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COMMITTEE ON CAPITAL MOVEMENTS AND INVISIBLE TRANSACTIONS
COMMITTEE ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

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Joint Meeting

SLOVAK REPUBLIC: POSITION UNDER THE CODES OF LIBERALISATION AND THE DECLARATION AND DECISIONS ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES

(Report by the Committee on Capital Movements and Invisible Transactions
and the Committee on International Investment and Multinational Enterprises)

This report has been revised following the joint meeting on 27 April 2000. Modifications are shown in bold. It is submitted to the Committees for their approval under written procedure with the exception of the text of the reservation under H/1 of the Code of Liberalisation of Current Invisible Operations which will be submitted separately as soon as possible.

If no objection is received by the Secretariat [Joachim Karl (Tel: 33-1 45 24 15 22; Fax: 33-1 44 30 61 35; E-mail: joachim.karl@oecd.org)] by c.o.b. on Thursday, 8 June 2000, this document will be considered approved and forwarded to the Council.

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**SLOVAK REPUBLIC: POSITION UNDER THE CODES OF LIBERALISATION AND THE
DECLARATION AND DECISIONS ON INTERNATIONAL INVESTMENT AND
MULTINATIONAL ENTERPRISES**

**(Report by the Committee on Capital Movements and Invisible Transactions and the
Committee on International Investment and Multinational Enterprises)**

I. INTRODUCTION, SUMMARY AND CONCLUSIONS

1. Introduction

1. The accession procedure approved by the Council for the Slovak Republic [C(94)77] provides that the Committee for Capital Movements and Invisible Transactions (CMIT) and the Committee for International Investment and Multinational Enterprises (CIME) should formulate an opinion and report to the Council on the readiness and ability of the Slovak Republic to assume the obligations of membership in their fields of competence.

2. In the framework of the accession process of the Slovak Republic to the Organisation, the Committees conducted on 2-3 July 1996 a first examination of the Slovak Republic's position under the Codes and the Declaration and Decisions on International Investment and Multinational Enterprises.¹ At that time, the Committees were not satisfied that the Slovak Republic met the standards of liberalisation required under the Codes. In particular, the Committees identified a number of areas where they considered that the Slovak Republic's proposed position under the Codes could be further improved. They made a number of specific recommendations how this could be achieved. They agreed to meet again in light of the response of the Slovak authorities to these recommendations².

3. In December 1999, the Slovak authorities officially responded to the above-mentioned concerns of the Committees³. In their answer, the Slovak authorities pointed out that over the past three years fast and profound changes had occurred in national policies aimed at improving the openness and transparency of the Slovak economy, as well as the stability of the legal environment. The new coalition Government of the Slovak Republic, which took office in November 1998, is fully aware of the advantages that openness to foreign investment brings for the economy and for strengthening macro-economic stability.

4. The Slovak authorities have declared that they endorse the objectives of the Codes of Liberalisation to which they are ready to adhere. They are also ready to adhere to the National Treatment Instrument and the other elements of the 1976 Declaration by OECD Member Governments on International Investment and Multinational Enterprises and the related Council Decisions on procedural matters.

1. See DAFBE/INV/IME(96)23 and DAFBE/INV/IME(96)24.

2. See sections 4 - 8 of Document DAFBE/INV/IME/M(96)7.

3. See DAFBE/INV/IME(99)9.

5. In light of the official response of the Slovak authorities, the Committees held a second examination of the Slovak Republic's position under the Codes and the Declaration and Decisions on International Investment and Multinational Enterprises on 27 April 2000. This document reports the results of the meeting.

2. Summary

6. The Slovak Republic's proposed reservations under the Codes of Liberalisation and its list of exceptions and transparency items under the National Treatment Instrument appear to cover all the measures relevant to these instruments. None of the proposed reservations is of a precautionary nature.

7. A stated priority of the Government is to attract *foreign direct investment* based on the principles of freedom of establishment and non-discrimination. There is no screening mechanism. Several liberalisation measures have been adopted since the first examination of the Slovak Republic. In particular, due to legislative changes, foreign investors can now establish branches in the Slovak Republic in all sectors of the economy except energy. However, branches of non-residents may still not acquire real estate, unless it is permitted by special legislation. Nevertheless, by liberalising branching, the Slovak authorities have positively responded to a major concern that the Committees had expressed during the first examination. The restriction concerning real estate will be abolished *erga omnes* in the context of the implementation of the Europe Agreement at the end of 2000.

8. There are only a few areas where the Slovak authorities have proposed to lodge reservations concerning item I/A of the Code of Liberalisation of Capital Movements. They relate to the establishment of branches in the energy sector, the purchase of real estate by branches in the non-financial sector, operation of lotteries and similar games, air transport, and investment in the Stock Exchange and the Securities Centre (see Annex 1).

9. The list of commitments of the Slovak Republic under the GATS includes restrictions concerning the establishment and/or operations of a commercial presence by foreign architects, urban and landscape planners, engineers, and law firms. The Slovak authorities confirm that they will not apply these restrictions to investors from OECD Member countries.

10. There are no reciprocity requirements and no entry is proposed in Annex E to the Code of Liberalisation of Capital Movements concerning reciprocity and other forms of discrimination affecting inward direct investment and establishment. Exceptions to the National Treatment Instrument broadly mirror the reservations to item I/A of the Codes (see Annex 2). There are few transparency items (see Annex 3).

11. As regards future policies and practices towards FDI, the Government of the Slovak Republic approved a Unilateral Declaration based on its Resolution No. 214 of 19 March 1996, committing itself to continue to pursue future liberalisation and to extend on a non-discriminatory basis to all OECD Member States any liberalisation measures covered by the OECD Codes of Liberalisation it may take under the Europe Agreement. The new Slovak Government confirms this commitment.

12. Another major area of concern during the first examination of the Slovak Republic was the delay in the process of privatisation, together with an evident lack of transparency, predictability and consistency in the implementation of privatisation rules. There was also concern about the large number of so-called "strategic enterprises" that were totally excluded from privatisation.

13. A major breakthrough occurred in 1999 when the Act on Large-Scale Privatisation was amended. In particular, the concept of “strategic enterprises” was abolished and the number of state-owned enterprises was reduced considerably. As a result, the process of privatisation gained new momentum. The most important sectors that are currently prepared for privatisation are finance, telecommunication, energy and transportation.

14. The Slovak authorities commit themselves to ensure that foreign investors will be given equal access with domestic investors on the basis of transparent rules and procedures in all phases of privatisation, including National Treatment for transactions in the shares of privatised enterprises and sales of equity owned by the National Property Fund.

15. While the Slovak authorities are determined to actively pursue privatisation, the state will retain a significant ownership share in the energy sector. Furthermore, the National Property Fund (NPF) still holds assets in a considerable number of companies. In addition, the precise terms and timetable for further privatisation have yet to be decided. Remaining uncertainties about the sustainability of policies may be one of the reasons why foreign investment is still comparatively modest in the Slovak Republic. Inadequate infrastructure, including the under-development of the financial sector, may also be a factor limiting the scope for foreign greenfield investment. Foreign investors also still complain about slow and cumbersome-administrative procedures.

16. Concerning *other capital movements and current invisible operations*, the main features of the Slovak Republic for the operations covered by the Codes can be summarised as follows:

17. Residents can freely make payments and transfers in connection with current international transactions. The Slovak Republic attained Article VIII status under the Articles of Agreement of the IMF in October 1995. All cross-border non-cash payments must be made either through banks, other institutions licensed to handle foreign exchange transactions or the National Bank of Slovakia. A foreign exchange surrender requirement, which previously applied to export proceeds and proceeds from invisible transactions and current transfers, was abolished in 1998, while all previous limitations on foreign exchange allowances for travel purposes ceased to apply from 1 December 1996. A transfer, or repatriation requirement, is still enforced, stipulating that residents are required to transfer or import all funds acquired abroad in Slovak or foreign currency within 30 days.

18. As to *capital inflows*, remaining restrictions only apply to non-trade credits and issuance of debt securities abroad with maturities below one year. The issue abroad of long-term debt securities is fully liberalised with the exception of municipal bonds. As to capital outflows, most operations are now free, with the exception of outward non-trade credits with maturities below one year. The purchase of securities abroad by residents is fully liberalised except in the case of securities not traded on regulated stock exchanges. Issue of securities in the country by non-residents is likewise free for issuers whose securities are traded on regulated stock exchanges.

19. The reservations proposed by the Slovak authorities under the Code of Liberalisation of Capital Movements other than item I/A concern the following **List A items**:

- Operations in securities on capital markets: (item IV, A1 and A2, B1 and B2, C1 and D1) to reflect restrictions on: the issue of municipal bonds abroad; the introduction of securities with a remaining maturity below one year on foreign markets; the issue and introduction on the domestic market of OTC-type securities; the purchase abroad by residents of OTC-type securities and the purchase in the country by non-residents of securities affected by foreign direct investment legislation.

- Operations in collective investment securities: (item VII/B1 and B2, D1) to reflect the restriction on issue and introduction of OTC-type securities on the domestic market and the purchase abroad by residents of OTC-type securities.
- Sureties, guarantees and financial back-up facilities: (item X(i)/A2 and B2 and X(ii)/A2) to reflect the restriction on maturities below one year in the granting of such guarantees and facilities by residents to non-residents, and similarly in the granting of credits, whether trade-linked or not.

20. The reservations reflecting the restriction on OTC-type securities not traded on regulated exchanges will cease, in most cases, to apply on 31 December 2001, while those reflecting the restriction on maturities below one year will cease to apply on 31 December 2002, except in the case of sureties, guarantees and back-up facilities where it will cease to apply on 31 December 2000.

21. Reservations are proposed to the following List B items:

- operations in real estate (item III/A1);
- operations on money markets: (item V/A1 and A2, B1 and B2, D1, D3 and D4);
- operations in negotiable instruments and non-securitised claims: (item VI/A1 and A2, B1 and B2, D1 and D3);
- financial credits and loans (item IX/A and B);
- sureties, guarantees and financial back-up facilities, non-trade linked (item X(ii)/B2);
- operation of deposit accounts (item XI/B1 and B2);
- operations in foreign exchange (item XII/B1, B2 and B3).

22. As with List A items, the reservation reflecting restrictions on securities not traded on regulated stock exchanges will cease to apply on 31 December 2001, while the reservation reflecting restrictions on maturities below one year will cease to apply on 31 December 2002, except in the case of financial credits and loans and non-trade related sureties, guarantees and financial back-up facilities, where it will cease to apply on 31 December 2000. For reservations concerning operations of deposit accounts and operations in foreign exchange, the time limits proposed are 31 December 2003.

23. Thus, the Slovak authorities have announced their **commitment** to remove remaining restrictions on short-term capital flows within a period of **three** years after accession, at the latest by end-year 2003. Beyond that date, **all items under the Code of Liberalisation of Capital Movements other than item I/A will be fully liberalised, including the** repatriation obligation and the current restriction on foreign exchange operations not linked to any specific underlying transactions. The Slovak authorities point out that even now the remaining restrictions do not apply to resident authorised foreign exchange entities and that foreign exchange licenses for corporate entities to engage in the operations concerned are granted on a liberal basis. The current restriction on the acquisition of real estate by non-residents for non-business purposes will remain for the foreseeable future as the Foreign Exchange Act does not provide any authorising clause to liberalise this item by decree or other implementing regulation.

24. As to *cross-border services*, the provision of a large number of insurance, banking and other financial services by non-residents to residents is not permitted.

25. Reservations are proposed with regard to the following items:

- Inland waterway freights, including chartering (item C/2);
- Road transport: passengers and freights, including chartering (item C/3);
- Life assurance (item D/3);
- All other insurance (item D/4);
- Banking and investment services (item E/2);
- Settlement, clearing, custodial and depository services (item E/3);
- Asset management (item E/4);
- Conditions for the establishment and operation of branches, agencies, etc. of non-resident investors in the banking and financial service sector (item E/7). This reservation will cease to apply on 31 December 2000;
- Exportation, importation, distribution and use of printed films and other recordings - whatever the means of reproduction - for private or cinema exhibition, or for television broadcasts (item H/1);
- Professional services (item L/6).

26. The Slovak authorities have confirmed that the Slovak Republic fully complies with the *principle of non-discrimination* which is enshrined in Articles 8 and 9 of the Codes of Liberalisation. They are committed to extend to all OECD Member countries any liberalisation measures falling under the purview of the Codes that they may take under the Accession Agreement with the European Union ("Europe Agreement") and not to discriminate among OECD Member countries in the event of recourse to the safeguards clause of that Agreement.

3. Conclusions of the Committees

27. **The Committees' overall assessment is that the Slovak Republic's proposed position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises is satisfactory for a new Member. This assessment is based on the impressive progress in liberalisation that the Slovak authorities have achieved since the first examination in 1996 and the commitment of the Slovak authorities to remove several remaining restrictions on the free movement of capital within the next few years. The Committees concluded that the Slovak Republic is both willing and able to assume the obligations of membership in matters falling within the Committees' fields of competence.**

28. **The Committees took note with satisfaction that the Slovak Republic is in the process of implementing the OECD Principles of Corporate Governance, and has ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business. They also noted that the operation of anonymous accounts is currently permitted under Slovak banking regulations, although consideration is being given to amend these regulations so as to eventually eliminate the possibility for banks to offer these types of accounts amongst their range of services.**

29. At the same time, the Committees encouraged the Slovak authorities to vigorously pursue structural reforms, including the completion of the privatisation process. They expressed concern about the state of fragility affecting the financial sector and the time lag required to implement fully comprehensive financial sector supervision according to internationally accepted standards.

30. If the Slovak Republic becomes a member of the Organisation, the Committees recommended that the Slovak authorities present an interim report one year after accession on progress in rehabilitation of the banking sector and strengthening of financial sector supervision, which is indispensable for underpinning the move towards full liberalisation. The Committees also agreed that a full review of the Slovak Republic's position under the Codes and the National Treatment Instrument should be held two years after its accession to the Organisation.

