a large Roma population.

In the last population census (in 2001), just fewer than 90 000 citizens declared themselves as Roma. The real estimations (from 2000) place their number at more than 379 000. The most probable reason for this extreme discrepancy is that many Roma declared themselves as Slovaks or Hungarians. Exact data on ethnicity are available only for the years until 1989. After the change of system, this question was abandoned due to human rights considerations. According to Slovak legislation, the ethnic affiliation of a person is based only on his/her self-identification. There is no legal authority to control or prove this personal statement. That is the reason why people may declare themselves as Slovak or Hungarian while in fact they are ethnic Roma.

Slovakia can be considered to be a multi-ethnic country. About 20% of the population (according to estimates) is formed by ethnic minorities. There is no doubt that the Roma ethnic minority is the most problematic. In this case differences reached highly conflict level, so we can talk about a Roma problem. This multidimensional problem is hard to solve. The Roma population is characterised by low level of education and skills. In combination with low attitude to work it is the core of long-term unemployment quite often reflected in misuse of the social security system.

⁶ The number of population in post-productive age versus population in productive age.

⁷ The number of population in post-productive age versus population in pre-productive age.

Issue: Internal mobility of labour force

Migration within Slovakia is a very important labour force factor. There is a significant migration trend due to strong regional disparities (described in Subsection B.10). Bratislavský kraj is one of the most interesting regions in this respect. We can observe two main migration directions here: (1) People from other parts of Slovakia moving mostly to the city of Bratislava; (2) Permanent residents of the capital moving to neighbouring districts with relatively good connectivity while keeping their jobs in Bratislava. As real estate prices are rather high because of low supply, lots of working people commute on a daily or weekly basis.

The situation is more complicated in rather underdeveloped rural districts with relatively high unemployment and long-term unemployment rates. There is a significant problem with labour force mobility in these regions. Quite often, jobs may be available in a neighbouring district, but unemployed people will refuse to take them. One of the factors for this is the underdeveloped infrastructure which increases the time spent on travelling to/from work. Another factor is the relatively similar amounts of social benefits and monthly earnings. If unemployed people consider those two factors, they can find a simple solution to the dilemma of whether to spend significant time travelling to/from work to earn a wage close to social benefits, or not to travel. There is also a problem with permanent change of place of residence. People in these regions are strongly connected to their property. They are not willing to sell their houses because of heritage. The more important factor is that they cannot buy satisfactory property for the money they will earn from selling their present one.

There is a concerted effort to increase labour force mobility in these regions. Lots of projects are financed from national sources as well as EU funds. Unemployed can ask for subsidies for transportation and even for moving from the disadvantaged regions. Slovak labour market experts, however, consider that this support is not sufficient.

Issue: Immigration – outgoing migrations

Free movement of labour force is one of the most important attributes of the EU. In the case of the Slovak Republic as well as in the case of other new member states, this is not the perfect case. After long and protracted accession negotiations, a compromise model of labour force movement was agreed. This model reflects the position of Germany and Austria to protect their national labour force for 2 + 3 + 2 years. At the same time, it opened the labour markets of other countries.

In the first stage (after 1 May 2004), only Ireland, Great Britain and Sweden opened their labour markets to workers from the new member states.⁸ Great Britain as well as Ireland tightened the access to social benefits. Great Britain introduced the Workers Registration Scheme.

⁸ Naturally all new member states opened their labour markets to each other.

In 2006, Greece, Finland, Denmark and Italy completely opened their labour markets. Recently only Austria, Germany and France remain on the position of restricted labour markets. They still consider their labour markets as highly endangered. Belgium still uses labour market restrictions but in limited form. It is considered to have lifted some of the restrictions because of serious problems.

Opening labour markets made foreign working experience very attractive. The most popular destinations are Great Britain and Ireland (basically due to language considerations). Naturally, Germany, the Czech Republic and Austria are of the same importance. At the same time, Hungary is an important labour market for the Hungarian minority in South Slovakia. There are estimates that about 200 000 people are working abroad in total.

Great Britain and Ireland are attractive for young people with certain language skills. The main sectors of interest are services (hotels and restaurants) and construction. Young graduates are rarely employed in a field corresponding to their qualification.

Austria and Germany are attractive mainly for skilled health care professionals and craftsmen. These people quite often commute on a daily or weekly basis. Illegal work or semi-legal provision of services is quite a common practice.

The Czech Republic's labour market has a special position. No special needs for language skills, a similar educational system and good personal connections lead to a situation where the Czech labour market provides also work opportunities for low-skilled persons. Working positions for highly educated young people are natural. Migration of young people to the Czech Republic is increased also by the possibility to study at Czech universities without any serious problems.

Hungary is a popular commuting territory for the Hungarian minority from the south of Slovakia. Automotive and other industry sectors situated near the cities of Győr and Komárom provide employment opportunities for semi-skilled workers who have almost no language problems.

Issue: Regulated immigration (e.g. blue/green card)

Slovakia's asylum policy is considered as one of the worst in the EU. In fact, finding a solution to problems with immigration has been postponed due to the need to solve "more crucial issues". These problems are mostly connected with immigrants from third countries. Immigration of people from developed countries is basically connected to working positions and therefore is not a problem. Since 2008, Slovakia has entered Schengen and so its immigration rules are converging to EU immigration policy.

Issue: Immigration from the EU

Slovakia cannot be considered as very attractive for immigration from the EU. Labour migration is restricted mostly to professionals employed

in multinational companies operating in Slovakia. The Bratislava region is attractive for people from the rural areas near the Czech and Slovak borders. Relatively low prices of real estate in rural areas of Slovakia, a nice environment and generally low cost of living is the reason for the country's increasing attractiveness for pensioners from the EU-15.

Issue: Illegal immigration

As an EU member, Slovakia is becoming increasingly attractive for people from non-EU countries. The situation is complicated by the border with Ukraine, which is an important crossing line of illegal migrants. According to a recent UNHCR report, there were more than 5 200 applications for asylum in Slovakia in 2006-2007. The main countries of asylum seekers' origin are the Russian Federation, Caucasus countries, India, Bangladesh, India, Pakistan and Arab countries. Most of these asylum seekers at present can be considered as economic refugees using the Slovak Republic as a gate to other EU countries. Another group of migrants are from China and Vietnam, and they have relatively developed and settled communities. This migration can be considered as semi-legal. There is also demand for Vietnamese workers from the side of Slovak enterprises.

The general attitude of the majority population to migrants is relatively cautious. According to a recent UNHCR study, only 53% of respondents would accept a foreigner as a neighbour. Every second respondent would not be pleased if some of their relatives marry a foreigner. The attitude of the population is based on prejudices resulting from ignorance. Fears are also increased by the risk of "stealing jobs". Religious differences and world conflicts play an important role too. Some hidden intolerance is present also in conflicts of the majority Slovak population with the Hungarian and Roma minority.

As regards legal emigration outside the EU, the late 1990s were an important period. Weak expectations regarding the development of Slovak society led to a new wave of emigration from the country. The main destinations were Canada and Australia. A typical sample of emigrants were young educated couples with one or without children. The main reason was to secure better living conditions for themselves and their families.

Conclusion

The demographic development in Slovakia is similar to that in other EU countries. Although the ageing problem is not significant at present, in the near future it will cause serious problems mainly with respect to the public budget and pension system. One of the possibilities to improve this situation is to stimulate immigration of skilled labour force even from countries outside the EU. Slovakia is not really a friendly place for immigrants, especially for those from the not developed world. Immigration from EU and other developed countries is considered as more positive.

There are significant problems in migration within Slovakia. The reluctance to migrate is significantly affecting unemployment. EU fund support, mainly the European Social Fund, is widely used to support mobility of population in Slovakia. Slovakia's migration policy has been in line with EU regulations since 2008.

R Research and Innovation

Summary

The strategic goal of Slovak economic policy, proclaimed in a number of documents, is to build long-term development and prosperity on the knowledge-based economy: education, innovation, knowledge and information technologies. Contrary to this proclamation, construction of a national innovation system is insufficient and has many shortcomings. Innovation policy has not been a pivotal priority of the governmental agenda up to now.

The creation in the 1990s of a supreme advisory body in the field of science, technology and innovation was a complicated and lengthy process. Activities in the field of science and technology policies and promotion of innovation dynamics controlled by the Ministry of Education and the Ministry of Economy have not been well coordinated. Therefore, a lack of cooperation and partnership is one of the causes of the weak connections between R&D and the business sector.

Consequently, the Slovak economy records an extremely low level of commercialisation of R&D effects. The Slovak innovation system is more oriented to knowledge production and knowledge transfer than to knowledge use.

General State of the Sector

The Slovak innovation system comprises a number of public-sector, private and non-profit organisations and institutions. The majority of those in the public sector are controlled/supported by the Ministry of Education or the Ministry of Economy.

The Ministry of Education designs national science and technology policies. Its organisational division – the Science and Technology Section of the Ministry of Education – formulates the development concepts of national science and technology policies and policy instruments fostering R&D. Another division – the International Cooperation Section of the Ministry of Education – ensures participation and cooperation in international programmes related to science and technology. In the previous years, the Ministry of Education created certain key legislation elements of the national innovation system: the Law on Science and Technology Assistance Agency, the Higher Education Law, the Law on Science and Technology, and the Law on Slovak Academy of Sciences.