Regarding foreign direct investment

31. The Committees welcomed the liberal regime for FDI in the Slovak Republic, in particular the absence of any general screening mechanism for both greenfield investments and for mergers and acquisitions of existing private enterprises established in the Slovak Republic. They also welcomed the absence of any precautionary reservations under item I/A of the Code of Liberalisation of Capital Movements.

32. The Committees welcomed recent liberalisation measures concerning the establishment of branches of non-resident investors in the financial sector, taken in the interest of introducing modern practices and risk management techniques into the financial sector. They encouraged the Slovak authorities to remove the remaining restriction for branches in the energy sector. They took note of liberalisation measures concerning the acquisition of real estate by branches of non-resident financial institutions. They noted the legally binding commitment to the effect that the restriction concerning acquisition of real estate by branches of non-financial institutions will cease to apply to OECD Member countries at the end of year 2000.

33. The Committees encouraged the Slovak authorities to accelerate the privatisation of companies still under state control and/or with equity participation by the National Property Fund, and welcomed the Slovak Republic's commitment to ensure that foreigners will be effectively granted equal access with domestic investors, on the basis of transparent rules and procedures, to enterprises and sectors opened up for private investment. **The Committees took note of the Slovak authorities' intention to proceed speedily with the restructuring of the enterprise sector.**

34. **The Committees encouraged the Slovak authorities to facilitate administrative procedures for foreign investors and to take speedy action to eliminate investment hurdles resulting from undue burdensome registration and/or certification practices.**

Regarding other capital movements

35. Liberalisation has proceeded rapidly in recent years, with the few remaining restrictions mostly concerning short-term flows. The Slovak authorities have provided a timetable for removing remaining capital controls within **three** years after accession, during which time they expect to finalise and implement a large package of legal and regulatory reform, including enhanced financial sector supervision. This commitment to further liberalisation finds expression through the entering of legally binding date limits into a number of proposed reservations under the Code of Liberalisation of Capital Movements.

36. The Committees recalled that the liberalisation of capital movements launched by the Slovak authorities is taking place against a backdrop of serious macroeconomic, financial, and structural challenges in the Slovak economy. The OECD's interim economic assessment [CCNM/PIT/ECO/RD(2000)25] analysed the complex and inter-linked problems of implementing structural, enterprise, and financial sector reforms, and recommended rapid action to strengthen the banking sector and deep restructuring of the enterprise sector. The Committee on Financial Markets, at its meeting of April 5, also expressed concern over the fragility of the Slovak financial sector and the need for a substantial upgrading and strengthening of banking and capital markets supervision to underpin the liberalisation of cross-border capital flows [DAFFE/CMF(2000)16 and DAFFE/CMF(2000)21].

37. The Committees took very close note of the formidable challenges confronting the Slovak authorities and considered that durable and effective solutions to these problems call for rapid restructuring, privatisation, and improvements in governance practices. In light of the financial liberalisation already undertaken, as well as the liberalisation envisaged, the Committees felt it especially important that the Slovak government move expeditiously to restructure the financial sector and put into place a coherent financial regulatory and supervisory framework with effective enforcement capability. Such a framework should conform to internationally-agreed standards, in particular, those set by the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). The Committees also noted that in light of current economic and financial weaknesses, it is essential for the Slovak Republic to pursue sound macroeconomic policies and to move ahead speedily with comprehensive structural reforms so as to ensure the credibility and sustainability of the liberalisation of capital movements. In this context, the timetable for dismantling remaining restrictions on short-term capital flows should be closely tailored to concrete progress on the above-noted reforms.

Regarding cross-border financial services

38. The Committees encouraged the Slovak authorities to envisage greater liberalisation of banking and financial services provided by non-resident suppliers on a cross-border basis. The proposed reservations are more comprehensive overall than is the case for most OECD countries, and the authorities would be well advised to bring further competitive pressure from service suppliers established abroad to bear on the domestic financial sector in the interest of ensuring greater transparency and efficiency of operational standards in the domestic market.

II. PROPOSED ACTION

39. Accordingly, the Council is invited to adopt the following draft conclusion, in the event that it should decide to invite the Slovak Republic to accede to the Convention on the OECD:

THE COUNCIL

- a) **noted the Report entitled “Slovak Republic: Position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises” [C(2000)...];**
- b) **adopted the draft Decisions set out in Annexes 1 and 2 to the Report C(2000)...amending Annexes B to the Codes of Liberalisation of Capital Movements and Current Invisible Operations, and Annex A to the Third Revised Decision on National Treatment, with effect from the date of the Slovak Republic’s accession to the Organisation.**

III. FOREIGN DIRECT INVESTMENT

A. Recent Performance

Inward Direct Investment

40. FDI inflows have been small compared with those in other transition economies (Table 1). By 31 December 1999, the cumulated FDI inflows stood at US\$**2.04** billion (Table 2). In terms of per capita inflows, Slovakia still lacks considerably behind Hungary and the Czech Republic which have attracted US\$14.4 billion (Czech Republic) and US\$ 18.3 billion (Hungary) as of 31 December 1999. This comparatively weak performance may partially be attributed to the short history of the country and the political environment in the past years. This made it difficult for the Slovak authorities to establish a track record of policies conducive for foreign investment. **Furthermore, there is still a lack of adequate infrastructure and the Slovak Republic is faced with strong competition for inward FDI from its neighbouring countries.**

41. However, in the last few years the net change in FDI stock became increasingly positive (Annex 8), although the total volume of FDI stock remains relatively small. Between 1 January 1997 and 31 December 1999, FDI stock has grown from **1.39** billion US\$ to **2.04** billion US\$ (increase of **46.8** per cent) (Table 2). According to the Secretariat's calculations, FDI accounted for between 1.3 per cent and 3.0 per cent of GDP in recent years.

42. The principal investors come from Germany, Austria, **the Netherlands**, the United States and the United Kingdom (Table 3). Germany, Austria, and **the Netherlands** account for **53.8** per cent of FDI stock, while investors from **the United States** and the United Kingdom represent an additional **22.1** per cent of FDI stock as of 31 December 1999.

43. **49.1** per cent of FDI inward stock relates to industrial production (Table 4). Other major sectors that attract FDI are finance and insurance (**20.3** per cent) and wholesale and retail trade (**18.7** per cent). In all other sectors, FDI is insignificant.

44. FDI inward flows between 1 January 1999 and 31 December 1999 amounted to US\$ 298.4 million. The main countries of origin were Germany (34.6 per cent), United Kingdom (13.5 per cent), Austria (12.0 per cent), United States (11.0 per cent) and Czech Republic (5.9 per cent).

Outlook for 2000 and beyond

45. The Slovak authorities are fully aware that FDI inflows are still very modest. However, they point out to a number of factors that they hope will improve the attractiveness of the Slovak Republic as a host for FDI. Above all, the concept of strategic enterprises has been abolished and privatisation has gained

new momentum, in particular in the sectors of telecommunication and energy⁴. This will offer new investment opportunities for foreign investors. Furthermore, preparing the integration of the Slovak Republic into the European Union will further enhance the freedom of establishment. Finally, the investment climate has been improved by lowering the corporate tax rate from 40 per cent to 29 per cent as of 1 January 2000.

46. While acknowledging the absence of discriminatory treatment, foreign investors still complain about various administrative hurdles, such as time-consuming, burdensome and costly registration and/or certification procedures. Existing rules are not always transparent and administrative practices may vary between different regions. **The Slovak authorities state that an internal review is underway to identify the most serious administrative obstacles encountered by investors. After completion of this assessment, measures will be taken to facilitate administrative procedures where necessary.** A lack of adequate infrastructure (including in the financial sector) may also negatively affect greenfield investment.

FDI Outflows

47. Outflows of FDI have so far been minimal (Table 5). By 31 December 1999, outward FDI stock amounted to **296.3** million US\$. Investments in the Czech Republic amounted to **106.4** million US\$, followed by the United Kingdom (**59.8** million US\$), Ukraine (**39.7** million US\$), Hungary (**28.7** million US\$) and Russia (12.1 million US\$). Most outward FDI stock is in **wholesale and retail trade (30.3** per cent), industry (**29.9** per cent) and generation and distribution of electricity and gas (**13.1** per cent).

4. The budget of the National Property Fund approved by Parliament foresees SKK 4.5 billion of income generated from privatisation in 2000.

Table 1. Comparative indicators of international direct investment

	Inflows of FDI (US\$ million)				Inflows as per cent Of GDP				Inflows as per cent of gross fixed capital formation			
	1995	1996	1997	1998*	1995	1996	1997	1998*	1995	1996	1997	1998*
Slovakia	230	338	205	611	1.3	1.8	1.1	3.0	4.8	4.9	2.7	7.4
Hungary	4 453	1 983	2 085	1 935	10.1	4.4	4.6	4.1	50.4	20.8	20.8	
Czech Republic	2 562	1 429	1 301	2 540	5.1	2.5	2.5	4.6	15.6	7.0	7.8	
Poland	3 659	4 498	4 908	6 365	3.1	3.3	3.6	4.2	18.0	17.7	16.7	

* Provisional data.

Source: OECD Secretariat and Slovak National Bank

Table 2. Volume of FDI¹
(US\$ million)

	1996	1997	1998	1999
Corporate Sector	1,187.1	1,257.2	1,630.6	1,736.8
Banking Sector	199.9	333.7	350.3	307.0
Total	1,387.0	1,591.0	1,980.9	2,043.8

1. Stock data. Total figures may reflect rounding errors

Source: National Bank of Slovakia

Table 3. Volume of FDI by country of origin¹

	1996 ²		1997		1998		1999	
	US\$ mil	%	US\$ mil	%	US\$ mil	%	US\$ mil	%
Austria	246.4	20.8	334.1	21.0	360.7	18.2	345.4	16.9
Belgium	12.0	1.0	21.1	1.3	34.7	1.8	24.1	1.2
Czech Republic	116.7	9.8	136.5	8.6	188.9	9.5	176.5	8.6
France	91.4	7.7	113.6	7.1	139.4	7.0	85.3	4.2
Germany	289.2	24.4	343.8	21.6	398.1	20.1	448.8	22.0
Hungary	-	-	19.3	1.2	18.2	0.9	32.5	1.6
Italy	22.5	1.9	39.6	2.5	22.2	1.1	33.5	1.6
Netherlands	91.1	7.7	152.8	9.6	257.0	13.0	305.7	15.0
Sweden	17.8	1.5	15.2	1.0	-	-	-	-
Switzerland	27.3	2.3	20.4	1.3	25.1	1.3	25.0	1.2
United Kingdom	132.6	11.2	149.3	9.4	227.2	11.5	186.3	9.1
United States	90.7	7.6	179.7	11.3	204.6	10.3	265.0	13.0
Other countries	49.4	4.2	65.6	4.1	104.9	5.3	115.8	5.7
Total volume of FDI	1,187.1	100	1,591.0	100	1,980.9	100	2,043.8	100

1. Total figures may reflect rounding errors

2. Only corporate sector

Source: National Bank of Slovakia

Table 4. Sectoral breakdown of FDI¹

	1996 ²		1997		1998		1999	
	US\$ mil	%	US\$ mil	%	US\$ mil	%	US\$ mil	%
Agriculture and forestry	0.9	0.1	0.1	0.0	0.1	0.0	3.5	0.2
Extraction of raw materials	23.2	2.0	24.6	1.5	24.7	1.2	24.7	1.2
Industrial production	685.6	57.7	692.9	43.6	968.1	48.9	1,002.8	49.1
Generation and distribution of electricity and gas	7.4	0.6	11.6	0.7	11.6	0.6	10.1	0.5
Building and construction	32.2	2.7	39.6	2.5	42.0	2.1	39.9	2.0
Wholesale and retail trade, repairs to motor vehicles	278.0	23.4	297.7	18.7	335.7	16.9	381.7	18.7
Hotels and restaurants	19.8	1.7	19.7	1.2	18.1	0.9	25.1	1.2
Transport, storage and communications	50.8	4.3	63.8	4.0	64.6	3.3	63.7	3.1
Finance and insurance	48.7	4.1	394.3	24.8	453.2	22.9	413.9	20.3
Real estate, rental and comm. services, research and development	33.0	2.8	38.7	2.4	54.6	2.8	71.4	3.5
Health service and social care	0.3	0.0	0.5	0.0	0.5	0.0	0.4	0.0
Others public services	7.2	0.6	7.4	0.5	7.8	0.4	6.8	0.3
Total volume of FDI	1,187.1	100	1,591.0	100	1,980.9	100	2,043.8	100

1. Total figures may reflect rounding errors

2. Only corporate sector

Source: National Bank of Slovakia

 Table 5. Outward FDI stock at 31 December 1999¹
 (corporate sector)

	US\$ mil	%
Slovak direct investment abroad	296.3	100.0
Structure of investment by country		
Bulgaria	8.7	2.9
Cyprus	6.2	2.1
Czech Republic	106.4	35.9
Germany	6.9	2.3
Hungary	28.7	9.7
Poland	7.7	2.6
Russia	12.1	4.1
Switzerland	5.2	1.8
Ukraine	39.7	13.4
United Kingdom	59.8	20.2
Other countries	14.9	5.0
Structure of investment by sector		
Industry	88.5	29.9
Generation and distribution of electricity and gas	38.8	13.1
Wholesale and retail trade, repairs to motor vehicles	89.8	30.3
Finance and insurance	37.9	12.8
Extraction of raw materials	22.6	7.6
Real estate, rental, comm. Services	5.9	2.0
Transport, storage and communications	3.9	1.3
Other public, social security, and personal services	3.8	1.3
Agriculture, hunting and forestry	4.0	1.4
Other sectors	1.1	0.4

1. Total figures may reflect rounding errors

Source: National Bank of Slovakia

B. Regulatory Framework for FDI

1. General Requirements

1.1. Overview

48. The legal and institutional framework for foreign direct investment in the Slovak Republic is characterised by a number of liberal features leading to very few reservations under item I/A of the Code of Liberalisation of Capital Movements. These liberal features include in particular the:

- absence of a separate law for FDI. Established foreign-controlled enterprises operate under the Commercial Code, which applies equally to domestic companies;
- absence of general screening procedures for new “greenfield“ investments or mergers or acquisitions of existing private enterprises established in the Slovak Republic; and the
- absence of reciprocity provisions, including in the banking and insurance sector.