Issue: Model of research and innovation system in Slovakia

In recent years Slovakia has shown excellent macroeconomic results. It has enjoyed economic boom and macroeconomic stability. However, in the field of innovation and technology development, Slovakia ranks among the poorest performers in the European Union (EU). According to the Summary Innovation Index (SII), Slovakia significantly lags behind the average innovation and technology development of the EU countries. The Slovak Republic ranked in 2006 on the 28th place of 34 analysed countries (European Commission, 2007b). The Slovak economy recorded some above-average results in youth education attainment level (119% of the EU-25 average), ICT expenditures (105% of the EU-25 average) or employment in medium-high/high-tech manufacturing (141% of the EU-25 average). High ICT expenditures and high share of employment in medium-high/high-tech manufacturing are the effects of the huge influx of foreign direct investments in the previous period and purchases of branches of the trans-national corporations. Great inflow of foreign direct investments is attracted mainly by the low-wage character of the Slovak economy, and is aimed at technology diffusion rather than creation of innovation.

Figures by the European Innovation Scoreboard indicate an under-average and poor performance of innovation and technological development

The other figures by the European Innovation Scoreboard indicate an under-average and poor performance of innovation and technological development: public R&D expenditures (38.5% of the EU-25 average), business R&D expenditures (21% of the EU-25 average), early-stage venture capital (17% of the EU-15 average). Some of the indicators, mostly in patent activity, show crucial inefficient performance: EPO patents per million population (6% of the EU-25 average); USPTO patents per million population (6.5% of the EU-25 average) or triad patents per million population (0.9% of the EU-25 average). Based on the SII score, Slovakia is included in the group of countries which are trailing. Despite positive tendencies in most areas related to convergence goals, R&D expenditures still remain the most neglected area. The share of R&D expenditures on GDP is constant declining and there cannot be seen any positive trend in the near future. Although Slovakia has an established tradition of university education, university/industry links and the associated transfer of know-how to create value-added production for export has not developed.

Issue: Institutional framework

The R&D field in Slovakia consists of:

- **The Slovak Academy of Sciences (SAS)** is Slovakia's foremost institution for the promotion and support of basic, strategic and applied

research. The SAS's primary mission is furthering of knowledge and understanding of the natural, technical and social sciences, and providing the necessary scientific foundation for the advancement (Slovak Academy of Sciences, 2005). The SAS publishes 62 scientific journals and about 80 monographs annually. It is subdivided into three scientific sections encompassing 56 scientific institutions and 12 auxiliary organisations which provide supporting activities.

- **Universities and Higher Education Facilities** represent another relevant R&D capacity. Slovak universities have very limited resources for R&D activities. Consequently, the research quality in many of them is mostly poor (European Commission, 2007a). They also face a brain drain of teachers and students.

- **The VEGA Grant Agency** is a scientific grant agency of the Ministry of Education and the SAS. It was established in 1996.

- **The Slovak Research and Development Agency (SRDA)** is the only research and development grant agency in Slovakia. It was established in 2005, as the successor of the previous agency – the Science and Technology Assistance Agency – functioning since 2001. The SRDA supports basic research of superior quality, applied research and development in all science disciplines and technologies, including support of interdisciplinary and multidisciplinary research based on top quality.

- **The Centre for Advancement, Science and Technology (SARC)** was established in 1991. The main missions of the SARC are supporting activities of transfer of technologies, promoting of management in the field of science and technology, and promotion of the Slovak organisation in European R&D projects and programmes. The SARC also helps to commercialise R&D results.

The second group of elements of the Slovak innovation system are institutions and agencies controlled/supported by the Ministry of Economy:

- **The National Agency for the Development of Small and Medium Enterprises (NADSME)** was founded in 1993 as a joint initiative of the Slovak government and the EU PHARE programme. Since 1997 it has operated as a non-profit organisation involving three shareholders: the Ministry of Economy, the Entrepreneurs Association of Slovakia and the Slovak Association of Personal Businesses. The NADSME's primary mission is supporting small and medium-sized enterprises (SME), including innovation development. The NADSME runs supporting programmes and provides fund promoting: stimulation of SME sector growth; improvement of the competitiveness of SME; globalisation, penetration into new markets; facilitation of access of SME to capital. It has established a network of Regional Advisory and Information Centres (RAICs), Business Innovation Centres (BICs)⁹ and First Contact Points.

⁹ There are five BICs in Slovakia. BICs provide services to business focusing on innovation consulting, international technological transfer, financial consulting, regional development project management and investment consulting.

- **The Slovak Investment and Trade Development Agency (SARIO)** aims at attracting foreign direct investments and developing of the FDI projects up to their final stage, decreasing unemployment rates and supporting exports. The SARIO administrates selected measures of Structural Funds and in cooperation with NADSME implements measures related to business incubators, technology parks and R&D centres.

- **The Slovak Innovation and Energy Agency (SIEA)** is an organisation focused on development and promotion savings and rational use of energy and alternative energy sources.

- **The Innovation Fund** is a non-investment fund established in 1997 to support development of science, R&D and to accelerate innovation development in the Slovak Republic.

Apart from institutions controlled by the Ministry of Economy and the Ministry of Education, the national innovation system is supported by:

- **The Slovak Guarantee and Development Bank (SGDB)** which, in addition to traditional banking services, operates financial intermediation of risk capital contracts – Programme I2 – The Business Angels Network.

- **The Slovak Venture Capital Association (SLOVCA)**. Its primary purpose is increasing awareness of the public to the availability of venture capital to entrepreneurs, as well as to other investment and banking institutions, and economic, political and regulatory bodies in Slovakia.

All the above-mentioned agencies and funds are contributing to the development of the private sector in their respective areas. The most important and most relevant institutions are the Slovak Academy of Sciences, the Slovak Research and Development Agency (SRDA), the Slovak Investment and Trade Development Agency (SARIO), and the National Agency for the Development of Small and Medium Enterprises (NADSME). The Venture Capital Association together with the Slovak Guarantee and Development Bank are not major players in the development of SME oriented on innovation.

Issue: Brain drain

In Slovakia, statistical data on migration classified by level of education are available only on a very limited scope. Therefore it is difficult to draw unambiguous conclusions about this topic. A survey conducted by Baláž and Kollár (2003) tried to estimate the propensity of students to emigrate and stay to live abroad after graduation. The survey covered 280 young people, mainly students in the last year of their university studies. The group was divided into three subgroups: (a) professionals who already had experience abroad, (b) university students and (c) au pairs (most of the au pairs already had a university degree or were about to obtain it). The results of the survey are not optimistic and indicate that there is a brain drain and that it is likely to increase in Slovakia. About 28.2% of the people in this survey who already had experience abroad are willing to emigrate again. Similarly, 45.5% of students and 44.3% of au-pair workers are ready

to emigrate too. Although this study cannot be used as the only proof of these negative tendencies, a number of other studies confirm the existence of a brain drain in Slovakia. The main reason behind this fact is the lack of domestic funding and modern equipment necessary to conduct scientific experiments, more career opportunities abroad, the chance to develop own skills and gain experience and the possibility to learn a foreign language as well.

Conclusion

Although the EU is still stressing the importance of research innovation and education, its competences in this area are limited and so is the EU leverage on member states. The Lisbon agenda objectives are being fulfilled in every member state differently, and the European Commission cannot legally enforce the fulfilment of these objectives. The possibility to participate in Community research programmes such as the 7th Framework Programme offers possibilities for the domestic R&D and innovation sector to be part of European research and receive funding for its research projects. The participation of scientists in European science teams could bring positive spill-over effects to the national economy. The introduction of EU leverage, in the form of common research policy, could bring some impetus into this area, but would not be very reasonable. The research, scientific and innovation capacity of each country is highly path-dependent and with high probability any kind of such a leverage would not be very effective. Finding the appropriate model of stimulating the private sector on the one hand, and the public sector on the other hand, would increase the propensity to investments in the field of innovation policy. The main measures, which create favourable preconditions for such policies, are (Frank, Jeck 2007):

- presence of a central government body responsible for the conduct of innovation policy;
- long-term, clear, coherent innovation policy capable of reflecting global challenges and changes;
 - concentration of competencies, resources and funds;
 - innovations as growth factor ought to be a priority of government economic policy;
 - focus on selected and promising branches/sectors generating comparative advantage;
 - implementation of Structural Funds support in the innovation funding, and
- finding the balance between private and public sector funding and support.

Agriculture and Rural Development

Summary

Slovakia can be characterised as a rural country. The only region in Slovakia which can be called urban is the Bratislava region. The share of agriculture in the total gross value added has declined from 5.4% to 2.9% in the last ten years. The main priorities of intervention under the Rural Development Plan 2004-2006 (RDP) and under Sectoral Operational Programme, Agriculture and Rural Development Plan, 2004-2006 (SOP AaRD) were the support of productive agriculture and the support of sustainable rural development. Total allocation from 2004-2006 was budgeted at €326 million, from which the first priority received €240 million and the second €79 million. The financial allocation for technical assistance was budgeted at €7.2 million.

Issue: Socio-demographic trends in rural areas

Slovakia is predominantly a rural country. On the NUTS 2 level, three of four regions – West Slovakia, Central Slovakia and East Slovakia – are classified as other rural regions.¹⁰ The only region in Slovakia which can be called urban is the Bratislava region. The share of agriculture in the total gross value added has declined from 5.4% to 2.9% in the last ten years. The number of employed declined from 181 000 in 1998 to 99 000 in 2007. The average wage in the agriculture sector in 2007 was 78% of the total national average wage.

At the NUTS 3 level, using the above-mentioned classification, the regions of Banská Bystrica and Nitra are mostly

rural, Trnava, Poprad, Žilina, Košice and Trenčín are other rural regions, and Bratislava is the only mostly urban region in Slovakia. The dominant share of rural areas in Slovakia only emphasised the necessity to adopt and implement a countrywide, coherent and effective rural development strategy, which will address the majority of the Slovak population.

¹⁰ The level of rurality is classified as follows:

1. Mostly rural areas – share of population above 50% in rural municipalities with a population density under 150 people per square kilometre.
2. Other rural regions – share of population in rural municipalities about 15-50% of the region's population.
3. Mostly urban areas – less than 15% of population living in rural municipalities.