49. On the other hand, a number of other features effectively hinder the access of foreign investors:

- participation of the public sector in the Slovak economy remains considerable, although important steps have been taken in the last year to enhance privatisation;
- although the Slovak authorities abolished in 1999 the so-called Act on Strategic Enterprises, the State or the National Property Fund (NPF) still retains partial ownership in a number of important companies in various sectors of the economy (Annex 5);
- foreign investors are still confronted with slow, cumbersome administrative procedures and the applicable rules sometimes lack transparency.

50. As regards future policies and practices towards FDI, the following elements deserve particular attention:

- The Government of the Slovak Republic approved a Unilateral Declaration based on its Resolution No. 214 of 19 March 1996, committing itself to continue to pursue future liberalisation and to extend on a non-discriminatory basis to all OECD Member States any liberalisation measures covered by the OECD Codes of Liberalisation it may take under the Europe Agreement. The Slovak Republic committed itself also not to discriminate among OECD Member States in the event of recourse to the safeguard clauses of that Agreement. **The new Slovak Government confirmed these commitments.**
- The Slovak authorities have confirmed that National Treatment applies - and will continue to apply - regarding transactions in the shares of privatised enterprises and in future sales of equity shares by the National Property Fund, including in the case of enterprises in which the State or National Property Fund will preserve an equity participation.
- The Slovak authorities confirm their determination to achieve and maintain a high level of liberalisation of foreign investment, while respecting the principles of national treatment and transparency.

- As regards state-ownership and control in a number of sectors, the Slovak authorities intend to complete privatisation in substance until around end-2002. However, the full range of specific modalities of privatisation are not yet entirely known.

51. There is no specific law on FDI in the Slovak Republic. The operations of all enterprises, including foreign investment enterprises, fall under the Commercial Code No. 513/1991. This Code has been amended several times, lastly by Act No. 127/1999 Coll. of Laws. According to the Commercial Code, foreign investors enjoy national treatment.

52. The Foreign Exchange Act (Article 2k) defines “direct investment” as “the utilisation of financial resources or other appreciable property assets, or property rights, the purpose of which is to establish, acquire, or form a permanent business relationship for a resident investing in a business abroad, or for a non-resident investing in a business located in the country”. It is required that the investor acquires at least 10 per cent of the equity or voting rights of the company, or grants the company a financial credit with a maturity of at least five years. Re-invested profits are likewise covered.

53. FDI is possible through the creation or extension of a wholly foreign-owned enterprise, the establishment of a subsidiary or branch, or the acquisition of partial or full ownership of an existing enterprise. A number of sectoral exceptions exist to this rule (see below).

54. Until last year, in a number of so-called “strategic enterprises” full private ownership - whether foreign or domestic - could not be obtained, since the State or National Property Fund kept a minimum share of the equity in accordance with the “Law on Ensuring the Strategic Interests in the Privatisation Process”. This Act had become part of the Slovak legislation in September 1995. The Slovak Parliament abolished it on 16 September 1999. The amended Act on Large-Scale Privatisation, which entered into force on 12 October 1999, no longer uses the concept of “strategic enterprises”. It reduced the original list of companies in which the state holds a stake **to a limited number of natural monopolies**. By these measures, the new Slovak Government reacted to the recommendations of the CIME/CMIT to fundamentally decrease the number of such companies.

55. The Slovak authorities confirm that there is no requirement for foreign-controlled firms to employ Slovak nationals, in particular as far as membership in the board of directors of a company is concerned. However, if the latter persons are foreigners, they must have a valid permit to stay in the Slovak Republic.

56. Under the Association Agreement with the European Union, (the “Europe Agreement”), which entered into force on 1 February 1995, the Slovak Republic has the legal right to introduce new exceptions to national treatment in a number of sectors during a 10 year transition period. The agreement also identifies sectors for which there is no obligation to provide national treatment. In addition, the Agreement allows for temporary derogations in cases of restructuring of industries, where industries face serious difficulties and in cases of a drastic reduction in the market share of Slovak companies. While devising and applying such measures, the Slovak Republic should grant preferential treatment, whenever possible, to Community companies and nationals. **This includes European subsidiaries of non-EU enterprises.**

57. The Slovak authorities have stated that they have no intention of going back on liberalisation measures already taken, and the absence of precautionary reservations to the OECD Code of Liberalisation of Capital Movements commits the authorities in this regard. The Slovak authorities are also committed to the principle of non-discrimination and intend to carry out future liberalisation on this basis. They will extend to all OECD Member countries any liberalisation measures falling under the purview of the Codes that they may take under the Europe Agreement and will not discriminate among OECD Member countries in the event of recourse to the safeguards clause of that Agreement. This commitment is set out in the

Unilateral Declaration adopted by the Slovak Government on 19 March 1996 and confirmed in the Slovak official response to the CIME/CMIT Chairman's letter.

1.2. Registration Requirements

58. There is no registration requirement **specifically** for foreign investors in the Slovak Republic.

1.3. Branches

Financial Sector

59. At the time of the first examination in July 1996, the establishment of branches was not permitted in the non-bank financial sector, except for financial advisory services. A significant change occurred in 1999/2000 when legislative measures were adopted that allow the operation of branches of most major types of foreign financial institutions based on the principle of national treatment and non-discrimination.

60. The amendment to the Act on Securities, which entered into force on 1 July 1999, allows foreign security traders to operate in Slovakia in form of branches. A new Act on Collective Investment that took effect on 1 January 2000 also permits foreign collective investment companies to operate in the Slovak Republic in the form of branches. **(Six branches of non-resident collective investment companies have been registered in Bratislava since that date)**. The amendment to the Insurance Act which was passed by the Parliament on 8 February 2000 and has entered into force on 1 April 2000, extends this possibility also to foreign insurance companies.

Other sectors

61. The Commercial Code permits the establishment of branches, including those of foreign investors, in general. There is one exception relating to the energy sector pursuant to the Electricity Law No. 70/1998 Coll. whereby a licence may only be granted to companies established in the Slovak Republic. This requires a reservation under item I/A of the Code of Liberalisation of Capital Movements. **The Slovak authorities expect that this restriction will be abolished within the next two years in the framework of the privatisation of the energy sector.**

1.4. Real Estate

62. Pursuant to the Foreign Exchange Act No. 202/1995 Coll. of Laws as amended by Acts No. 45/1998, No. 200/1998 and No. 388/1999, a non-resident may acquire real estate, including agricultural land and forest, only in specific cases, including inheritance, diplomatic missions etc.

63. However, the limitations concerning the acquisition of domestic real estate by non-residents can be overcome by establishing a domestic legal entity or by participation as a partner or a member in a legal entity. Thus, the purchase of real estate by established foreign controlled enterprises is free on a National Treatment basis, because they are considered foreign exchange residents.

64. By contrast, the acquisition of real estate by branches of foreign controlled enterprise is, in principle, currently not permitted, because branches are considered as non-residents. This requires a reservation under item I/A of the Code of Liberalisation of Capital Movements.

65. An amendment to the Foreign Exchange Act that took effect on 1 January 2000 now permits the acquisition of real estate by branches *in accordance with special legislation* if such real estate is indispensable as business premises for this organisational unit (see Article 19, paragraph 2). As a result, Slovak branches of certain non-resident *financial institutions* (**banks and insurance companies, securities dealers, investment companies**) can now acquire real estate. The form of acquisition is irrelevant.

66. The remaining restriction concerning real estate will disappear for all OECD investors at the end of 2000 in the context of the implementation of the Europe Agreement.

67. For tax purposes, prices agreed in real estate transactions that include a foreign company or a Slovak company with foreign participation are subject to verification on the basis of a standard method. **The principle of national treatment applies.**

68. Until last year, property transfer tax was higher for foreign than for domestic investors. Whereas foreign investors paid property transfer taxes based on German valuation techniques and prices, domestic investors paid according to the Slovak system. This usually resulted in much lower taxes paid by domestic investors. This discrimination has been abolished as of 1 January 2000.

2. Sectoral restrictions

2.1. *Financial Sector*

a) *Banking Sector*

Legal and Regulatory Framework

69. The development of a separate banking system in Slovakia began immediately after the dissolution of the former CSFR through the establishment of the National Bank of Slovakia (NBS) in January 1993 as an independent central bank. The functions of the NBS are defined in the National Bank of Slovakia Act No 566 dated 18 November 1992 as subsequently amended, with the primary task of ensuring the stability of the Slovak currency. Its other tasks consist of formulating and implementing monetary policy, issuing banknotes and coins, controlling the circulation of money and the payments system and supervising the performance of banking activities. Its highest governing body is the Bank Board, consisting of the Governor, two Vice-Governors, two Chief Executive Directors and three other members. The Governor and Vice-Governors are appointed and recalled by the President of the Slovak Republic upon recommendation by the Government after approval by the National Council of the Slovak Republic. The Board formulates monetary policy, develops instruments for its implementation and decides on specific monetary policy measures.

70. The status and functions of the commercial banks are specified by the Banking Act (Act 21/1992 Coll.), as subsequently amended. As most banks established in the former Czechoslovak Republic had their headquarters in Prague, only 15 out of a total of 61 banks were registered in Slovakia as at end 1992. The separation of the two republics caused an increase in the number of branches of foreign banks in Slovakia, which reached 10 already at the end of 1993. Between 1994 and 1996, some additional establishment of commercial banks occurred, mainly by foreign investors (Creditanstalt, Bank Austria, Hypobank, Citibank, Komerční banka). A significant drop in the number of foreign bank branches occurred in 1996 through 1998, as distressed Czech banks sold their Slovak branches to local banks.

71. At 1 January 2000, the Slovak banking system consisted of 25 entities - 23 banks and 2 branches of foreign banks. In addition, foreign banks operated ten representative offices in the Slovak Republic.

The share of foreign investors in the total of subscribed share capital of banks was 24.6 per cent (31.6 per cent if permanently available funding provided by foreign banks to their branches is included). Of the total volume of foreign capital in the Slovak banking sector, Austria accounted for 23.5 per cent, the Czech Republic for 20 per cent, the Netherlands for 19.6 per cent, the United States for 12.8 per cent, Germany for 13.2 per cent, France for 3.5 per cent, Great Britain for 2.9 per cent and Italy for 2.7 per cent.

72. The Banking Act was significantly amended in 1996, through the introduction of mortgage banking, empowerment of additional licensing regulation, conversion of stock issued in bearer form to compulsory registered shares and enforcement of banking supervision via implementation of corrective measures. Following preliminary accession discussions with the CIME/CMIT Committees in July 1996, additional amendments were brought to the Banking Act, abolishing the previous two-stage structure of licensing of foreign banks and harmonising the procedure of obtaining a license for banking operations between resident and non-resident applicants. A provision for an economic needs test for new establishments based on the notion of economic viability of the institution to be established was likewise eliminated from the Banking Act along with other minor changes.

73. A further important amendment was introduced in February 1998 (Act No.44/1998 Coll. Of Laws) to remove several restrictions previously applying to the participation by foreign investors in the area of banking. The previous requirement for prior approval by the NBS (in agreement with the Ministry of Finance) of acquisitions by non-resident investors as well as by resident foreign-invested companies of more than 3 per cent of the equity capital of resident banking institutions was removed. Instead, the procedure for acquisition of increased stakes in banking institutions was harmonised between foreign and domestic investors. As from February 1998 the threshold for approval is set at 5 per cent, with subsequent thresholds for renewed approval set at 10, 20, 33 and 50 per cent respectively, for domestic and foreign investors alike. Following these reforms, there is no longer any need for a reservation under item I/A as non-residents can establish or acquire banks in the Slovak Republic on the same conditions as residents. As to the successive thresholds for approval, the Slovak authorities confirm that these are applied only on the basis of prudential criteria, which are well specified and transparent.

74. A further amendment to the Banking Act of 11 October 1999 liberalised the operation of organisational units (branches) of foreign entities in mortgage banking and regulations regarding the requisites for a licence for foreign branches to conduct mortgage business are currently being developed. A branch of a foreign bank shall not be restricted in providing mortgage loans and related issuing of mortgage bonds. A branch of a foreign bank licensed to engage in mortgage business can, when exercising its right of lien, freely sell the collateralised real estate in distraint.

75. The conditions and procedures to be followed in licensing new banks and branches of foreign banks and the registration of representative offices of foreign banks are regulated by the relevant provisions of Article 1, Articles 4 to 6, or Art. 39a of the Banking Act as amended by subsequent amendments and NBS decrees.

76. Decree No. 5/1998 of the NBS, stipulates the due form of application for a licence to operate as a bank, the minimum amount of cash contribution to a bank's share capital and the method for substantiating the eligibility of an applicant bank, which is a condition for the issue of a licence to operate as a bank (became effective on 3 July 1998).

77. Decree No. 6/1998 of the NBS, stipulates the due form of application for a licence to operate as a bank for a branch of a foreign bank, the minimum amount of permanently available funding contributed by a foreign bank to its branch operating in Slovakia, and the method of documenting the fulfilment of conditions for granting a branch a licence to operate as a bank (effective since 3 July 1998).

78. Decree No. 10/1998 of the NBS, stipulates the due form of application for the establishment of a representative office by a foreign bank or a similar foreign financial institution and the conditions attached to its operation (became effective on 29 October 1998).

79. The process of licensing new banks, branches of foreign banks, and the opening of representative offices are subject to the same criteria and requirements in relation to investors, irrespective of whether they are residents or non-residents.

80. In its role as primary supervisory authority with respect to all Slovak banks, the NBS carries out regular inspections and reviews of accounting documents and reports submitted by the banks in accordance with the NBS regulations governing capital adequacy, credit risk exposure, liquidity ratio, classification of claims and of-balance sheet liabilities and regulation of the foreign exchange position. The Banking Supervision Division utilises an information system based on assessing early-warning and financial ratios in evaluating developments and trends in individual banks, groups of banks, and the entire banking sector. Assessment of prudential behaviour in the banking sector is conducted systematically also via on-site inspections.

81. On 31 January 1994, the NBS introduced capital adequacy, liquidity, credit exposure and foreign exchange position requirements based on the Basel standards, although the current legal and regulatory framework does not yet allow full implementation of the Basel Core Principles of banking supervision.⁵ Principal shortcomings with respect to supervisory standards relate to the lack of supervision on a consolidated basis, the lack of a system for exchange of information with other public bodies engaged in financial sector supervision and the lack of authorisation in the Banking Act for the supervisor to set limits for and monitor bank management of risk other than lending risk. **Amendments to the Banking Act are under preparation to extend the empowerment of the supervisory authority in these respects and are expected to be approved by Parliament by the end of 2001.**

82. During 1995, the NBS introduced regulations regarding the compulsory evaluation and risk assessment of outstanding debts, the creation of provisions against these risks and the reporting of this information in banks' annual accounts. An 8 per cent capital adequacy ratio was imposed on banks established after 31 December 1991. The minimum capital adequacy ratio has been raised in a series of steps, and all banks were required to reach the current minimum capital adequacy ratio of 8 per cent by no later than 31 December 1996.

83. The NBS Decree No. 11/1997 pertaining to regulation of open foreign exchange positions of the banks, sets out rules for prudent banking operations in foreign currencies. For the difference between assets and liabilities in individual currencies calculated in Slovak crowns, the Decree sets the limit of 10 per cent in relation to the bank's capital, and for the aggregate open foreign exchange position, the limit of 25 per cent. Following the adoption of banking supervision measures against banks failing to meet the required limits, except for banks undergoing transformation, risks taken in open positions in recent years were mostly short-term in nature, and the number of banks failing to meet this requirement showed a substantial decrease.

Recent Developments

84. For purposes of supervision, the NBS divides the banking system into five groups:

- Group 1: Three large state-owned banks - so-called *transforming* banks;
- Group 2: Seventeen medium and small banks;
- Group 3: Two specialised savings banks (housing finance institutions);

5. See DAFPE/CMF(2000)16.

- Group 4: Two specialised state financial institutions (including KOB);
- Group 5: Two branches of foreign banks.

85. The largest of the three in Group 1 is the former savings bank - Slovenská sporiteľňa - which was the only savings institution for private deposits prior to 1990 and still has a dominant role in this area. The National Property Fund (NPF) owns 29.7 per cent and the Ministry of Finance (MOF) owns 67.5 per cent of the shares of Slovenská sporiteľňa, with the remaining 2.8 per cent owned by the Restitution Fund. The second largest bank is VÚB (Všeobecná úverová banka), which inherited a large part of the commercial portfolio of the former Czechoslovak State Bank (which formerly fulfilled both central and commercial banking functions). Both banks have been restructured as commercial banks with a universal banking licence. The third bank, IRB, (Investičná rozvojová banka) inherited a large portion of former low-interest loans (typically for housing and large construction projects with Government support) also from the Czechoslovak State Bank. VUB and IRB were partially privatised in the first wave of coupon privatisation in 1992-93, but 68.6 per cent of VÚB's shares are still owned by the MOF with another 16 per cent held by the NPF. Four per cent and 65.5 per cent of IRB's shares are directly owned by the NPF and the MOF, respectively.

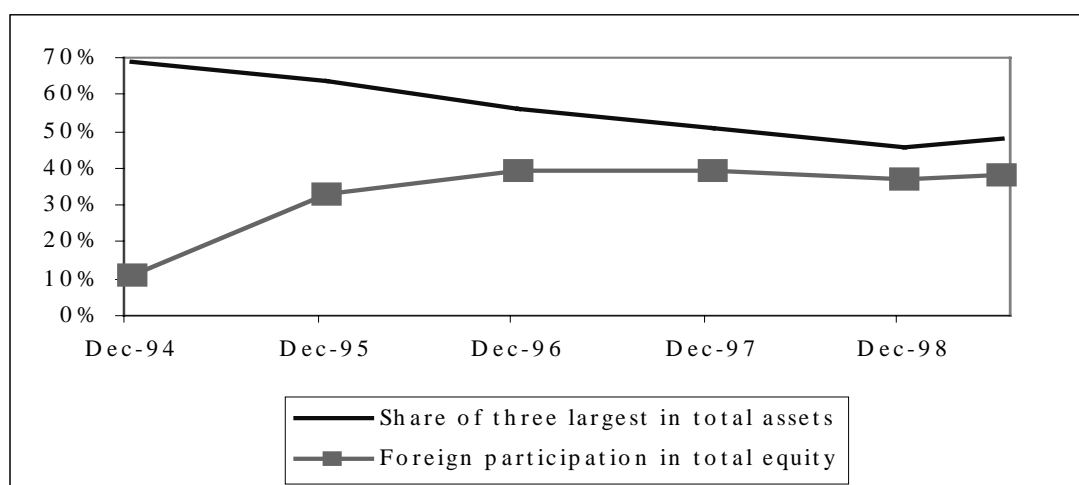
86. As shown in Table 6 and Figure 1, the three large state banks (Group 1) have experienced a pronounced decline in their market share in the past five years, but still account for nearly half of the assets in the banking system. The medium and small banks in Group 2 are privately-owned with the exception of one (Banka Slovakia), and include 10 banks with substantive foreign ownership (most of them with foreign participation accounting for more than 51 per cent of equity). These banks constitute the most dynamic group in the banking system, having increased their share from very low levels in the early 1990s to 35 per cent in mid-1999. The sharp increase in foreign ownership (See Figure 1) is due to the expansion of this group and of the branches of foreign banks in Group 5. Group 4 is dominated by Konsolidacna Banka (KOB), which is a state workout institution created in the early 1990s to handle bad assets. Finally, Group 3 comprises two small savings banks with foreign participation.

Table 6. Structure of the Slovak Banking System
(June 1999)

	Group 1	Group 2	Group 3	Group 4	Group 5	Total
Number of Banks	3	17	2	2	2	26
Total Assets (Sk million)	355 318	258 516	44 574	25 053	58 440	741 900
Classified Assets (3 to 5)/ Total (%)	30.5	8.2	0.2	85.7	17.6	21.8
Classified Assets (2 to 5)/ Total (%)	46.1	11.7	0.5	94.4	23.4	31.2
Share in Total Assets (%)	47.9	34.8	6.0	3.4	7.9	100.0
Share in Classified Assets (3 to 5) (%)	67.2	13.1	0.1	13.3	6.4	100.0
Majority Ownership	State	16 Private	Private	State	Private	-

Source: NBS

Figure 1. Key Indicators of Market Structure



Source: NBS

87. The financial situation of the “large banks” became critical as a result of the continuing deterioration of their credit portfolios in recent years. Assets classified as substandard or below (Table 6) accounted for nearly half of their total assets in June 1999, driving total classified assets in the banking sector to more than 30 per cent of total assets or 28 per cent of GDP. Considering that these banks also hold large volumes of “social loans” that are strictly speaking performing but not profitable, their situation was in fact worse than these figures indicate

88. The non-performing as well as the low-earning assets held by the large banks originate from various sources. First, an important segment of the problem portfolio was inherited from the former regime, although some of the worst of these “old” problem loans were transferred to KOB. Second, the banks were induced to provide loans to newly privatised enterprises in the first half of the 1990s. This lending was largely indiscriminate and a large part of these loans became non-performing as the enterprise borrowers failed. Finally, there is third segment of the problem portfolio that resulted from a combination of lax credit standards and political pressures throughout the 1990s.

89. The largest banks have reported capital adequacy ratios (CARs) significantly below minimum prudential requirements (8 per cent) in recent years, and were very close to zero by mid-1999. Their CARs would become negative if the loans had been subject to stricter classification criteria and, especially, if collateral were to be accounted for at realisable value. However, these banks have been allowed to retain their licenses and continue operating due to a special clause of the banking law granting regulatory forbearance, which expired in December 1999. IRB was in a special situation, as it suffered a major deposit run in December 1997, and was put under the control of (conservatorship) the NBS until late last year, when it was released following a re-capitalisation exercise via state-guaranteed loans. The two other banks were re-capitalised at approximately the same time, through funds created by the NBS via unused provisions resulting from its dispositions with IRB. As a result, the capital position of three largest banks was brought above the 8 per cent level by year-end 1999. It will, however, continue to deteriorate on account of the negative cash flow generated by losses. Net losses of SKK 8 billion were recorded in 1998, and reached over SKK 14 billion in 1999, or the equivalent of 1.8 per cent of GDP. Thus, although some 40 per cent of bad loans have been transferred, the remaining 60 per cent still on the balance sheets of the banks will continue to generate losses for the time being.

90. The small and medium sized banks have generally performed better than the large banks, as indicated by the relatively low concentration of classified claims on their balance sheets (see Table 6) and

much higher CARs (generally above 10 per cent). Nevertheless, this group has also felt the impact of the economic slowdown, and has been required to make additional provisions in 1999, resulting in greatly reduced net income (SKK 0.4 billion in 1999 as compared to SKK 2.9 billion in 1998). In addition, this group is not very homogenous, including some banks of dubious quality. The NBS has identified three banks that give rise to supervisory concern. At the end of 1999, the NBS cancelled the banking licence of one of these institutions, while another has been acquired by a larger bank.

91. The other segments of the banking system do not seem to give rise to regulatory concern. The ratio of classified assets to total assets in Group 4 is by far the highest in the system, but this is because this group includes KOB, which was created precisely to absorb and handle problem assets. KOB still holds a license but does not take deposits from the public or perform other banking functions. Group 3 has the lowest ratio of classified assets in the financial sector and is backed by substantive foreign participation. Finally, Group 5 has a high ratio of classified assets, but this is probably due to the poor financial situation of the Slovak branch of CSOB (the Czechoslovak Foreign Trade Bank, with headquarters in Prague), which was recently sold to a reputable foreign bank with a strong capital position.

Privatisation and Restructuring Programme

92. In recognition of the serious financial distress in the state banks, the new Government, in close co-operation with the NBS, has adopted a comprehensive restructuring programme, which is also supported by the World Bank, the EU and USAID. This programme aims to reduce the level of classified loans recorded on the balance sheets of state-owned banks from the 1999 average of more than 40 per cent of the total assets to a more sustainable level and to improve capitalisation of these banks through asset restructuring and sale. By the end of December 1999, the proportion of loans classified as substandard or below was drastically reduced to 22.5 per cent through implementation of the initial phase of the programme -- the transfer of a first lot of impaired loans from the banks to two separate loan workout institutions.

93. The Government's combined programme of bank and enterprise reforms comprises three major and inter-related areas. The first is a programme of bank restructuring and privatisation. The second is a programme for the workout of the large stock of problem loans and tax arrears. The third indispensable element for achieving lasting results, is a programme of legal and regulatory reforms aiming to promote loan workout efficiency as well as general corporate governance and transparency.

94. The concept of the privatisation of state-owned commercial banks in Slovakia was first discussed and approved by the new Government in May 1999. On 25 August 1999, the Government approved a concept paper, the Programme of Restructuring of Banks and Corporate Sectors, which integrates three constituent parts:

- i) privatisation of banks;
- ii) restructuring of banks; and
- iii) corporate sector restructuring.

95. The implementation of this project was simultaneously launched on several levels:

- A Managing Unit was created to manage the whole project. The Managing Unit, which is at the same time an advisory body to the Minister of Finance, is presided over by the State Secretary of the Ministry of Finance. The Co-ordination unit, which is accountable for the day-to-day project management, consists of the executive representatives of the institutions represented in the Managing Unit.

- A selection process via preparation and execution of international tenders was launched for external auditors for VUB, a.s.⁶, SLSP, a.s., and for Bank of Slovakia, a.s., as well as for financial and legal advisors for privatisation, a long-term advisor to the Co-ordination and Managing Units and for a number of short-term ad-hoc advisors.
- A new vehicle for loan workouts, the Slovenska konsolidacna š.p.ú.⁷ (SKA) was created to operate alongside the existing consolidation bank KOB. The shareholder structure of this agency is the following: *i*) Ministry of Finance 24 per cent; *ii*) Investičná a rozvojová banka, a.s. 19 per cent; *iii*) Konsolidacná banka, š.p.ú. 19 per cent; *iv*) Slovenská sporiteľňa, a.s. 19 per cent; and *v*) Všeobecná úverová banka, a.s. 19 per cent. Its objective is to maximise the portfolio value of loans transferred from the state banks through liquidations, restructuring and sale.

96. In October 1999, the Government decided on the implementation of the first phase of pre-privatisation restructuring of the banks. Re-capitalisation of VÚB, a.s., and SLSP, a.s. by the Government took place, using funds created in the NBS, followed by the transfer of a substantial part of classified bank loans (SKK 74 billion or slightly more than 40 per cent of total classified loans) to the specialised agency Slovenská konsolidacná, a.s. and to Konsolidacná Banka, a.s. Most of the loans transferred were in the loss category.

97. This operation resulted in the capital adequacy ratio being brought higher than 8 per cent by end-year in both banks; the share of classified loans decreased substantially and the liquidity position of the banks improved. The second phase of the pre-privatisation restructuring will take place in April – May 2000; it will be based on the results of external diagnostic audits, and recommendations by the financial advisor for privatisation. It will be aimed at the final preparation of the bank for the privatisation, in terms of its loan portfolio structure. The total budgetary cost of the two phases of bank restructuring is currently estimated at SKK 100-110 billion, equivalent to some 12 per cent of GDP.

98. On 16 February 2000, the Government updated the concept of bank privatisation, to the effect that at least two thirds of the stock owned by the National Property Fund and the Ministry of Finance of Slovenská sporiteľňa a.s. can be privatised and will be offered to investors. It was also decided that the full part of the stock owned by the NPF and the MoF of IRB, VUB and Banka Slovakia can be privatised and offered for sale.⁸ In addition, it was made clear that no “going concern” restrictions will be imposed; full freedom for partial sales of the three banks’ assets will be guaranteed. During March, the tender for a privatisation advisor for IRB was completed. Also, the final diagnostic audit reports, representing important input for the financial advisor, were completed for VUB, SLSP and Banka Slovakia.