An official Rural Development Programme of the Slovak Republic 2007 – 2013 was adopted on 20 November 2007 in Brussels at the Committee for Rural Development without substantial obligations. The European Commission assessed this document as balanced and covering the whole territory of Slovakia. The main accent of this document is focused on investment to agricultural production and processing industry as well as environment and rural territories support. The overall financial allocation for the seven year period related to objectives mentioned in this Programme is €2 562 585 914, from which €593 167 836 covered from national resources.

The Programme has identified several opportunities and strengths of the rural regions as well as threats and weaknesses (Ministry of Agriculture, 2007).

Among the strengths of rural regions are:

- Relatively high population density;
- Adequate size structure of agricultural enterprises;
- Variety of potential uses of agricultural land and particularly of natural meadows and pastures, a tradition in agricultural and forestry activities;
- High production potential of forests;
- Advancing intercommunity and cross-sectoral cooperation.

Among the opportunities are:

- Minimising dependence upon primary agricultural production;
- Creating and/or sustaining jobs;
- Diversifying the rural economic foundations;
- Utilising local natural resources;
- Inflow of capital to rural areas;
- Developing competitiveness of the agrarian, food and forestry sectors;
- Opportunity for introduction of new technologies.

Among the threats are:

- Low workforce mobility;
- High percentage of rural population in post-productive age and continuing outflow of workforce from rural areas;
- Underdeveloped land market as an essential prerequisite to entrepreneurial operations in agriculture;
- Growing unemployment in rural areas, continuous decline of rural settlements and municipalities.

And finally among the weaknesses are:

- Unfavourable population trends;
- Lack of job opportunities;

- Migration of rural population to urban areas;
- Underdeveloped human resources;
- Unfavourable demographic structure of rural population and high unemployment levels;
- Underdeveloped agricultural land market due to dispersed land ownership structure.

This SWOT analysis conducted by the Ministry of Agriculture represents a thorough summary of relevant factors, which are the main determining force behind the past, present and future development of the rural regions. The eliminations of weaknesses and utilisation of opportunities with respect to the potential threats could make a solid foundation for future improvement in this policy area. In terms of the general conditions, the strategy respects the basic principles of the overall EU policy.

Issue: Effectiveness of EU funds and subsidies

The main priorities of intervention under the Rural Development Plan 2004-2006 (RDP) and under Sectoral Operational Programme, Agriculture and Rural Development Plan, 2004-2006 (SOP AaRD) were the support of productive agriculture and the support of sustainable rural development. Total allocation from 2004-2006 was budgeted at €326 million, from which the first priority received €240 million and the second €79 million. The financial allocation for technical assistance was budgeted at €7.2 million.

In 2006, the Agricultural Payment Agency (APA) finished the process of acceptance, evaluation and contracting applications for non-repayable financial contribution under Rural Development Plan 2004-2006 (RDP) and under Sectoral Operational Programme, Agriculture and Rural Development Plan, 2004-2006 (SOP AaRD). The spending of RDP funds in 2006 was affected by several factors, which caused delay in allocation of funds towards projects and applications until the following year, or until 2008. The delay was caused by the laborious and time-consuming implementation of project measures. About 1 069 contracts were finished in 2006. The actual spending of funds in 2006 totalled €156 million of which €104.2 million was paid out to less favoured areas. Overall, some €295.7 million was paid out in 2007, which represents 92.13% of the overall allocation. Lack of data complicates the evaluation of structural support in this area, but it can be concluded that the previous programming period provided necessary experience and support to be applied in the present programming period. The EU leverage in the form of strategic and programming documents provided a framework for the future development in this area.

Issue: Vitality of the agricultural sector; consolidation of land

As well as in other aspects of the CAP, this issue is also under strong influence of numerous existing council regulations of the EC. There can

The regulatory framework of the CAP can be seen on the one hand as positive, addressing the problems on the national level and making them part of a long-term development strategy. However, the scope of regulations and unnecessary bureaucratic burden can be considered as counterproductive

be seen a very strong influence of the legislative framework and funding of the EU which intervenes in most areas related to agriculture and rural development in Slovakia. The primary objectives laid down in the Sectoral Operational Programme Agriculture and Rural Development for 2004-2006 were related to several problems concerning land and legal relationships, in particular in the countryside where it is necessary to solve ownership relationships in respect of land, to reduce the number of land plots and increase their average acreage, make the land market and agriculture more dynamic, and create an ecologically stable landscape capable of further development.

The regulatory framework of the CAP can be seen on the one hand as positive, addressing the problems on the national level and making them part of a long-term development strategy. However, the scope of regulations and unnecessary bureaucratic burden can be considered as counterproductive.

From the start of the Operational Programme to June 2006, the overall area related to the project of land consolidation represented 114 001 ha and 162 212 plots. The area of already finished projects was 83 576 ha.

Conclusion

The Common Agricultural Policy is being successfully implemented together with its second pillar – rural development. The Rural Development Programme of the Slovak Republic 2007-2013 elaborated as an integral part of CAP has clearly a positive influence. This coherent and long-term strategy presents a good precondition to balanced and sustainable rural development in the scope of the 2007-2013 perspective. In the conditions of Slovakia, the leverage effect of this common European policy (mainly the rural development part) can be seen as positive.

Regional Development

Summary

The present structure of regional governance is based on a reform adopted and implemented in 1996. In the past, industrialisation in Slovakia led to the creation of mono-structural micro-regions where often a few large enterprises were located. This limited number of large enterprises, which employed the majority of the labour force in the regions, also presented their main structural weakness. Present regional development is characterised by notable disparities with respect to GDP per capita as well as unemployment rates and wage levels. As a member of the EU, Slovakia is making strong efforts to decrease these disparities.

One of the ways to decrease disparities is using the EU funds. To create a transparent framework, decentralisation was conducted in 2003-2006. Key issues were to transfer competencies and financial resources to regional and local government.

General Context

The present structure of regional governance is based on a reform adopted and implemented in 1996. The administrative structure of Slovakia is based on 2 883 municipalities out of which 138 are considered towns. These municipalities are formed into 79 LAU1 districts (*okresy*), and 8 NUTS 3 regions (*kraje*). In relation to the EU regional policy the four NUTS 2 regions have the highest relevance. Slovakia consists of four NUTS 2 level regions – Východné slovensko, Stredné Slovensko, Západné Slovensko and Bratislavský kraj.

Východné Slovensko represents the eastern part of Slovakia. The majority of population lives in rural areas with weak infrastructure. Industry is situated in a few major cities. Východné Slovensko has good potential for the development of tourism, but weak infrastructure; the necessary skills as well as spirit for development are rather

missing. Stredné Slovensko consists of two regions in central Slovakia. There are huge intraregional disparities in this region. The northern part is considered rather developed. Well-performing industries are typical of most of the major cities. The hilly landscape is properly exploited in tourism. The south of this region is a typical agricultural area with underdeveloped industry. Západné Slovensko is situated in the west of Slovakia. It prospers

The present structure of regional governance is based on a reform adopted and implemented in 1996

from good road and rail infrastructure. This region benefits from historically good and developed industrial traditions. Problematic in this region is the southern and eastern part with majority of agricultural production. The smallest NUTS 2 region is Bratislavský

kraj. It consists of Bratislava – the Capital and surrounding districts. This is a typical metropolitan region. It benefits from its good geographic location near the Czech, Austrian and Hungarian borders.

The centrally planned localisation of important industries during the socialist era led to an “unnatural” regional distribution of energy- and environment-intensive production with low value added. Many of the regions were not able to promote further development of these industries. The inevitable restructuring of these industries during the transition period resulted in a severe impact on employment and overall socio-economic development. After market liberalisation, many of the main enterprises lost their competitiveness, which caused deep structural problems in most of the present NUTS 2 regions (Frank, 2006).

Issue: Cohesion and convergence

Changes in property rights and redistribution mechanisms during the transition made regional disparities quite problematic to manage. Regional policy in Slovakia has been based mostly on proclamations rather than on concrete steps which could create favourable conditions for economic development of these regions.

The further development of NUTS 2 regions will be mostly determined by their current economic position together with the anticipated effects of the regional policy. Positive effects of foreign direct investments, successful application for support by regional development policy and Structural Funds together with national co-financing should create favourable conditions for further socio-economic development. However, we anticipate that the present uneven development of NUTS 2 regions will continue. Nitriansky and Banskobystrický kraj could serve as an example of regions which seem to appear as not problematic on a NUTS 2 level, but on the lower NUTS 3 level their development is highly uneven (Frank, 2006).

The key indicator for regional economic performance, GDP per capita, is available for the NUTS 3 level only until 2005. Data on the labour market are more available. Due to the Labour Force Survey and permanent reporting of National Labour Offices, data on employment and unemployment are relatively sufficient.

Regional disparities reflect the different starting points of development and the impact of economic transitions on the regions. We can observe three main regional economic clusters. Bratislavský kraj is a typical urban conglomerate surrounding the capital city. It is the area where bodies

of general government, seats of national and international companies' headquarters, universities and research organisations reside. This region also profits from its good geographical position near the borders with Austria, Hungary and the Czech Republic. This position makes Bratislavský kraj an important traffic junction with all its positive but also negative impacts. Industrial leading part – western/north tangent with regions Trnavský kraj, Trenčiansky kraj, Žilinský kraj and north of Banskobystrický kraj has well-developed industry. These regions profit from good transport infrastructure and tradition in machinery and electrical engineering. Agricultural clusters such as Nitriansky kraj, South of Banskobystrický kraj, Prešovský kraj and Košický kraj can be considered as rather underdeveloped. Rural areas were traditionally oriented to agriculture and small underdeveloped industry. Decrease of agriculture production and collapse of small industrial enterprises has negatively impacted these regions. The exceptions are central cities like Nitra and Košice.