6. a.s. means joint stock company.

7. š.p.ú. stands for “state financial institution”.

8. **The Government agreed a 100 per cent privatisation target for VÚB and IRB as well as for Banka Slovakia. In the case of Slovenská sporiteľňa, two options are being discussed in consultation with the privatisation advisor : either to offer potential buyers close to 90 per cent outright, or to offer close to two thirds of the share capital initially, with a first refusal option for the purchaser on another 23.3 per cent currently held by the MOF. The government would retain 10 per cent in view of the important role played by Slovenská sporiteľňa in capturing an channeling the savings of the population.**

b) Securities market institutions

99. The securities markets in Slovakia are still underdeveloped and have so far not played a major role in the intermediation of funds, although progress has been made in the past few years in the government securities sector with the implementation of new techniques and practices for issuance and debt management.

100. Many of the same reasons accounting for the financial fragility found in the banking and enterprise sectors have naturally held back the development of healthy equities and corporate bond markets. **In an environment of high interest rates with few attractive stocks listed, a high level of stock market activity can hardly be expected.** However, contributing factors to the current depressed market situation have been the fairly weak legislative framework, lax enforcement of the law and the widespread resort to non-transparent practices by several categories of market participants. These factors explain much of the lack of public confidence in the markets and the low interest shown by foreign portfolio and direct investors.

101. Until 1992, all securities in the former CFSR were issued in paper form and all services related to their custody and transfer were provided by banks duly authorised to do so. The development of institutions, techniques and supporting legislation for the Slovak markets was triggered both by the separation from the Czech Republic and the first wave of mass privatisation. A number of issues of company shares were launched in book-entry form, and subsequently registered at the Slovak Securities Centre, a state-owned securities depository newly established via the adoption of the Securities Act 600/1992. With subsequent amendments, this law constitutes the basic legal standard for the issuance, trading and clearing of securities. It is supplemented by the separate Act on Bonds 530/1990 as subsequently amended, which specially addresses debt securities issuance and trading. A new Act on Collective Investment, which came into force on 1 January 2000, regulates issuance and trading of collective investment securities.

102. There are two major exchanges operating on the Slovak securities market, the Bratislava Stock Exchange (BSSE), a joint stock company, and the RM-Systém Slovakia (RM-S), also a joint stock company. No OTC, inter-dealer market is allowed, as all transactions in securities must by law be executed via stock market operators. There are also a number of self-regulatory institutions, notably the Association of Securities Dealers and the Association of Investment Funds.

103. The activities of the Bratislava Stock Exchange are governed by the provisions set out in Act No 214/1992 on securities exchanges as subsequently amended and in the Securities Act. It is jointly owned by a number of commercial banks and the National Property Fund. The law stipulates a limit on foreign participation in BSSE' registered capital of a maximum of 33 per cent. The Slovak authorities have confirmed that this limitation is to be removed via amended legislation expected to enter into force no later than year-end 2000. A reservation to reflect this restriction under item I/A is thus proposed, which will cease to apply on 31 December 2000.

104. A similar restriction of foreign participation also applies to the Securities Centre (Stredisko cennych papierov Slovenskej republiky, a.s. (SCP)), which was established by the Ministry of Finance in December 1992. It serves as a depository for book-entry form and immobilised securities on the basis of Article 55 of Act No. 600/1992 on securities as subsequently amended. SCP is a joint stock company with a 100 per cent state interest. The Securities Act sets a 25 per cent limit for interests by non-resident entities in the registered capital of SCP, but the Slovak authorities have confirmed that this limit will be abolished by year-end 2000. Foreign investors may establish a property account with SCP under the same conditions as domestic investors. A reservation under item I/A is proposed to reflect the 25 per cent foreign participation limit which will cease to apply on 31 December 2000.

105. SCP provides for the registration of book-entry form and immobilised securities as well as changes to their holders. Securities in book-entry form are kept with SCP in holders' accounts and the issuers register. Records of securities holders used by SCP are single stage entry type, i.e. they do not allow recording of the sub-account of local administrators (e.g., securities brokers). SCP provides the services set out in law related to recording the transfer of ownership rights attached to securities in book-entry form for securities holders, securities issuers and public market organisers. In addition, SCP provides trading and information services for participants in the capital market. SCP currently holds accounts for more than 3.76 million securities holders. On 3 November 1999, SCP had 2,588 securities issues registered from a total number of 2,100 securities issuers.

106. The BSSS has gradually become the principal organised market in the Slovak Republic, seeing its proportion in the total volume of deals made on public stock markets increase from 68.5 per cent in 1994 to 97.8 per cent in 1998. The importance of the RM-S as a stock market was more significant in the period after the closure of the first phase of the voucher privatisation, as it ensured a large number of citizens access to trades in their stock. As per the end of 1998, it was possible to deal in 972 issues of shares and shares certificates on the RM-S market. Additionally, since 1996, the RM-S has been ensuring activities related to the organisation the National Property Fund debt securities market.

107. The BSSE ensures organisation of trading on three markets: trading in quoted securities (listed securities in senior and junior market) trading in registered securities and trading on the free market. As shown in Table 7, only 11 stocks are traded on the quoted market, down from 14 in 1997. On the unlisted markets, 819 stocks are traded, compared to 904 in 1997. Total equities market capitalisation represented a mere 6 per cent of GDP in 1999, as compared to 11.5 per cent in 1997. Figure 2 sets out the trading volume and movements in the equities index during 1999. The index, which is based on 14 September 1993, reached a high for the year of 94 on 14 January, and a low of 73.6 on 7 May. Another historical low of 70 was reached this year, 10 March 2000. Market activity is characterised by low frequency of transactions, low liquidity and high price volatility.

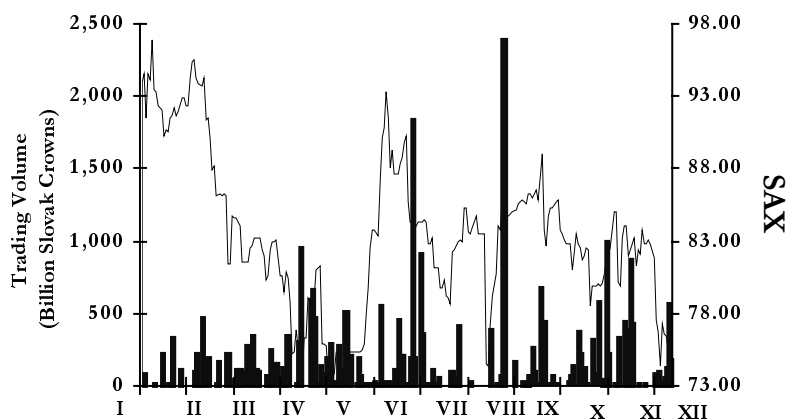
Table 7. Numbers of securities registered on individual BSSE markets
(as of 31 December 1999)

	Shares and share certificates	Debt securities
Market of quoted securities	11	60 ¹
Market of registered securities	33	58
Free market	786	19

1. Including 45 issues of government debt securities, 4 issues of debt securities of state-owned enterprises
Source: Ministry of Finance of the Slovak Republic

108. There is a higher level of activity in the bond market, notably the government bond sector. Banks have of late been increasing their government bond portfolios, accounting for some 84 per cent of total primary market issues in 1999, up from 81 per cent in 1998. Corporate bond issuance fell by 25 per cent during 1999.

Figure 2. 1999 Trading Volume on the BSSE and Movements in the SAX Index



Source: NBS

109. In recognition of the problems affecting the development of the capital markets, the Slovak authorities are planning a re-codification of the Securities Act to be introduced in 2001 as well as a complete reorganisation of the current supervisory set-up for the securities markets and the insurance sector by mid-2000. **A law on the new Financial Market Authority (FMA) is currently expected to enter into force on 1 July 2000, and training of personnel to staff this new institution is already underway. It is envisaged that the FMA will eventually also integrate banking supervision, in addition to oversight of the securities markets and the insurance sector, although this reform will not be introduced before the year 2002, as amendments to the Constitution of the Slovak Republic will be needed to safeguard the independent status of such a consolidated supervisory institution (See DAFFE/CMF(2000)16).**

110. In addition, a new Stock Exchange Act is currently in preparation, which is particularly aimed at harmonising conditions for accepting securities for trading with requirements according to EU Directives, concentrate organisational arrangements and to make more precise the provisions on state supervision of the securities exchanges. Only exchanges holding a securities exchange licence pursuant to the Securities Exchange Act will be entitled to carry out activities related to organising securities public market in the Slovak Republic after the elapse of the transition period defined in the new Securities Exchange Act.

111. Services in the field of securities in the Slovak Republic may only be provided by legal entities licensed as securities brokers by the Ministry of Finance of the Slovak Republic pursuant to Article 45 of Act No. 600/1992 of Coll. on securities in the wording of amended regulations. The following services are subject to licensing:

- purchasing or selling securities for third parties on the basis of commission agreements (Article 28), or mandates (Article 33);
- dealing with and rendering services related with on behalf on a securities issuer;
- dealing with the redemption of securities and payment of yields/dividends from securities on behalf of a securities issuer;

- custody of securities (Article 34), administration of securities (Article 36), and depository of securities (Article 37) based on relevant agreements;
- consultation services in matters concerning securities;
- depository functions for investment companies (requiring a banking licence).

112. A securities broker licence may only be given to a legal entity seated in the territory of the Slovak Republic in the form of a joint stock company with registered capital of at least SKK 5 million, or to a branch of a foreign securities broker. There are no limitations regarding the participation of foreign entities in the registered capital of securities brokers. Changes to the shareholding structure of the registered capital of a securities broker are not subject to approval by the Ministry of Finance, and there is no notification or information obligation. Thus, no reservation to item I/A of the Capital Movements Codes is required as non-residents are free to establish or acquire securities brokerage firms on the same conditions as residents in the Slovak Republic. An amendment to the Securities Act, which entered into force on 1 July 1999, introduced the possibility for branches of non-resident firms to operate in Slovakia.

113. There are currently 154 securities brokers active in the Slovak capital market under the regulations set out in the Securities Act No. 600/1992. This figure includes entities with various levels of capital availability. Apart from the 21 banks holding a licence for dealing with securities, there are only a few well-capitalised non-bank securities brokers. Most securities brokers are smaller joint stock companies with various levels of credibility, only complying with the minimal requirement of SKK 5 million of registered capital.

114. The Slovak authorities have stated that, from the point of view of protecting clients, it will be necessary to bring capital adequacy rules for investment services providers up to EU standards and to ensure that securities brokers only carry out activities related to securities trading as defined by the Securities Act. This will be one of the priority tasks for the new supervisory authority.

c) Other financial sector institutions

115. Other institutions of significance active in the Slovak financial sector are insurance companies and investment funds.

The insurance sector

116. Insurance operations in the Slovak Republic are regulated by the Code of the Slovak National Council No24/1991, as amended by later regulatory acts, and by the Commercial Code. The guidelines and licensing requirements for establishment of insurance businesses are specified in these acts. The granting of licences and supervision is carried out by the Ministry of Finance. Domestic and foreign legal entities and physical persons can establish insurance firms as joint stock companies and there are no limitations imposed on the amount of foreign equity ownership. A recent amendment to the Insurance Act, which entered into force on 1 April 2000, allows non-resident insurers to establish branches in the Slovak Republic. Thus, no reservation to item I/A is required with respect to form of establishment. Table 8 sets out details regarding foreign participation in the Slovak Insurance Sector.

117. The following licensing requirements are applied:

- Establishment of a company in accordance with the Commercial Code, certified via a founding contract, including list of shareholders and relevant articles of association;

- Evidence of paid up minimum amount of equity capital, in the form of a certificate issued by a domestic bank confirming the monetary portion of equities to have been deposited on the company's account. The minimum amount of equity capital (SKK 50 to 150 million) is defined depending on the type of insurance activities to be engaged in;
- A business plan consisting of a summary of insurance classes and types the applicant is going to carry out; relevant insurance terms and conditions; financial management estimation of the company for initial three years.

118. Other prerequisites for a licence concern the competence of the applicant. In accordance with Article 9, Paragraph 3 of the Insurance Act, the applicant's compliance with sufficient professional qualifications is required by the supervisory body (at least 3 year's experience in a managing function of an insurance office). A number of other supporting documents in proof of clean criminal record, etc have to be provided.

119. The Ministry of Finance of the Slovak Republic is the supervisory body of the commercial insurance industry. A new Financial Market Authority in the process of being created is to take over the performance of supervisory activities from mid-year 2000 (see paragraph 109).

120. Even more so than in the banking sector, the supply of insurance services is still heavily concentrated, to a large extent under public ownership control. The market is dominated by *Slovenska poisťovňa, a.s.* (Slovak Insurance Company, a.s.) which is majority-owned (50.5 per cent) by the NPF. Its market share, which was 82 per cent in 1994 has since declined to 59 per cent in 1998 **and 52 per cent in 1999** due to the competition by new insurance companies. Among the competitors are a number of foreign service providers. In 1999, 17 out of 28 insurance companies were foreign-controlled companies, of which 6 established since end-1997.

Table 8. **Share of Foreign Capital in the Insurance Sector**¹
(as of 31 December 1999)

Country	Value (in million SKK)	Value (in US\$ millions) ²	% in total foreign capital	% in sector's total capital
Austria	813.4	19.8	27.43	13.92
Germany	703.0	17.1	23.71	12.03
Czech Republic	357.5	8.7	12.05	6.12
Netherlands	617.0	15.0	20.80	10.56
Australia	142.6	3.5	4.81	2.44
United States	220.7	5.4	7.44	3.78
Switzerland	60.0	1.5	2.02	1.03
Denmark	46.8	1.1	1.58	0.80
France	4.6	0.1	0.16	0.08
Total	2 965.7	72.3	100	50.75

1. Totals may reflect rounding errors.

2. Exchange rate: 1 US\$ = 41SKK

Source: Ministry of Finance of the Slovak Republic

121. Slovenska poisťovňa, a.s. is the exclusive agent for providing compulsory third party motor vehicle insurance and compulsory liability insurance of employers for their employees. Some insurance

companies in the area of health insurance, such as the General Health Insurance Company, and the Railway Health Insurance Company, provide their services on a non-profit basis.