Issue: Social and economic development situation of the country's regions

The highest share of GDP per capita is in Bratislavský kraj. This region is a typical urban region of a capital city. The production of enterprises operating in Slovak wide territory is statistically reported as of Bratislava. It also provides working opportunities for people from the whole Slovak Republic who commute regularly. Therefore, we have more than official production of this region in numerator (GDP) and less people in denominator (capita). Less developed is Prešovský kraj. It is a typical rural mountainous area of eastern Slovakia. The difference between the best and the worst region increased from 3.3 to 4.2. It can be characterised as an increase in regional disparities. Considering the disp 2 indicator (share of second best region on the worst one) we can observe a quite stabilised trend. We can conclude that Bratislavský kraj can be considered as an exception which is growing much faster than the rest of the Slovak Republic. A natural reflection of this reality is in the regional policy. It is concentrated mostly on development of lagging regions. Since Bratislavský kraj exceeds 75% of GDP per capita of the EU average, it is not eligible for support from EU Structural Funds. On the other hand, increasing internal redistribution can lead to an unnatural slowing down of progress in Bratislava. The key approach of regional policy in Slovakia is based on support of centres of growth. There are strong expectations that this approach will lead to strong multiplication and synergy effects that will secure overall profit of the region.

The economic clustering is visible from the unemployment rate. The lowest unemployment rate is in Bratislavský kraj. This region provides jobs for citizens of other Slovak regions. The highest unemployment rates are in the eastern regions Prešovský and Košický kraj and in the southern districts Banskobystrický and Nitriansky kraj. These regions belong to the agricultural rural economic cluster. The transformation process influenced

these regions by reducing agricultural production as well as increasing labour productivity, which led to a decrease in demand for labour. This, together with the demographic structure of these regions, is the reason for the extreme share of long-term unemployment.¹¹

Issue: Decentralisation and sub-national governance

Decentralisation of governance was conducted in 2003-2006. This reform was based on creation of three stages of governance – municipality, regional government, state. Municipality governments are represented by the city council headed by the chairman. Within municipalities, Bratislava and Košice have an extraordinary position. These cities are divided also into smaller self-governing city districts which act like municipalities. The city as a whole is managed by a general city council headed by the mayor. Regional governments¹² are set on the level of NUTS 3 regions. They are represented by the regional council headed by the chairman (župan). The key goal of decentralisation was to create a transparent system of competencies which should decrease state bureaucracy and optimise the governing structure. It should remove complicated governing relationships between the state and regional or local level.

The key competences of municipalities are housing of citizens, pre-school and primary school education, schools of art and local leisure time activities, culture, health care. They also organise elections and votes. Local governments are also responsible for waste disposal and supplying of water, gas and electricity. Another field of activity is territorial planning, local development and construction issues. In the large cities local authorities organise public transport and communications. The legislation process of city councils is legitimised in the general mandatory rules.

The key competences of regional governments are regional planning and regional development. The most important sphere of activity is redistribution of European funds on regional and local level. Regional governments manage secondary schooling, health care, social issues and international cooperation. They are responsible also for management of 2nd- and 3rd-category roads. Regional governments control the performance of municipal governments.

The process of decentralisation was not an easy task and has not been completed yet. Finding an optimal structure of competencies needs more time and practical experience. Major problems occurred mostly in the first years, when competencies were not covered by appropriate financial sources. Changes in the financial redistribution process solved this problem.

¹¹ More than 12 months and more as well as more than 24 months and more.

¹² Vyšší územný celok (Slov.) = upper tier unit.

Issue: Ability to absorb SF on local and regional level, and administrative capacity

The lack of administrative capacities on regional level is even more visible than on the national level. The absorption ability of each region is different and besides the available administrative capacity, it depends on the quality as well as quantity of the project proposals. According to available data from the Ministry of Construction, the absorption rate in regions was 35% in 2007. Other relevant obstacles, which hampered the process of absorption, were:

- Lack of basic information and propagation materials
- Lack of information and experience of applicants and relevant staff
- Bureaucratic burdens
- Formal mistakes in submitted proposals and projects
- Public procurement delays
- Inefficient work of evaluation commissions, etc.

Despite these negative obstacles, the experience from this period could serve as a good precondition to eliminate these shortcomings in the present financial perspective 2007-2013. Some of them are being gradually eliminated, but some of them are still present and still subject to significant delays.

Issue: Ability to establish public-private partnerships

The use of public-private partnership in Slovak regions is still insignificant. Public-private partnership is considered to be useful only on the national level in the field of highway and motorway construction, but even on this level it is still a matter of deep and difficult discussions.

Conclusion

Due to the high redistribution in the centrally planned economy, income and productivity differences in the respective regions were minimal. Changes in property rights and redistribution mechanisms during the transition made the differences more evident. However, the economic and social policy was not prepared to deal with these changes. In the past, regional policy in Slovakia was based mostly on proclamations rather than on concrete steps which could create favourable conditions for economic development of these regions.

Projects regarding decentralisation of state administration and fiscal decentralisation were implemented to soften state bureaucracy and create an effective network of public governance. This process moved competencies to the regional and local level. This was the key issue

The process of decentralisation was not an easy task and has not been completed yet

to create a good environment for EU funds absorption. The accession negotiations together with the subsequent accession of Slovakia to the EU had an indisputable influence on the existence, design and implementation of all aspects of regional policy, including agriculture and rural areas. Implementation of cohesion policy was in most areas a great contribution to the creation of favourable preconditions for sustainable and balanced economic development. Although in most cases there is still uneven development with regard to regional disparities, the overall prospects are positive.

The implementation in the present programming period is inadequate. From €11.5 billion, only 0.11% were allocated to finance the objectives based on the present NSRF. The quality of the programming documents (operational programmes, programming manuals) creates favourable preconditions, but the objectives are not being implemented in the real economy (Frank, 2009). The implementation of technical and financial assistance of the Union, together with the improvement in human resources and contribution of national financial resources in the respective regions, create a chance to catch up with the more developed countries of the EU. The main emphasis in this process has to focus on the effective utilisation of European and national resources, as well as investment in human capital.

Level of Absorption of EU Funds and Their Impact

Summary

Slovakia experienced favourable macroeconomic development in 2000-2006. The implementation of necessary economic reforms during the 1998-2006 period laid the foundations for sustainable GDP growth and convergence to the EU average. The availability of pre-accession assistance prepared the way for the increase in funding made available in 2004-2006, essentially in the same sectors, under the Structural Funds. The main achievement from pre-accession assistance is the increase in administrative capacity and experience that these instruments have brought about.

Targets laid down in 2004 in sectors eligible for structural support were fulfilled only in selected operational programmes or individual priorities. High levels of fulfilment in some operational programmes are present not entirely due to effective implementation of cohesion support, but are partly a result of target undervaluation of the respective indicators at the beginning of the programming and planning period. There is an urgent need to improve the effort to set realistic objectives and to select appropriate measures for their achievement.

General Context

From a sectoral point of view, the achievements in all areas covered by the adopted operational programmes have provided diverse outcomes. In each of the programmes we can find success stories as well as priorities with only limited successful implementation. Therefore it is necessary to further increase the efforts to improve programming, implementation, monitoring and evaluation.

The first national plan for regional development for pre-accession support was adopted in 1999, for post-accession funding in 2001, but the National Development Plan was adopted only in March 2003. Individual ministries were late in preparing the grant schemes for smaller projects and, compared to neighbouring countries, they were approximately a year behind schedule. Consequently, the delayed process of documentation and legislative preparation hindered accreditation of the implementing agencies. However, the lag observed during the pre-accession period was adjusted at the final phase of preparation for the Structural Funds. After the Commission had adopted the basic documents required for

initiating Structural Funds exploiting in December 2003, Slovakia launched the first call for a Local Infrastructure priority (Operational Programme Basic Infrastructure) on 19 January 2004 (it was the second call from all acceding countries).

The National Development Plan that was adopted in 2003 was too complicated and even though it was reduced from an initial 11 operational programmes to 4 in the final concept (Basic Infrastructure, Industry and Services, Agriculture, and Human Resources), it remained quite obscure. Also, the structure of other documents in their final form has often been unintelligible for the applicants, which has led to formal mistakes in project preparation.

A new challenge has been caused by the parallel use of the Structural Funds from the 2004-2006 period and the new programming period for 2007-2013. Preparing and implementing two programmes at the same time was very time consuming and led to serious administrative pressure. The double rules, documents and programming was confusing for both the involved authorities and implementation bodies and for the applicants. With the delayed start of the utilisation of funds in the period of 2007-2013, the situation in this field has slightly improved. However, the restructuring and redistribution of funds in the revised National Strategic Reference Framework 2007-2013 elaborated by the new government (elected in 2006 after early elections) caused a substantial delay in the start of calls in the new programming period. To avoid such a waste of precious time in utilisation of structural support, it is necessary to achieve widespread political consensus on the priority areas which are most relevant. Although the changes made by the new government caused delays, the main strategy of the NSRF remained the same. Changes were made mostly in financial allocations in selected operational programmes.

Issue: Effectiveness of the public administration in managing the SF

The main objective of the government for the 2007-2013 period has been the creation of systematic and steady preconditions for and efficient utilisation of structural support. Domestic audits together with the audits conducted by the Directorate General of the European Union have shown a serious problem related mainly to administrative capacities. Lack of skilled staff is one of the most important factors, which contribute to insufficient effectiveness of the whole process. The data show a clear deficit in the number of skilled employees in every ministry participating in the Structural policy. The total level of necessary skilled employees was in February 2007 fulfilled only to 50.8%. The most affected were the Ministries of Education, Finance, Health Service and the Government Office, with occupation levels even below 50.8%.