122. Of total premiums written in 1998 of SKK 27.7 billion (US\$ 650 million), non-life insurance accounted for 70.6 per cent, this share having declined gradually from 76.5 percent in 1993. Profitability in the sector is low, with about half of all insurance companies licensed to operate showing a net loss in 1998. This situation is expected to have worsened during the course of 1999. Slovenska poistovna, a.s., which had total equity of SKK 1.5 billion at end 1999, registered a net loss of SKK 1.8 billion in 1998. Privatisation plans for this company are currently being developed, for implementation during year 2001.

Collective Investment

123. The collective investment sector represents one of the weakest areas of the Slovak capital market. In 1992, 169 investment funds were established. They acquired shares with a nominal value of SKK 55 billion during the first phase of voucher privatisation. An amendment of the Act on Investment Companies in 1995 paved the way for transforming these investment funds to common joint stock companies in 1996-1997. Although drafted with the objective to eliminate the enhanced position of investment companies and funds over important part of the corporate sector in Slovakia, this amendment also served the interests of some major shareholders of investment funds to avoid regulation by converting to joint-stock companies rather than end up under a collective investment legislative framework. By 1997, 54 funds had been converted and another 80 funds wound up in other ways. (Data on collective investment entities are shown in Table 9). This process resulted in a decline in public trust in collective investment as a whole. Currently total investments in mutual funds by the population is about SKK 2.6 billion (Table 10), corresponding to less than one per cent of the total population's deposits held with banks. At present, 21 investment companies, of which four foreign, are managing 903 mutual funds on the territory of the Slovak Republic.

124. With the aim of establishing a more transparent environment, the new Act on Collective Investment has tightened up capital adequacy requirements for investment companies and provides for a re-licensing exercise. According to the new Act, existing investment funds are obliged either to undertake a transformation to open-end share funds or close their activities through liquidation within six months from the date on which the Act has come into effect. There are no restrictions on foreign participation in the sector, nor on the forms of establishment allowed under the Collective Insurance Act. Thus, no reservation to item I/A is required. Supervision, which is currently performed by the Ministry of Finance, is likewise to be transferred to the new Financial Market Authority in the process of being established (see paragraph 109).

Table 9. Collective investment entities

	1992	1993	1994	1995	1996	1997	1998	1999
Share funds	3	8	27	89	56	78	90	93
Investment companies	36	36	97	92	20	34	17	21
Investment funds	169	162	311 ¹	118	80	69	33 ²	30

1 Including investment funds established for second phase of the voucher privatisation which were disposed after the dissolution of second phase of the voucher privatisation in 1995.

2 Excluding the 49 so-called transformed investment funds.

Source: Ministry of Finance of the Slovak Republic

Table 10. **Net Property Value of the Collective Investment Entities**
(in billion SKK since 1992)

	1992	1993	1994	1995	1996	1997	1998	1 st half of 1999
NAV IF	0.00	51.40	44.09	27.50	21.83	6.05	4.62	4.83
NAV PF	0.22	1.10	3.40	2.40	1.10	1.30	1.6	2.6

NAV IF – net value of investment funds property

NAV PF – net value of the property in shares funds

Source: Ministry of Finance of the Slovak Republic

2.2. *Non-financial Sectors*

Electricity industry

125. The new Energy Act, in effect since 1 July 1998, abolished the previous state monopoly in the energy, gas and heating sector. The electricity sector is currently dominated by the joint stock company Slovenske elektrarne, a.s. (Slovak Power Company, a.s. - SE, a.s.). It covers almost 80 per cent of domestic consumption and operates almost 86 per cent of domestic power plant capacities, including the transmission system. Slovenske elektrarne, a.s. is indirectly owned by the state through the National Property Fund.

126. In addition, there are three regional, state-owned distribution companies providing electricity supply for the whole territory of Slovakia: Western Slovakia distribution company (ZSE), Central Slovakia distribution company (SSE), and Eastern Slovakia distribution company (VSE). The rest of the electricity demand is covered by independent producers (industrial companies, municipal companies) and by import (8 per cent in 1998).

127. Pursuant to the amended Act on Large-Scale Privatisation, foreign and domestic investors may acquire up to 49 per cent of shares in Slovenske elektrarne, a.s. and the three regional electricity companies. The Ministry of Economy will present a privatisation concept in May 2000. It is currently unclear when privatisation will be completed.

128. The market is open for additional producers with a permit by the Ministry of Economy granted on a national treatment basis. In this respect, the Government already approved the establishment of a regulatory body that will supervise all sectors. This proposal still needs to be approved by the Parliament. It is expected to enter into force on 1 January 2001.

Gas industry

129. There are currently three enterprises that operate in the natural gas sector: Slovensky plynarensky priemysel, s.p.⁹ (SPP, s.p.), Nafta, a.s. Gbely, and Pozagas, a.s. Malacky.

130. Slovensky plynarensky priemysel, s.p., a state-owned company, has a monopoly for the transit and distribution of natural gas. It is responsible for the purchase and sale of natural gas, for its transit through the territory of the Slovak Republic, for high pressure inland transfers and for the wholesale and retail distribution of natural gas. **The Slovak authorities intend to decide on the modalities of the privatisation of SPP in the first half of 2000.**

9. s.p. means state enterprise.

131. Nafta, a.s. Gbely operates underground gas storage capacities, and extracts local crude oil, gasoline and natural gas on Slovak territory. It is a joint stock company with approximately 20 per cent foreign capital.

132. Pozagas, a.s. Malacky owns the underground storage Lab IV. It is a joint venture (35 per cent SPP, 35 per cent Nafta a.s. Gbely, 30 per cent Gaz de France).

133. Pursuant to the amended Act on Large-Scale Privatisation, foreign and domestic investors may acquire up to 49 per cent of shares in any of these companies.

134. The establishment, diversification and organisation of facilities for heating gas production by other entities is allowed with the permission of the Ministry of Economy granted on a national treatment basis.

Petrochemical Industry

135. The petrochemical industry has been transformed into two joint-stock companies, Sloznaft and Benzinol. They are no longer considered as strategically important enterprises. For the time being, *Sloznaft, a.s. Bratislava*, where the EBRD is a shareholder, has a dominant position in the distribution of motor oil and automobile petrol due to the creation of its own distribution network and a 51 per cent equity participation in the largest Slovak distributor, *Benzinol, a.s. Bratislava*.

136. The Slovak competition agency authorised the merger between *Sloznaft* and *Benzinol* in May 1995 under the condition that the domestic market share of *Benzinol* must not exceed 50 per cent by the end of the year 2000. Consequently, any additional supplier is welcome. The growth of the automobile market should indeed provide opportunities for foreign investors to penetrate the petrol market.

137. *Transpetrol, a.s.*, a state-owned company, controls the petrochemicals pipelines in the Slovak Republic. Under the amended Act on Large-Scale Privatisation, it is planned to privatise 49 per cent of its shares on a national treatment basis. The Slovak authorities intend to complete this privatisation until the end of 2000.

Mining

138. The brown coal mining industry was transformed into three joint stock companies in which the NPF holds 100 per cent of the equity capital.

139. *Bana Dolina a.s., Velky Krtis a.s., Hornonitrianske bane, a.s. Prievidza*, and *Baná Zahorie, a.s., Holic*, are no longer considered as strategically important enterprises where the state preserves its equity share in the privatisation process. Foreign investors may participate in the privatisation process and perform their business activities in the mining industry on a national treatment basis.

Tobacco, salt, alcohol and mineral springs

140. The tobacco monopoly was abolished in 1994. Currently, a single 100 per cent foreign-owned company is dominating the domestic tobacco supply. In compliance with the Commercial Code, the Ministry of Agriculture authorises the performance of business activities in tobacco production on a national treatment basis.

141. The salt monopoly was abolished in 1994. The dominant market position remains, however, with *Solivary, a.s. Presov*, accounting for 85 per cent of the salt production. The company is no longer considered as strategically important.

142. The spirits monopoly of the state has been abolished in 1996. The Ministry of Agriculture grants concessions for the production of alcohol on a national treatment basis.

143. Mineral and natural springs, including mineral water have been privatised. National Treatment is applied for granting concessions in this area.

Services

144. The Slovak authorities confirm that - with the exception of lotteries and similar games - they will respect the principle of National Treatment for the establishment and operations of OECD investors in the services sector.

Lotteries and Similar Games

145. Due to an unintentional oversight, the initial position of the Slovak Republic presented in July 1996 did not contain a proposed reservation regarding the participation of foreign entities in the operation of lotteries and similar games. However, the Act No. 224/1996 Coll. which amended the Act No. 194/1990 Coll. on lotteries and other similar games, in effect since 1 January 1997, excludes foreign investors from participation in legal entities that operate *lotteries and similar games* **except for operation of betting games in casinos. It** requires a reservation under item I/A of the Code of Liberalisation of Capital Movements.

146. As far as *betting games in casinos* are concerned, the Act requires that the permission to organise such games be issued only to a legal entity (irrespective of whether or not it has foreign participation) in which the state has a stake of at least 51 per cent. Therefore two foreign companies, which prior to 1997 operated casinos in Slovakia, **were forced to sell their stakes**. The Slovak authorities intend to abolish this non-discriminatory restriction motivated by fiscal considerations **at the end of 2000**.

Auditing

147. At the time of the first examination, the Slovak authorities had reported that foreign investors are not allowed to acquire shares in auditing companies that would exceed 49 per cent of the equity capital. The restriction related to the majority of voting rights that have to be in the hands of natural or legal persons recorded in the list of auditors or to the board of directors, where three quarters of the board members have to be registered auditors.

148. In their official answer of December 1999, the Slovak authorities reported that the legal rules applicable since 1996 require for the registration of a legal entity in the list of auditors, kept by the Slovak Chamber of Auditors. Registration necessitates that at least 70 per cent of the equity (or voting rights) are held by auditors registered in the list of auditors of the Slovak Republic. Therefore, instead of the promised liberalisation, the amendment of the Auditing Act further increased the requested stake in ownership (voting rights) held by a national investor. Consequently, foreign auditing firms in Slovakia were forced to reduce their stake to the equity to 30 per cent in order to meet the requirements of the law.

149. During the legislative deliberations, the Government had supported a liberalisation of auditing services. To this purpose, it had proposed to replace the ownership requirement by less stringent requirements such as permanent residence of the statutory representative of the legal entity in the Slovak Republic.

150. The Slovak Government adopted a new draft amendment to the Law No. 73/1992 Coll. on Auditing Services and the Slovak Chamber on Auditors on 15 March 2000. In the meantime, it has been submitted to Parliament. This draft amendment - **which will probably enter into force on 1 August 2000** -allows non-residents operating in the auditing sector in an OECD Member country to establish a **legal entity** in the Slovak Republic, while requiring that the majority of the members of the Board must be auditors registered in the Slovak Chamber of Auditors **or in a similar register in an OECD Member country. The measure does not call for a reservation. Nevertheless, it requires an entry to the List of Transparency Measures in the category of "Corporate Organisation"**.

Architects, Engineers, Urban and Landscape Planning

151. As far as architectural, urban and landscape planning and engineering services through establishment in the Slovak Republic are concerned, the list of commitments of the Slovak Republic under the GATS stipulates that Slovak citizenship and residence in the Slovak Republic are required. As far as architectural, urban and landscape planning services are concerned, exceptions to this requirement may be considered under the GATS.

152. The Slovak authorities confirm that they will not apply the citizenship requirement to investors from OECD Member countries. They do therefore not suggest taking a reservation under item I/A of the Code of Liberalisation of Capital Movements. This implies that such operations will be fully permitted for OECD investors. They also point out that they intend to remove this restriction entirely in the forthcoming negotiations in the WTO. **A draft amendment of the domestic legislation is currently discussed in Parliament, and expected to enter into force on 1 August 2000.**

Lawyers

153. Recently, there have been complaints by foreign law firms operating in the Slovak Republic that their activities are considered as illegal. The Slovak Laws No. 132/1990 Coll. on Advocacy and No. 129/1991 Coll. on the Slovak Chamber of Commercial Lawyers do not deal with the establishment of subsidiaries or branches of foreign law firms. In view of the Slovak authorities, this constitutes a legal gap. According to the commitments of the Slovak Republic under the GATS, commercial presence of foreign law firms in the Slovak Republic is permitted; however, their activities are restricted. Such firms are free to give legal advice in foreign law matters. In domestic legal affairs, approval of the Slovak Bar Association or the Slovak Chamber of Commercial Lawyers is required.

154. The Slovak authorities confirm that they will not apply this restriction to law firms from OECD Member countries. They do therefore not propose taking a reservation under item I/A of the Code of Liberalisation of Capital Movements. This implies that such operations will be fully permitted for OECD investors. They also intend to fill the above-mentioned legal gap by amending the relevant laws as approved by the Council of the Government for Accession Issues on 28 March 2000.

Road transport

155. As of 1 July 1990, according to the amendment on Road Transport and Inland Forwarding, the State ceased its monopoly in road transport. Currently, 4750 entrepreneurs in freight road transport (690 in

international transport) and approximately 1500 entrepreneurs in road transport of passengers (950 in international transport) are registered in the Slovak Republic both in the form of legal or natural persons.

156. Foreign firms can establish subsidiaries for providing road transport of passengers and freight in the Slovak Republic without any restriction. However, like domestic firms, they have to meet the requirements laid down in the Commercial Code, the Professional Act and the Road Transport Act. Concessions for road transport of passengers or freight are granted in accordance with the Professional Act No. 455/1991 Coll. of Laws which - in line with the Road Transport Act - requires to meet professional conditions.

157. Regular bus transport services (SAD) have up to now almost exclusively been provided by state-owned transportation enterprises. The Slovak authorities are considering their privatisation in accordance with Act No. 92/1991 as amended concerning the conditions for the transfer of state property to other persons. They plan to privatise all existing seventeen bus transportation companies in two steps during the years 2000 - 2001 as follows: 49 per cent of the shares will be directly sold on a tender basis; the other 51 per cent will remain in state ownership. After approval of the new layout, regional municipalities will have the possibility to acquire 34 per cent of the remaining shares under public control. The other 17 per cent will be directly sold to the successful assignee of the 49 per cent shares from the first phase of privatisation.

Waterway transport

158. There are no restrictions for the entry, establishment and operation of foreign investors in the Slovak Republic in the area of waterway transport. Foreign-controlled enterprises are accorded national treatment.

159. In June 1999, the Ministry of Transport, Post and Telecommunication approved an Act on the "Restructuring of Water Transport in the Slovak Republic". Its purpose is to create legal rules for activities in the field of water transport on the basis of market economy principles and to establish a competitive environment. This re-structuring will affect the following subjects:

- After restructuring, the State Navigation Administration will act as a regulative body in the field of water transport;
- The state enterprise Slovak Danube Navigation will manage state property in public ports in the Slovak Republic;
- The joint stock company Slovak Navigation and Ports will perform water transport and partly operation of public ports in the Slovak Republic. It is a state-owned company. The Slovak authorities plan its privatisation.

160. Bilateral international agreements of the Slovak Republic provide that permits can be given to non-residents to carry out certain inland waterway (and road) transport activities. The Slovak authorities have confirmed that they stand ready to sign such agreements with any OECD member country.

Air transport

161. 30 air transport operators in the Slovak Republic are authorised to provide a variety of air transport services and related activities, such as air transport (6 companies), air-taxi transport (1), air transport agricultural services (26) and rescue services (2). All established air transport operators are Slovak private legal persons. They receive National Treatment. A project of operating one air transport

company under the status of “national carrier” was abandoned, and a small, privately-controlled air transport company (“Slovenske aerolinie”) lost its status as “national carrier” in early 2000.

162. One of the transport operators is Slovak Airlines - a joint stock company with 34 per cent state ownership. The Slovak authorities intend to sell these shares.

163. A new Aviation Act entered into force on 1 July 1998. It stipulates that operations in civil aviation are based exclusively on the competition principle. The applicable legislation also specifies that the stake held by a foreign investor when acquiring the licence of a domestic air carrier has to be less than 50 per cent - as it is the case in other countries as well. This requires a reservation under item I/A of the Code of Liberalisation of Capital Movements.

164. Foreign operators who intend to perform commercial activities in the Slovak territory through their own organisational units, have to submit an application for the authorisation of commercial activities. The application is considered within the scope established by the relevant bilateral air transport agreement or the Slovak laws and regulations. The applicant for a licence for air transport operations is required to have a good reputation, must prove professional capabilities, i.e. an air operator certificate and operations specifications, be insured, have adequate financial standing.

165. The Slovak authorities support further progress in the liberalisation of the access of foreign entities to the Slovak market. This is linked mainly to the expected accession of Slovakia to a Multilateral Agreement on a Common European Aviation Space and a bilateral agreement between the Slovak Republic and the US (“Open Sky Agreement”).

166. Five out of six existing airports in the Slovak Republic are under the administration of the Slovak Airport Authority - a state budgetary organisation. The project of re-structuring of airports has started in 1998 under Government Decree 1110/94. As a first step, the operation of Zilina airport was privatised in 1996 - 1998. It turned out that this process is not easy because of modest air traffic in the Slovak Republic.

Agriculture

167. The Slovak authorities confirm that there are no restrictions for foreign investors in agriculture other than for the purchase of land.

3. Privatisation

3.1. Legislation

168. The privatisation process in Slovakia is governed by the Act No. 92/1991 Coll. of Laws on Condition for Transfer of State Property to other Persons. The Act was amended several times¹⁰ in order to adjust the privatisation process (Annex 6) in the light of experience while preserving its objectives, which include:

- transfer of property and creation of a new property structure based on private property;
- creation of a participative economy;
- creation of a suitable structure of ownership while ensuring state interest in natural monopolies;

10. The latest amendment is Act No. 253/1999 Coll. of Laws.

- participation of employees in the privatisation of stated-owned enterprises;
- increase of foreign capital to facilitate structural changes.

3.2. *Background and Recent Trends*

169. The Slovak Republic started the transition to a market economy within the framework of the former Czech and Slovak Federal Republic with about 98 per cent of property in state hands. In 1996, only 76.8 per cent of GDP were generated by the private sector, 68.1 per cent in industry. At that time, public ownership through the National Property Fund remained an important feature of the Slovak economy.

170. The first steps of the privatisation process in 1991 related to the so-called *small-scale privatisation*. It concerned mostly the trade and the service sector and to a smaller extent small industrial production and construction. The goal of this kind of privatisation was to develop the small business sector in the Slovak Republic. The process has been completed a long while ago.

171. The National Property Fund (NPF) is responsible for *large-scale privatisation*. The first wave of this privatisation process began in 1991 and ended in October 1993. Within this first wave, 678 companies were privatised with a total value of SKK 169 billion. The sale of the privatised property was primarily secured through the non-standard method of so-called coupon privatisation (Annex 7).

172. The second wave of the privatisation began in September 1993 and was marked by several conceptual changes in the method of privatisation resulting from legislative amendments. Direct sales to a new owner identified in advance became a dominant privatisation method. This reduced transparency and impeded competitive forms of sale of the State property. Moreover, important changes in privatisation policies in 1995 lead to greater emphasis on employees/management buy outs, and to the establishment of a list of “strategic enterprises” that were partially or completely excluded from privatisation. This had further negative effects on the investment climate in general. Slow progress in privatisation, together with non-transparent procedures and open discrimination against foreign investors were one of the major concerns of the Committees at the first examination in July 1996.

173. According to the Act No. 192/1995 Coll. of Laws on Guaranteeing Interests of the State at the Privatisation of Strategically Important State-owned Enterprises and Joint-stock Companies of 7 September 1995, 32 state-owned enterprises were completely excluded from privatisation. Pursuant to the same law the state maintained a minimal (not quantified) share in another 45 enterprises in a number of sectors.

174. After the September 1998 elections, the approach of the Government to privatisation changed radically. This is reflected in amendments to the relevant legislation. The Act No. 253/1999 Coll. establishes a new obligation of the Fund to ask for prior written approval from the Ministry for Administration and Privatisation of the National Property of the Slovak Republic, if any Fund property is to be sold. The original voucher privatisation, cancelled in 1995, was replaced by the “Fund-bond”. It was issued as special securities for all citizens who validly registered for the second wave of voucher privatisation. The face value of each of the NPF bonds is SKK 10,000 at a simple annual interest, and at a discount rate of the National Bank of Slovakia. It is due on 31 December 2000.

175. A further substantial policy change occurred in September 1999 when Parliament abolished the so-called Act on Strategic Enterprises. The amended Act on Large-Scale Privatisation that entered into force on 12 October 1999 does no longer use the term “strategic enterprise”. By eliminating the Act on Strategic Companies, the Slovak Government responded to one fundamental recommendation of the Committees from June 1996. It opened the way for the privatisation of a significant part of the Slovak economy.

176. The amended Act on Large-Scale Privatisation contains a limited number of natural monopolies. They are the following (see also Annex 5):

- Slovensky Plynarensky Priemysel, s. p., Bratislava - Slovak Gas Company;
- Zapadoslovenske Energeticke Zavody, s. p., Bratislava - West Slovak Energy Enterprise;
- Stredoslovenske Energeticke Zavody, s. p., Zilina - Central Slovak Energy Enterprise;
- Vychodoslovenske Energeticke Zavody, s. p., Kosice - East Slovak Energy Enterprise;
- Slovenska Posta, s. p., Banska Bystrica - Slovak Post Company;
- Slovensky Vodohospodarsky Podnik, s. p., Banska Stiavnica - Slovak Water Management Company;
- Zeleznice Slovenskej Republiky, s. p., Bratislava - Railways of the Slovak Republic;
- Transpetrol, a. s., Bratislava;
- Slovenske Elektrarne, a. s., Bratislava - Slovak Electricity Company;
- Slovenske Telekomunikacie, a. s., Bratislava - Slovak Telecom;
- Lesy of Slovak Republic, s.p., Banska Bystrica - Forests of the Slovak Republic.

According to the Slovak authorities, these companies cover approximately 14 per cent of GDP.

177. The Act distinguishes between natural monopolies that will remain under the control of the state and those where the state shall keep a minority stake:

Enterprises totally excluded from Privatisation

- Railway transportation network and re-load railway-stations in Cierna nad Tisou and Matovce;
- Forest stock, constructions and facilities concerning forestry management;
- Surface and underground waters, as well as companies and property concerning the management and protection of water flows and underground water;
- Slovenska posta (Slovak Post) as far as universal postal services (letter mail) are concerned.

According to calculations presented by the Slovak authorities, the contribution to GDP of these companies amounts to less than 3 per cent.

Enterprises partially excluded from Privatisation

178. The State shall keep a minimum ownership of 51 per cent in the following: Slovak Gas Enterprise (Slovensky plynarensky podnik), Transpetrol, a.s., Slovak Electricity, j.s.c. (Slovenske elektrarne, a.s.), and three regional state-owned energy distribution companies (Zapadoslovenske, Stredoslovenske and Vychodoslovenske energeticke zavody - West, Central and East Slovak Energy Enterprises).

179. Furthermore, the State shall keep a stake not specified by law in the following three companies: Slovak Telecommunication, j.s.c. (Slovenske telekomunikacie, a.s.), Slovak Savings Bank, j.s.c. (Slovenska sporitelna, a.s.), and Slovak Insurance Company, j.s.c. (Slovenska poisťovna, a.s.).

Remaining Companies to be Privatised

180. Between 1995 and 1998, the National Property Fund sold assets in the nominal value of 96 billion SKK. Assets remaining in state property amounted to 64 billion SKK at the end of 1998. Income generated from these sales amounted to approximately 20 billion SKK. The Slovak authorities explain this outcome by pointing out that payment is usually effected in instalments over a period of ten years (see also Table 11).

181. Currently, the National Property Fund of the Slovak Republic (FNM SR) still holds shares in 148 companies, most of which are minority holdings. Furthermore, with respect of 58 of these companies, bankruptcy or liquidation proceedings have been initiated. Of the remaining 90 companies, 86 are currently for sale in the total nominal value of 34.1 billion SKK. At present under preparation is the privatisation of the electricity sector (one company in the nominal value of 21.3 billion SKK) and the financial sector (three companies in the nominal value of 2.1 billion SKK). With regard to five other companies (nominal value of 4.5 billion SKK), pending law suits impede privatisation for the time being.

182. Among the most important companies to be privatised are the following:

- Solivary, a.s., Presov;
- Slovenske Liecebne Kupele, a.s., Piestany (a spa);
- Nafta, a.s., Gbely;
- Istrochem, a.s., Bratislava;
- ZSNP, a.s., Ziar nad Hronom.

183. The Slovak Government will decide on the privatisation of these companies on the basis of bids submitted by strategic investors.

Review of Legality of Previous Privatisation

184. The new Government that came into power in 1998 also responded to allegations that some of the previous privatisation acts were illegal. The National Property Fund recently reviewed purchase contracts concluded between 5 November 1994 and 10 November 1998 to ensure that the legal procedures for the decision-making process and the implementation of privatisation decisions have been met.

185. Under Government Resolution of 17 March 1999, 906 contracts have been assessed by the NPF. The findings are as follows: no infringement of the law was found in 720 cases. Encroachments occurred in 186 cases, out of which 79 contracts related to property sales and 107 contracts to share sales. However, only in 41 cases has the violation of the law been so significant that the legal transaction became invalid.

186. The review process has been concluded by Government Resolution of 22 December 1999. The Fund continues to re-arrange invalid legal transactions concluded in the past, and to amend/re-negotiate contracts in the light of court decisions and by settlement procedures pursuant to the Civil Code.

Latest Developments

187. Since the end of 1999, the Government concentrates its efforts on structural reforms, including preparation of restructuring and privatisation of banks, and resolving the issue of “bad debts”.

Table 11. Share of private sector in Slovak economy

Indicator	1990	1992	1993	1994	1995	1996	1997	1998	1999
Profitable organisation (%)	.	86.0	71.9	95.5	96.4	96.5	97.3	97.7	97.9
Legal subjects in private sector (in thousands)	.	319.1	312.7	321.5	317.1	304.4	329.6	354.8	352.9
of which: natural persons (in thousands)	.	300.6	286.9	287.0	275.1	258.2	277.2	295.8	295.7
organizations (in thousands) ¹	.	18.5	25.8	34.5	42.0	46.2	52.4	59.0	57.1
Employment (average number, %)	20.0	30.5	32.2	40.5	56.5	59.8	63.4	65.2	66.0
GDP (%)	.	32.4	37.3	53.3	62.6	76.8	82.6	82.4	84.3
of which: in agriculture	77.5	91.4	95.4	96.9
in industry	.	15.2	30.1	57.5	64.6	68.1	73.5	78.2	79.3
in construction	.	44.4	53.2	74.2	81.8	84.1	82.8	85.0	91.5
in trade	.	73.2	80.9	88.5	91.7	94.3	95.8	96.5	97.5
Investment obtained (%)	.	.	.	48.8	58.7	50.5	54.3	57.5	63.6

Source: Statistical Office of the Slovak Republic

1. Private sector includes private domestic and cooperative ownership, ownership of associations, political parties and churches and foreign and international ownership with prevailing private sector (50,1%)

4. Monopolies and Concessions

4.1. Monopolies

188. Reflecting the maintenance of full state-ownership in a number of sectors, public monopolies continue to exist in railway transport, forest and water management, and some postal services. In other areas, the previous state-ownership has made room for private enterprises, albeit to different degrees.

Telecommunication

189. Already in April 1999 (Decree No. 896/98), Slovenske telekomunikacie (Slovak Telecom) was transformed into a joint stock company. Privatisation will be realised in the year 2000 as follows: 51 per cent shares for direct sale to the strategic investor chosen in international tender; 15 per cent shares for further sale; 34 per cent shares to remain in state ownership. The Slovak authorities assume that the remaining minority stake of the state will remain at least until 2003 when the monopoly of Slovenske telekomunikacie in the field of telecommunication voice services will end. As far as the sale of 15 per cent shares is concerned, the State Property Fund is currently negotiating with the European Bank for Reconstruction and Development (EBRD).