Domestic experience from the previous programming period together with assistance from the EU identified the necessary measures to be taken as follows:

- Increase in administrative capacities together with permanent staff education;
- Decrease in the level of staff fluctuation by implementation of a conceptual system of human resources management;
- Implementation of process management;
- Increase in the utilisation of information technologies;
- Increase in communication and network collaboration using information technologies;
- Human resources policy oriented on stabilisation of existing staff, and other measures.

Although the influence and the audits of the Directorate General identified the bottlenecks, the leverage of EU influence is limited by domestic (in)ability to employ a sufficient number of experienced and skilled staff and lower its fluctuation.

The most successful operational programme with a 92.13% share in overall allocation is SOP Agriculture and Rural Development and OP Basic Infrastructure with a share of 81.33%. SOP Human Resources with 75.03%, SOP Industry and Services with 71.54 % and the EQUAL Initiative with 65.69% were least successful in implementing the structural support.

Although the structural support has been implemented from 2004 onwards, it is still very hard to quantify the economic and social impact. The only way to measure the effects of interventions in targeted policy areas is to compare on the basis value and target value achieved during this short programming period. There is also significant lack of coherent and relevant data, which does not allow a more thorough look at the full scale of intervention effects.

- **Agriculture and fisheries**

Financial support carried out through this operational programme was very successful in fulfilment of its objectives. Most of the quantitative indicators were fulfilled high above the target value, thus making this operational programme the most successful part of the Cohesion policy support.

- **Enterprise environment**

The interventions related to enterprise environment have been carried out through the SOP Industry and Services. Target values set at the beginning of the programming period were met only in certain areas. The most successful area of support was development of tourism-related products; changes in labour productivity and value added of supported subjects and number of supported research projects. The problems can be seen on both involved sides, the applicants and the respective Ministries and Agencies responsible for managing Structural Funds.

- **Human resources**

The overall development in the support of human resources through SOP Human Resources can be seen from two perspectives. Their main aim is to provide support and assistance to municipalities, individuals and legal entities to address the most pressing issues related to labour market development. High levels of quantitative fulfilment are present, not only due to effective implementation of cohesion support in this area, but are partly a result of target undervaluation at the beginning of the programming and planning of the respective indicators. Support was carried out through various national projects, which are part of this operational programme. On the other hand, 25% of financial allocations in this operational programme were not used, due to ineffective public administration. Four of these national programmes are indirectly supporting marginalised Roma communities.

- **Transport and telecommunications**

The majority of funds for transport infrastructure have been used to finance the reconstruction and electrification of selected railway corridors and reconstruction of existing and construction of new roads. The main aim was to improve the technical state of railway infrastructure, to modernise stations, to complete the construction of key railway junctions, to upgrade inter-regional railways, to increase the speed of services, to improve safety and reliability, and to reduce environmental impact. Together with full integration of inter-regional railway systems as part of the national railway network (providing access to the trans-European network), it will set up the supposition of better utilisation of railway freight transport and railway passenger transport. In the field of road infrastructure the aim was to ensure quality road connections between regional centres, between regions and the capital, Bratislava, and access to the trans-European network (OPBI Programme Complement, 2006). The aims were fully achieved only in the field of railway infrastructure; the road infrastructure aim was achieved only to 55.17%. The delays in construction of highways were caused by many circumstances. The negotiation with land owners in selected locations in Slovakia were in some cases very time demanding (for example the negotiations with the citizens of Považská Bystrica) and led to substantial delays in construction. To eliminate these delays, the government is planning to adopt legislation which could allow the National Highway Company to build on land which is still not property of the company and subject of negotiation between the respective private owner and the State. However, this law is the subject of strong criticism, and will be examined by the Constitutional Court of Slovakia.

- **Environment and energy**

The environmental objectives were largely not fulfilled and reached in most areas very unsatisfying outcomes. The most significant achievements were in the field of the newly connected citizens and households to new

sewer system infrastructure. The achievement of target values depends on successful realisation of the project and its subsequent operation (for example, indicator – the volume of separated and recycled waste). Therefore we can observe a low percentage of fulfilment in most of the indicators. A more thorough analysis will be possible after the successful completion of all respective projects (Annual report on CSF implementation, 2007).

Issue: Mismanagement and corruption practices

Most cases of mismanagement and corruption practices are related to public procurement. Other practices are related to dubious allocation of subsidies to private companies which are suspected of connections with political parties or their donors. A reform of public procurement legislation and more transparent system of subsidies could lower the possibility for any mismanagement or corruption practices.

Conclusion

Administrative capacity, coordination between various levels of public administrations as well as competences should be explicitly defined and stabilised. A stable and transparent system of institutions would contribute to more efficient utilisation of structural support. The quality of programming documents should be greatly improved, to make them more comprehensive and transparent for the applicants. A clear long-term and coherent regional development policy should be the foundation necessary for efficient structural assistance.

Cooperation between central, regional and local level is also vital for efficient use of the funds. Emphasis should be laid on support of innovative SME and R&D programmes to improve the current deficient condition of overall research, development and innovation performance in the country. It is necessary to learn from the mistakes of the previous programming periods (pre-accession support, and the 2004-2006 programming period), to improve the efficiency on all levels and between all actors involved, to provide more efficient support and thus create positive preconditions for convergence on national as well as regional level (Frank, 2008).

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C onclusions and Recommendations

Policy Area	Need for EU Leverage	Existing Types of EU Leverage	Recommendations for Problem-Solving on National Level	Recommendations for Problem-Solving on EU Level
Political Development and Governance	No	<p>Copenhagen political criteria (pre-accession criteria)</p> <ul style="list-style-type: none"> ■ Passive, hard, significant, effective 	<ul style="list-style-type: none"> ■ Improve efficiency on all levels of public administration ■ Adopt efficient rules which limit the possibilities for corruption (public procurement reform, improve the efficiency of judiciary as well as other public bodies) 	<ul style="list-style-type: none"> ■ Increase transparency in political and economic decision-making on the EU level ■ Improve communication strategy and refrain from using “Eurospeak” when communicating important issues to the public ■ Focus on effective performance of already existing competences
Economic Development	Yes	<p>Maastricht convergence criteria</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective <p>Stability and Growth Pact</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective 	<ul style="list-style-type: none"> ■ Conduct responsible and sustainable macroeconomic policy in the framework of the Stability and Growth Pact 	<ul style="list-style-type: none"> ■ Ensure enforcement of existing rules and equal treatment of member states

Welfare System and Social Inclusion	Yes	<p>Lisbon Strategy</p> <ul style="list-style-type: none"> ■ Active, effective, conditional, not assessable 	<ul style="list-style-type: none"> ■ Continue the pension system reform started by the previous government ■ Accept the social costs of the reform to secure a better position of the future pension system 	<ul style="list-style-type: none"> ■ Enforce the Lisbon Strategy criteria ■ Deduct expenditures on education, social cohesion as well as R&D from the public deficit set by the Maastricht criteria and Stability and Growth Pact
Health System	No	<p>EU standards in the realm of patients' rights and care for vulnerable groups</p> <ul style="list-style-type: none"> ■ Active, soft, limited 	<ul style="list-style-type: none"> ■ Reform the health care system, as any postponement will seriously endanger its future development 	
Educational System	Yes	<p>Bologna and Copenhagen processes</p> <ul style="list-style-type: none"> ■ Active, soft, ineffective <p>Horizontal EU programmes</p> <ul style="list-style-type: none"> ■ FP 5, 6 (successful) 7 partly successful, new calls are delayed <p>EU Structural Funds and especially the Social Fund</p> <ul style="list-style-type: none"> ■ Active, not assessable, new projects delayed 	<ul style="list-style-type: none"> ■ Urgently reform the educational system on all levels 	<ul style="list-style-type: none"> ■ Create common education market and standards ■ Deduct expenditures on education from the public deficit set by the Maastricht criteria and Stability and Growth Pact

Justice and Home Affairs	Yes	<p>Schengen area agreement (external border management)</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective 	<ul style="list-style-type: none"> ■ Increase the effectiveness of law enforcement 	
Migration	Yes	<p>EU policy on immigration and asylum</p> <ul style="list-style-type: none"> ■ Not active yet <p>Single market policy drive for migration of labour force</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective 	<ul style="list-style-type: none"> ■ Improve asylum policy in Slovakia ■ Support labour force migration inside Slovakia 	<ul style="list-style-type: none"> ■ Remove labour market barriers to create a competitive European labour market
Research and Innovation	No	<p>Lisbon Strategy</p> <ul style="list-style-type: none"> ■ Active, soft, limited, ineffective 	<ul style="list-style-type: none"> ■ Adopt research, development and innovation policy as a priority target of economic policy ■ Reform the educational and scientific institutions in the country 	

Agriculture and Rural Development	Yes	<p>Common Agricultural Policy</p> <ul style="list-style-type: none"> ■ Active, hard, significant, ineffective <p>EU subsidies and funds</p> <ul style="list-style-type: none"> ■ Active, hard, significant, conditionally effective 	<ul style="list-style-type: none"> ■ Improve the administrative capacities in respective regions, and maintain sufficient skilled staff to be able to tackle the present unsatisfying level of Structural Funds implementation 	<ul style="list-style-type: none"> ■ Continue the ongoing reform of the CAP ■ Allocate more funds to rural development instead of ineffective production subsidies
Regional Development	Yes	<p>Cohesion policy programming documents and regulations</p> <ul style="list-style-type: none"> ■ Active, hard, significant, conditionally effective 	<ul style="list-style-type: none"> ■ Improve the administrative capacities in respective regions, and maintain sufficient skilled staff to be able to tackle the present unsatisfying level of Structural Funds implementation 	<ul style="list-style-type: none"> ■ Give more attention to Structural Funds outcomes ■ Assess Cohesion regions by the efficiency of fund absorption
Level of Absorption of EU Funds and Their Impact	Yes	<p>Cohesion policy programming documents and regulations</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective 	<ul style="list-style-type: none"> ■ Improve administrative capacities ■ Increase the effort in implementation of Structural Funds and the Cohesion Fund in the present programming period ■ Clarify competences between all levels of public administration and focus on the efficient use of funds, not only on the amount of financial allocations 	<ul style="list-style-type: none"> ■ Create a stronger leverage on regions to maximise their efforts in the implementation of structural support by limiting the support to a certain timeframe reflected in the eligibility criteria

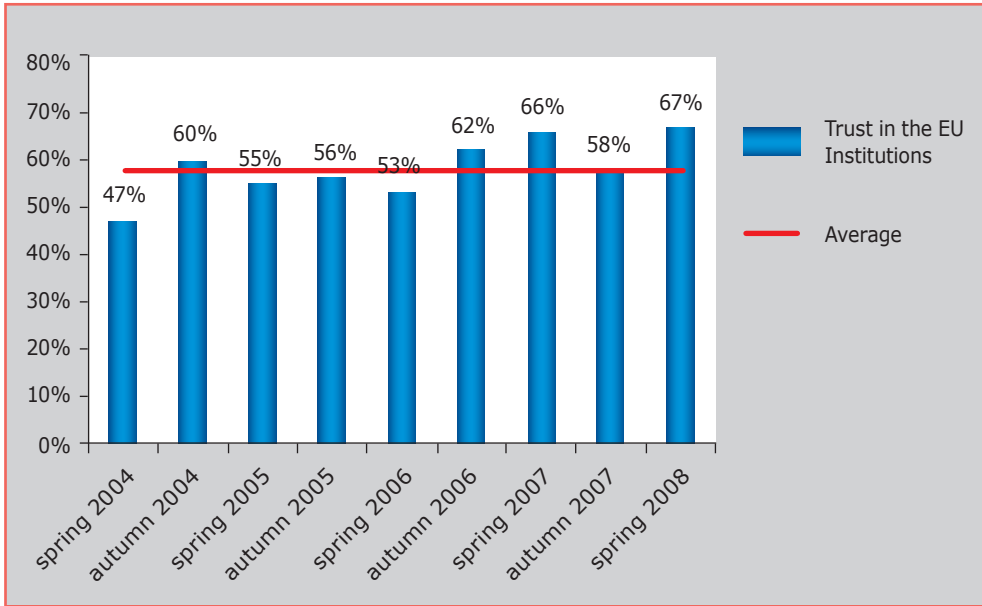
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Table: Brief chronology of accession negotiations development

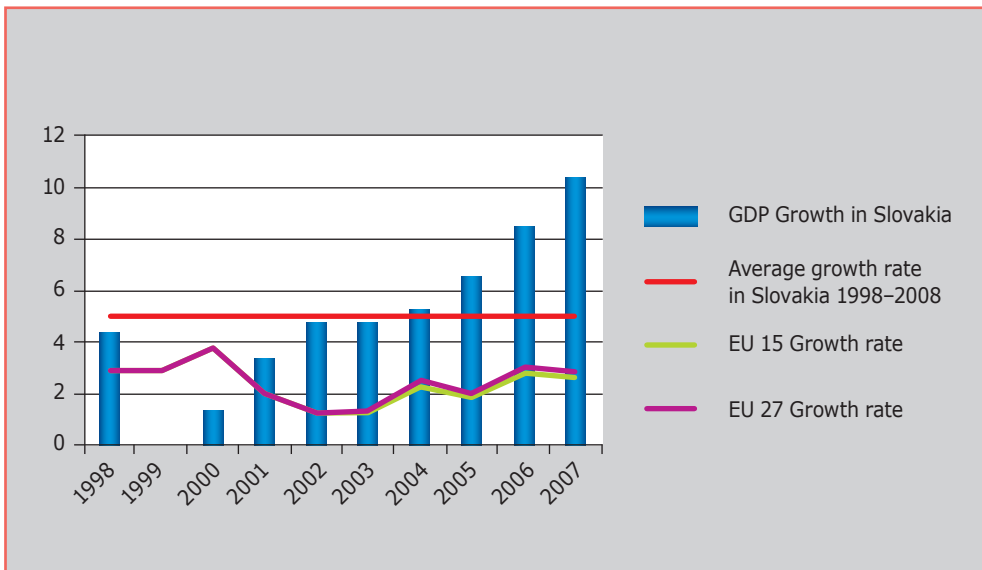
4. October 1995, Luxembourg	Signing of Association Treaty between Slovakia and the European Communities
27. June 1995, Cannes	Official request of Slovak government to join the EU
November 1996, Strasbourg	Resolution of the European Parliament calling to respect human rights and democracy in Slovakia
12-13. December 1997, Luxembourg	The EU Council recommend to start accession negotiations only with the six countries in the first group
31. March 1998, London	Decision to start accession negotiations with six countries - Czech republic, Estonia, Hungary, Poland, Slovenia and Cyprus
10 December 1999, Helsinki	Decision to start accession negotiations with Slovakia
9. October 2002	The European Commission recommends the accession of Slovakia to the EU in 2004
1. May 2004	Accession of Slovakia to the EU

Chart: Trust in the EU Institutions from spring 2004–spring 2008



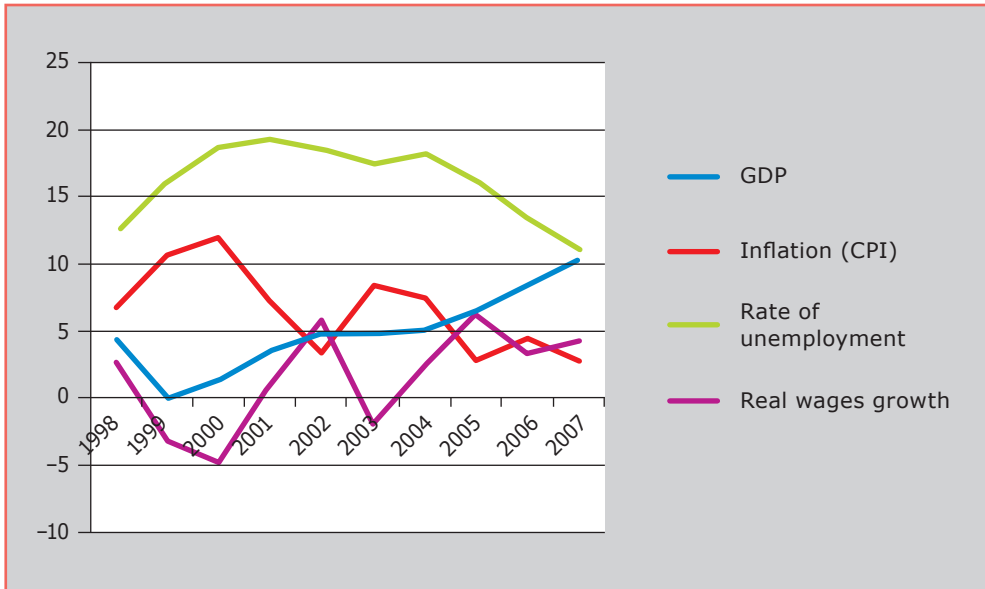
Source: Eurobarometer, spring 2008 own calculations

Chart: Growth Rates Comparison in Slovakia and EU-15 (EU-27) 1998–2007



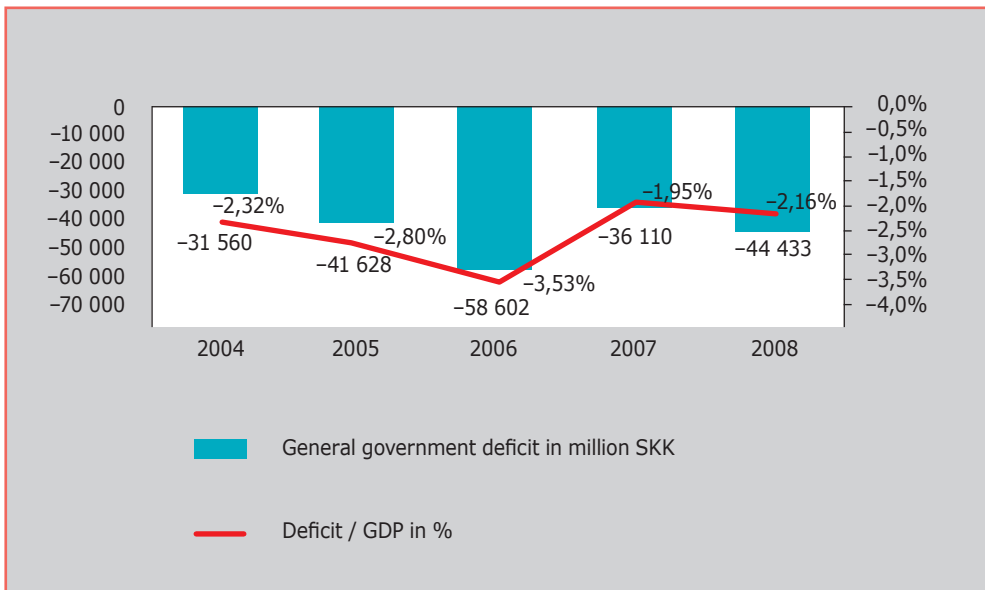
Source: Statistical Office of Slovakia, Own calculations

Chart: Development of key macroeconomic indicators in 1998–2007



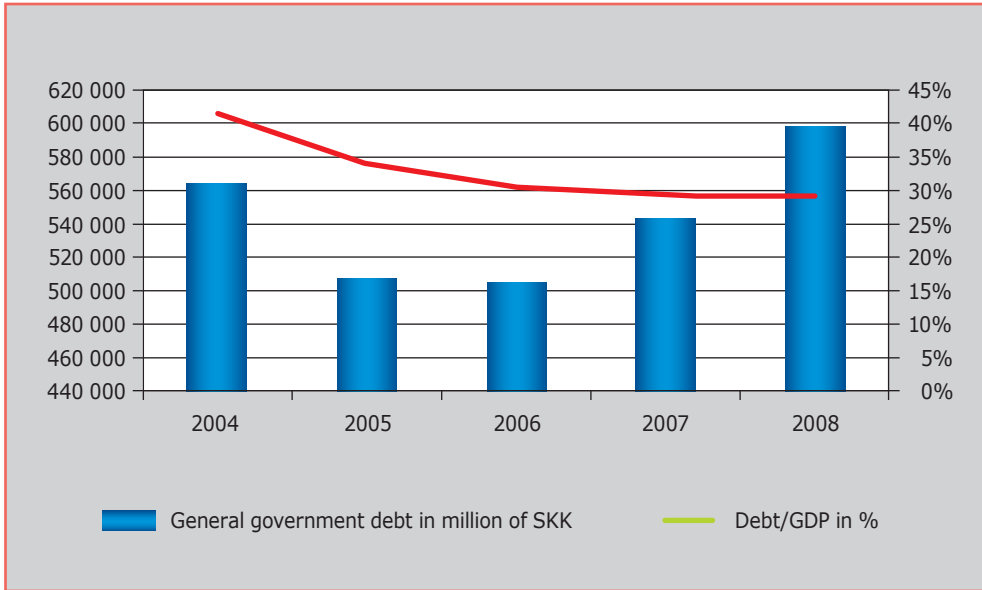
Source: Statistical Office of Slovakia

Chart: General government deficit development in 2004–2008



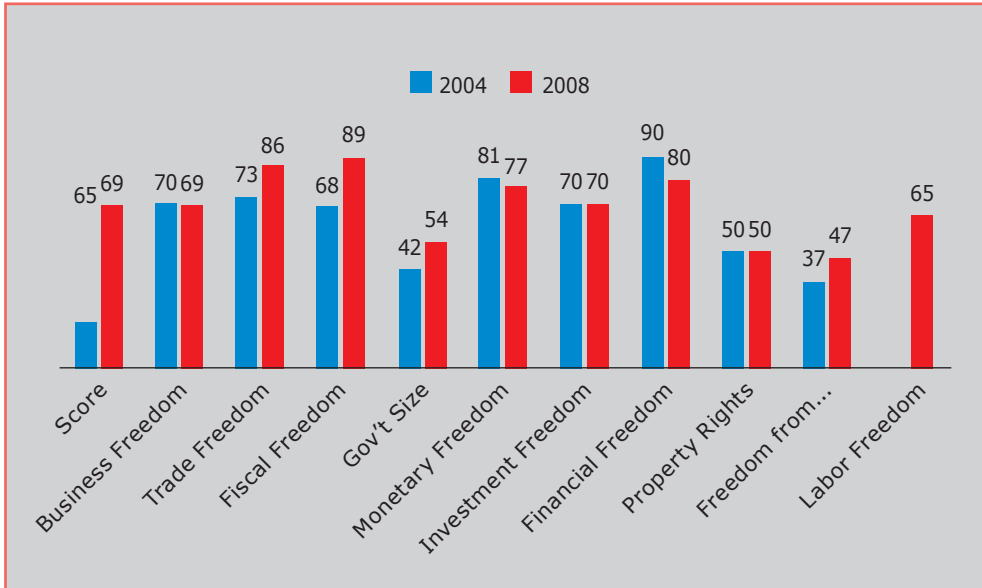
Source: Statistical Office of Slovak Republic, Data for 2008 are preliminary

Chart: General government debt in 2004–2006



Source: Statistical Office of Slovak Republic, Data for 2008 are preliminary

Chart: Index of economic freedom in Slovakia 2004–2008



Source: Heritage foundation

**Table: Rating Development of the Slovak Republic
2004-2008**

Year	Agency		
	Standard&Poor's	Moody's	FITCH
2008	A+ stable outlook (since November)	A1 positive outlook (since July)	A+ stable outlook (since July)
	A positive outlook (since March)		
2007			A positive outlook (since July)
2006		A1 stable outlook	
2005	A stable outlook	A2 stable outlook	A stable outlook
2004	A- stable outlook	A3 positive outlook (since June)	A- stable outlook BBB+ positive outlook (since January)
	BBB+ positive outlook (since March)		

Source: Debt and Liquidity Agency of Slovakia

Table: Selected characteristics of labour market

		2000	2001	2002	2003	2004	2005	2006	2007
Unemployment rate by education	low	24,2%	25,3%	24,9%	24,6%	26,1%	25,0%	21,1%	17,7%
	middle	14,9%	15,5%	14,6%	13,0%	13,1%	10,9%	8,7%	6,8%
	high	5,5%	4,8%	4,6%	4,8%	4,4%	3,9%	3,8%	3,7%
Unemployed (ths.)		485,2	508,0	486,9	459,2	480,7	427,5	353,4	291,9
Long term unemployed (ths)		261,6	282,8	291,4	280,9	291,2	291,2	258,2	206,9
Employment rate (15 - 64)		56,5	56,5	56,7	57,6	56,9	57,7	59,4	60,7
males		61,5	61,4	62,0	63,0	63,0	64,6	67,0	68,4
females		51,5	51,8	51,4	52,2	50,9	50,9	51,9	53,1

Source: Statistical Office of Slovak Republic

Table: Development of foreign trade in 2002-2007

	2002	2003	2004	2005	2006	2007
Exports of goods and services	8,7%	18,7%	12,1%	20,2%	23,1%	23,1%
Imports of goods and services	8,8%	10,1%	13,5%	22,9%	20,1%	19,4%

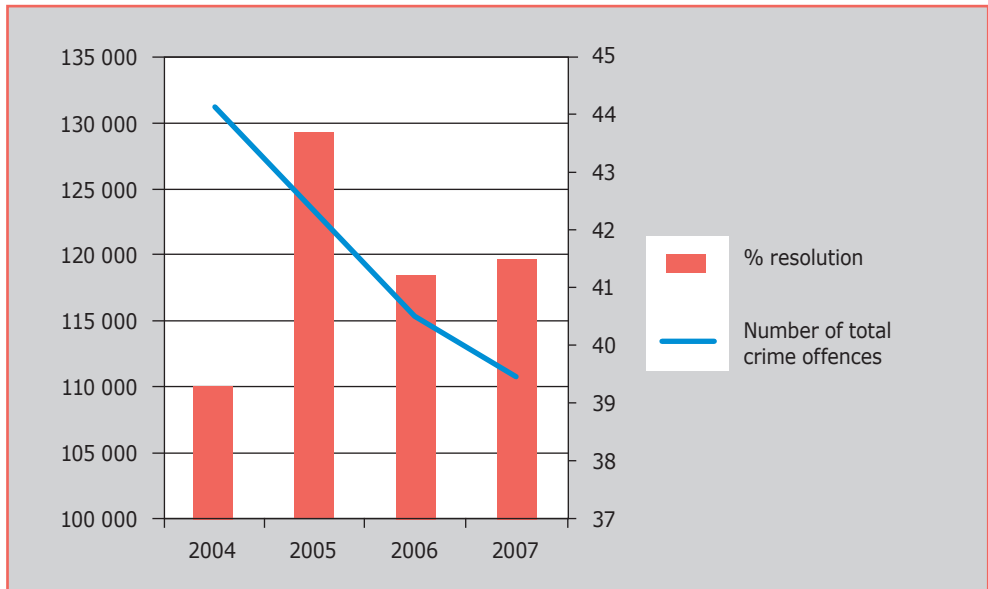
Source: Statistical Office of Slovak Republic

Table: Development of housing construction

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Total finished flats	6 157	12 931	10 321	14 213	13 980	12 592	14 863	14 444	16 473
Finished flats in family houses	-	9 608	7 282	9 095	7 589	8 575	8 707	7 657	7 897
Average surface of flat m ²	111,2	135,0	129,1	117,8	114,3	131,7	120,8	116,2	112,0

Source: Statistical Office of Slovak Republic

Chart: Development of total criminal offences and the % of resolution



Source: Statistical Office of Slovakia, own calculations

Table: Development of Criminology indicators in 2004–2007

	2004	2005	2006	2007
Recorded criminal offences total				
Number	131 244	123 563	115 152	110 802
% of resolved crimes	39,3	43,7	41,2	41,5
Recorded homicides				
Number	122	106	89	89
% of resolved crimes	73,0	74,5	64,0	78,7
Recorded robberies				
Number	2 156	1 919	1 594	1 429
% of resolved crimes	52,2	54,1	48,2	54,4
Recorded grievous bodily harm				
Number	3 810	3 896	3 200	2 967
% of resolved crimes	66,4	68,1	62,8	62,8
Recorded stealth burglary				
Number	70 503	58 661	56 980	54 250
% of resolved crimes	30,2	19,8	22,8	23,2
Recorded burglary				
Number	26 685	20 828	19 044	17 148
% of resolved crimes	20,5	22,3	21,0	21,7
Flat burglary				
Number	2 307	2 809	2 602	2 437
% of resolved crimes	36,8	35,9	31,0	33,9
Other burglary				
Number	43 818	37 833	37 936	37 102
% of resolved crimes	15,7	18,5	23,7	24,0

Source: Statistical Office of Slovak republic

Table: Criminal offences by groups

	2004	2005	2006	2007
Economic criminality				
Number	77 098	65 306	63 077	60 045
% of resolved crimes	18,7	21,1	23,5	23,5
Violent criminality				
Number	13 755	12 906	10 896	9 620
% of resolved crimes	72,4	73,8	68,6	70,1
Moral criminality				
Number	875	794	798	805
% of resolved crimes	81,5	78,8	73,8	73,2
Other criminality				
Number	8 689	9 945	9 336	9 930
% of resolved crimes	77,2	78,7	73,4	74,0

Source: Statistical Office of Slovakia

Table: Key demographic factors

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (as of 1st January)	5388	5393	5399	5379	5379	5379	5380	5385	5389	5394
males (thousands)	2622	2624	2625	2613	2612	2611	2611	2613	2616	2618
females (thousands)	2766	2770	2774	2766	2767	2768	2769	2771	2773	2775
Main age groups – total (as of 1st January)										
0-19 (thousands)	1597	1558	1517	1490	1450	1410	1372	1337	1302	1270
20-64 (thousands)	3186	3225	3266	3279	3316	3353	3388	3422	3454	3484
65+ (thousands)	605	610	615	609	613	616	620	626	633	640
Old dependency ratio	19,0	18,9	18,8	18,6	18,5	18,4	18,3	18,3	18,3	18,4
Total dependency ratio	69,1	67,2	65,3	64,0	62,2	60,4	58,8	57,4	56,0	54,8
Index of ageing	37,9	39,2	40,5	40,9	42,2	43,7	45,2	46,8	48,6	50,4
total fertility rate	1,37	1,33	1,29	1,20	1,19	1,20	1,24	1,25	1,24	1,25
Life expectancy at birth - males	68,61	68,95	69,14	69,51	69,77	69,77	70,29	70,11	70,23	70,51
Life expectancy at birth - females	76,70	77,03	77,22	77,54	77,57	77,62	77,83	77,90	78,20	78,08
Immigrants	2052	2072	2274	2023	2312	2603	4460	5276	5589	8624
Emigrants	746	618	811	1011	1411	1194	1586	1873	1735	1831
Net migration	1306	1454	1463	1012	901	1409	2874	3403	3854	6793
Natural increase/decrease	4426	3821	2427	-844	-691	-517	1895	955	603	568
Total increase/decrease	5732	5275	3890	168	210	892	4769	4358	4457	7361

Source: Slovak Popin

Table: Rurality at the NUTS II level

Area	Number of municipalities	Number of rural municipalities	Number of inhabitants	Number of inhabitants in rural municipalities	Share in %	Area in sq km Total	Rural municipalities	Share in %
Slovakia	2 891	2 581	5 380 053	2 177 825	40,5	49 034	42 003	85,7
Bratislava region	73	54	559 787	80 487	13,4	2 053	1 338	65,2
West Slovakia	881	775	1 863 932	832 487	44,7	14 992	12 526	83,6
Central Slovakia	831	745	1 352 452	621 897	46,0	16 256	14 303	88,0
East Slovakia	1 106	1 005	1 563 882	642 954	41,1	15 733	13 836	87,9

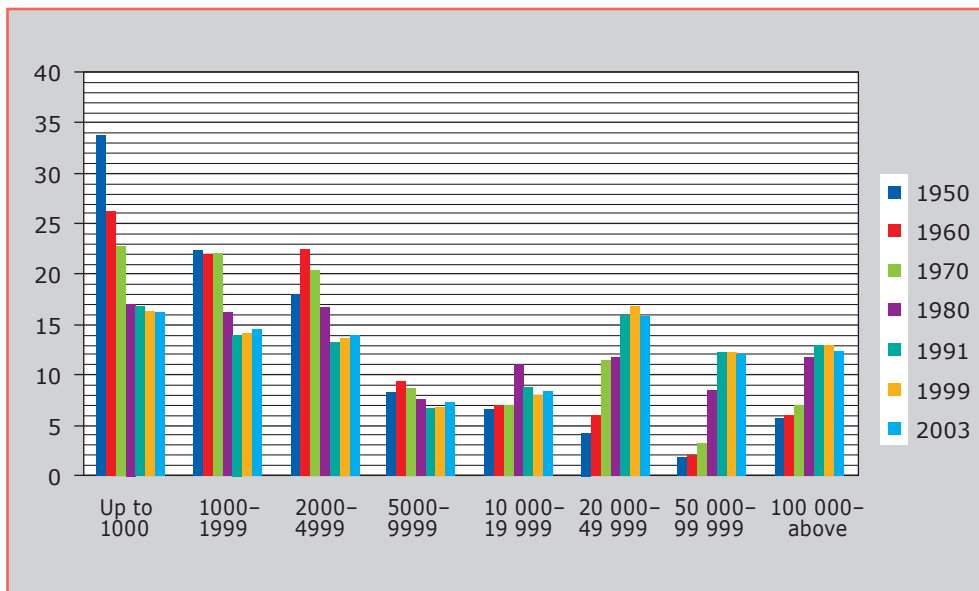
Source: Slovak Statistical Office

Table: Rurality at the NUTS III level

Area	Number of municipalities	Number of rural municipalities	Number of inhabitants	Number of inhabitants in rural municipalities	Share in %	Total	Rural municipalities	Share in %
Slovakia	2 891	2 581	5 380 053	2 177 825	40,5	49 034	42 003	85,7
Bratislava region	73	54	559 787	80 487	13,4	2 053	1 338	65,2
Trnava region	251	219	552 014	251 621	46	4 147	3 383	81,6
Trenčín region	276	236	602 166	217 143	36,1	4 502	3 608	80,2
Nitra region	365	320	709 752	363 723	51,3	6 343	5 535	87,3
Žilina region	315	255	693 499	278 030	40,1	6 801	5 659	83,2
Banská Bystrica region	516	490	658 953	343 867	52,2	9 455	8 644	91,4
Prešov region	666	605	794 814	340 739	42,9	8 981	7 969	88,7
Košice region	440	400	769 068	302 215	39,3	6 752	5 867	86,9

Source: Slovak Statistical Office

Chart: Development in the shares of Slovak population according to settlement size in 1950–2003 in %



Source: Ministry of Agriculture, 2007

Table: GDP per capita (in PPS) in SR NUTS III regions¹³

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Slovenská republika	6 965	7 649	8 317	8 828	8 991	9 639	10 462	11 204	11 635	12 433	13 563
Bratislavský kraj	14 759	16 216	18 015	19 272	19 591	21 218	23 847	26 161	25 941	28 342	33 124
Trnavský kraj	7 724	8 368	8 932	9 269	9 530	10 223	10 497	11 042	12 231	12 758	14 604
Trenčiansky kraj	6 533	7 198	7 660	8 131	8 353	8 920	9 662	10 162	10 643	11 373	11 967
Nitriansky kraj	5 990	6 548	7 044	7 451	7 840	8 472	8 793	9 292	10 157	10 775	12 042
Žilinský kraj	5 663	6 242	6 820	7 248	7 310	7 828	8 510	8 979	9 353	10 120	11 141
Bansko-bystrický kraj	5 781	6 333	6 920	7 371	7 436	7 983	8 782	9 596	10 024	10 346	9 733
Prešovský kraj	4 492	4 888	5 273	5 473	5 476	5 811	6 304	6 852	7 058	7 483	7 962
Košický kraj	6 053	6 769	7 394	8 007	8 119	8 576	9 672	10 127	10 359	11 073	11 423
disp 1	3,3	3,3	3,4	3,5	3,6	3,7	3,8	3,8	3,7	3,8	4,2
disp 2	1,7	1,7	1,7	1,7	1,7	1,8	1,7	1,6	1,7	1,7	1,8
disp 3	1,6	1,6	1,6	1,6	1,6	1,7	1,7	1,6	1,6	1,7	1,7
disp 4	0,5	0,5	0,5	0,5	0,5	0,5	0,4	0,4	0,4	0,4	0,4

Source: SO SR, own calculations

¹³ Disp 1 – share of GDP per capita of the best performing region (Bratislavský kraj) on the worst performing region (Prešovský kraj);

Disp 2 – share of GDP per capita of the second best performing region (Trnavský kraj) on the worst performing region (Prešovský kraj);

Disp 3 – share of GDP per capita of the worst performing region (Prešovský kraj) on GDP per capita of Slovakia;

Disp 4 – share of GDP per capita of the best performing region (Bratislavský kraj) on GDP per capita of Slovakia.

Table: Unemployment rate in regions of Slovakia

	2000	2001	2002	2003	2004	2005	2006	2007
Slovenská republika	18,6	19,2	18,5	17,4	18,1	16,2	13,3	11,0
Bratislavský kraj	7,2	8,3	8,6	6,9	8,2	5,2	4,3	4,2
Trnavský kraj	16,4	18,0	16,1	13,2	12,5	10,4	8,8	6,5
Trenčiansky kraj	15,0	13,4	11,3	9,2	8,6	8,1	7,1	5,7
Nitriansky kraj	20,8	23,1	23,8	23,4	20,3	17,8	13,2	10,7
Žilinský kraj	18,5	18,9	17,3	17,2	17,5	15,2	11,8	10,1
Banskobystrický kraj	21,9	22,4	25,2	23,8	26,6	23,8	21,1	20,0
Prešovský kraj	22,1	22,7	20,1	20,4	22,9	21,5	18,1	13,8
Košický kraj	25,6	24,8	24,1	23,0	25,2	24,7	20,3	15,9

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“The Unfinished Business of the Fifth Enlargement Countries” publication is comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. The comparative analysis identifies that five years (or two and a half, in the case of Bulgaria and Romania) following accession, the ten central and eastern European states of the fifth enlargement continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises. The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and temptation to employ populism and nationalism. The fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (health, education, social protection etc.) thus leaving those structural reforms largely incomplete. This lack of progress further increases the mistrust in the political establishments thus diminishing the already low citizens’ trust in the institutions of representative democracy, which might cause already fragile political systems to become increasingly vulnerable.