190. A consortium led by Deutsche Bank, and comprising Slavia Capital, o.c.p., a.s., Bratislava, Wood & Company, s.r.o. Praha, and the law firm White & Case, has been chosen to advise the Government in the process of finding a strategic partner. The Slovak Government announced the international public tender in the "Financial Times" of 25 November 1999. The selection procedure consists of two stages. In the first phase, the Selection Commission shall assess bids following technical criteria (e.g. the extent of the network administrated by the bidder, its annual income per one telephone line, etc.). Three bidders (Austrian, Dutch, and German Telecom) have qualified for the next round. In the second phase, the price

will be decisive. The completion of privatisation has been re-scheduled to May/June 2000 due to a new draft Law on Telecommunication currently in Parliament.

191. Besides Slovenske telekomunikacie itself, its shares in its subsidiaries Postova Banka, a.s., Bratislava (25,6 per cent), Edivan, a.s., Bratislava (24 per cent) - an operator of computer networks - and Euro Tel Bratislava, (60 per cent) - a GSM operator - will likewise be privatised.

192. Value added services have already been liberalised in 1993, paging services since 1995. Two companies, with foreign capital, Eurotel Bratislava and Radiokontakt, in the form of joint ventures with the domestic operator of telecommunication services, are active in this field. Since 1991, Eurotel provides packet public data services (X.25 Protocol) and mobile service (NMT 450). Radiokontakt Operator provides paging services.

193. The Slovak authorities confirm their commitment under the GATS to progressively liberalise the access of mobile network operators to international voice telephone services as of 31 December 2002. This liberalisation measure is included in the list of specific commitments to the Fourth Protocol on Basic Telecommunication Services under the GATS of April 1997. The previous restriction based on licensing criteria set up by the Ministry that foreign investors may only acquire up to 40 per cent of the equity of a domestic company has been lifted at the end of January 2000. The liberalisation allows the privatisation of national mobile operators in the Slovak market in the range GSM 900 and GSM 1800. As a result, Globtel, a.s. - one of two suppliers of mobile phone services in Slovakia - was able to increase its share in a Slovak private company from 35 per cent to 64 per cent.

194. Licenses for services in partially liberalised markets will be issued through public tenders on a national treatment basis.

195. Only public voice services through fixed lines and public voice infrastructure are still exclusively provided by Slovak Telecom. The new draft Telecommunication Act that is currently discussed in Parliament and that shall enter into force on 1 July 2000 maintains this monopoly until the end of 2002.

Insurance

196. The Slovak Insurance Company (*Slovenska poistovna, a.s.*), a state-owned enterprise, is the exclusive provider for compulsory third party motor vehicle insurance and compulsory liability insurance of employers for their employees. **The monopoly concerning compulsory third party motor vehicle insurance will be removed at the end of 2001.** Compulsory air transport insurance is also offered by other insurance companies.

Postal Services

197. *Slovenska posta, s.p.* (Slovak Post), a fully state-owned enterprise, has a public monopoly to manage the postal transport network. However, its exclusive position in the market only relates to letter delivery.

198. In the field of express courier services, the Slovak Post operates via *EMS*, and a number of companies, such as *DHL*, *UPS*, *TEN Express*, *TNT Express*, etc. offer their services. Some financial services provided by the post are now also available through financial institutions.

199. Since a couple of years, the Slovak authorities have been considering the transformation of *Slovenska posta* into a joint stock company. This needs to be done in conformity with section 10,

paragraph 3d, of Act No. 253/1999. This means that those post services that are reserved to the state in accordance with Act No. 222/1946 must not be privatised. The Ministry of Transport, Post, and Telecommunication is currently preparing a new Post Act that would redefine the range of such services.

Railway transport

200. The previous state-owned monopoly in railway transportation has been maintained. However, the creation of a liberalised regulatory framework for the railway system of the Slovak Republic is underway. Already in May 1996, the use of the railway infrastructure has been liberalised offering foreigners to operate on the Slovak railway system after a permit has been granted, while the State ownership remained unchanged.

201. Legislation under preparation includes the creation of a joint stock company with 100 per cent state ownership followed by a privatisation that will be open to foreigners on a national treatment basis. The Government adopted a concept of “re-structuring and transformation of the National Railway Company ZSR”. The Slovak authorities expect that ZSR will be transformed into a joint stock company by 1 January 2001. In the framework of this project, it is envisaged that administrative and service activities of ZSR will be separated gradually. As a result, ZSR will remain in charge of activities in the area of production, transport and traffic, services and specialised healthcare¹¹. According to the amended Act on Large-Scale Privatisation, the railway transportation system and the reload railway stations in Cierna nad Tisou and Matovce are totally excluded from privatisation.

Water and Sewage Management Facilities

202. Already the previous Government had decided to disintegrate a few dominant regional suppliers. As of 1998, Lyonnaise des Eaux (France) is operating as management company in the district of Trencin. It is the first pilot project of a privately run company in the water sector by means of privatisation. Further privatisation of these services is under consideration for end-2000 at the earliest.

4.2. Concessions

203. The Slovak authorities confirm that they apply the national treatment principle with regard to the granting of concessions.

5. National Security

204. The Slovak authorities have confirmed that existing rules on the protection of national security or public order with regard to the entry, establishment and operation of foreign investors are applied in a non-discriminatory manner.

6. Investment Incentives

205. Until last year, Slovakia’s corporate income tax rate of 40 per cent was the highest in Central Europe. This rate has been reduced to 29 per cent as of 1 January 2000. The Slovak authorities consider this as a major step in making the country more attractive for foreign investors. In addition, the

11. This relates to a specialised hospital in Bratislava and its regional branches.

discriminatory evaluation system concerning the property income tax has been abolished as of 1 January 2000.

206. Foreign investors that establish themselves before 31 December 2002 may benefit from considerable tax allowances. They may claim a 100 per cent tax holiday for five consecutive years, provided that they invest at least 5 million Euro and hold at least 75 per cent of the shares in the newly established company. The tax incentive therefore only applies to greenfield investments.

207. The tax benefit is granted with regard to manufacturing of imported goods, goods that were not yet manufactured in the Slovak Republic before the taxpayer has been established, or the production of goods intended for export. If the investment is located in a region with an unemployment rate of at least 15 per cent, the benchmark is only 2.5 million Euro. For certain service industries (e.g. hotels, passenger transport), it is sufficient to invest at least 1.5 million Euro, irrespective of the concrete location of the company.

208. The relatively high general benchmarks for tax allowances, in particular concerning manufacturing, have the consequence that in most cases only major companies are beneficiaries. The result is a de-facto discrimination of SMEs - companies that the Slovak Republic needs in order to establish a sound economic structure. Furthermore, the system of tax allowances is relatively complicated. This makes it for foreign investors sometimes difficult to determine whether they fulfil the legal requirements for receiving a tax holiday or not.

Grants and subsidies

209. The Slovak authorities have confirmed that the design and implementation of public support policies and programmes are carried out on a national treatment basis. As far as agriculture is concerned, this is confirmed in the applicable "Fund of Markets" regulations¹². On 1 January 2000, a new State Aid Act entered into force. Accordingly, any state support exceeding 100.000 Euro must be approved by the state authority.

SME support

210. The Slovak Government promotes the establishment and progressive development of SMEs through a specific programme including loan guarantees and subsidised interest rates. Any resident performing a business activity in the Slovak Republic and employing 250 employees or less is eligible to apply for inclusion in the programme. In 1993, the National Agency for SMEs Development was established to stabilise and support the role of SMEs in the economy.

211. Guarantee programmes for SMEs are implemented through the Slovak Guarantee Bank, established in 1991. Other forms of support include granting credits, payment of interests or part of them, contributions, refunding financial subsidy and grants.

212. Support from public funds are granted to residents registered in the Slovak Republic, irrespective of the form of business activity and ownership. Accordingly, national treatment is applied to foreign-controlled companies where support policies and programmes are concerned.

12. A scheme of subsidies applies in this sector.

Research and Development

213. There are two types of government support for technological research and development - institutional funding through the budget of individual ministries and grant funding from the budget of the Slovak grant agency on the basis of the recommendation of a grant commission and final decision of the Government. Funding does not discriminate against foreign-controlled enterprises.

7. Government Procurement

214. The Slovak authorities have confirmed that there is no discrimination among bidders in public procurement. Foreign and domestic applicants, including established foreign controlled enterprises, have equal access to public tenders.

8. Investment Protection and Double Taxation

215. The Slovak Republic has concluded bilateral agreements on the promotion and protection of investment, and on the prevention of double taxation with the majority of OECD Member States (see Tables 12, 13).

9. Guidelines for Multinational Enterprises

216. The Slovak Government designated the Slovak National Agency for Foreign Investment and Development, a.s. (SNAZIR) as National Contact Point (NCP) for the OECD Guidelines for Multinational Enterprises. It started to operate on 1 November 1998.

**Table 12. List of Bilateral Agreements for the Promotion and
Reciprocal Protection of Investments**

(as of 1 January 2000)¹

Country	Signed on	In effect from	Published in the Collection of Laws of the (number / year)
Australia ²	October 22, 1991	Null and void	null and void
Austria	October 15, 1990	October 1, 1991	454/1991
Belgium-Luxembourg	April 24, 1989	February 13, 1992	574/1992
Bulgaria	July 21, 1994	March 9, 1995	144/1995
Canada	November 15, 1990	March 9, 1992	333/1992
China	December 4, 1991	December 1, 1992	37/2000
Croatia	February 12, 1996	February 5, 1997	69/1999
Czech Republic ³	November 23, 1992	Null and void ⁴	null and void ⁴
Denmark	March 6, 1991	September 19, 1992	575/1992
Egypt	April 30, 1997	January 1, 2000	under preparation
Finland	November 6, 1990	October 23, 1991	478/1991
France	September 13, 1990	September 27, 1991	453/1991
Germany	October 2, 1990	August 2, 1992	573/1992
Greece	June 3, 1991	December 31, 1992	under preparation
Hungary	January 15, 1993	July 19, 1996	70/1999
Iceland	No	No	No
Indonesia	July 12, 1994	March 1, 1995	56/1995
Ireland ³	No	No	No
Israel	September 8, 1999	No	No
Italy	July 30, 1998	No	No
Japan	No	No	No
Korea ³	April 27, 1992	Null and void	null and void
Latvia	April 9, 1998	October 30, 1998	26/1999
Malta	September 7, 1999	No	No
Mexico	No	No	No
Netherlands	April 29, 1991	October 1, 1992	569/1992
New Zealand	No	No	No
Norway	May 21, 1991	August 6, 1992	530/1992
People's Democratic Republic of Korea	October 27, 1998	April 17, 1999	180/1999
Poland	August 8, 1994	March 14, 1996	27/1997
Portugal	July 10, 1995	May 15, 1999	234/1999
Republic of Cuba	March 22, 1997	December 5, 1997	288/1998
Romania	March 3, 1994	March 7, 1996	244/1999
Russia	November 30, 1993	August 2, 1996	48/1997
Slovenia	July 28, 1993	March 28, 1996	89/1999
Spain ⁵	December 12, 1990	November 28, 1991	647/1992

Table 12 (cont). **List of Bilateral Agreements for the Promotion and Reciprocal Protection of Investments**

(as of 1 January 2000)¹

Country	Signed on	In effect from	Published in the Collection of Laws of the (number / year)
Sweden	November 13, 1990	September 23, 1991	479/1991
Switzerland	October 5, 1990	August 7, 1991	459/1991
Tajikistan	February 14, 1994	March 12, 1996	26/1997
Thailand ³	October 16, 1991	Null and void	null and void
Turkey ⁶	April 30, 1992	Null and void	null and void
Turkmenistan	November 17, 1994	March 10, 1999	235/1999
Ukraine	June 22, 1994	April 13, 1996	28/1997
United Kingdom	July 10, 1990	October 26, 1992	646/1992
USA	October 22, 1991	December 19, 1992	187/1993
Uzbekistan	May 16, 1995	February 4, 1999	101/1999
Yugoslavia	January 30, 1996	July 16, 1998	68/1999

1. Where BITs were concluded by the Czech and Slovak Federal Republic, the Slovak Republic succeeded as a Party.
 2. A new BIT is prepared to be signed after a notification made by Australia.
 3. The Parties have exchanged new drafts, which will form a basis for the new experts negotiations.
 - 4. In the view of the Slovak authorities. The Czech authorities consider that the Agreement is still valid. New drafts have been exchanged by the Contracting Parties which will form the basis of new expert negotiations with respect to a new Agreement .**
 5. On request of Spain, experts negotiations on a new BIT are being prepared.
 6. The text of a new BIT has been approved by the Slovak Government, signature scheduled in Bratislava in June 2000.
- Source: Slovak authorities

**Table 13. List of Tax Conventions on Income and on
Capital Concluded with OECD Member Countries**
(as of 1 January 2000)

	Other Contracting State	Date of signature	Date of entry into force
1	Australia	24/8/99	22/12/99
2	Austria	7/3/78	12/2/79
3	Belgium	19/6/75 15/1/97	17/12/77 Not in force
4	Canada*	30/8/90	22/7/92
5	Czech Republic	23/11/92	1/7/93
6	Denmark	5/5/82	27/12/82
7	Finland	31/1/75 15/2/99	24/7/76 Not in force
8	France	1/6/73	25/1/75
9	Germany	19/12/80	17/11/83
10	Greece	23/10/86	23/5/89
11	Hungary	5/8/94	21/12/95
12	Iceland	Prepared for signature	
13	Ireland	8/6/99	30/12/99
14	Italy	5/5/81	26/6/84
15	Japan	11/10/77	25/11/78
16	Korea	Prepared for signature	
17	Luxembourg	18/3/91	30/12/92
18	Netherlands	4/3/74 (16/2/96 - the amendments)	5/11/74 (19/12/96 - the amendments)
19	Norway	27/6/79	28/12/79
20	Poland	18/8/94	21/12/95
21	Portugal	Prepared for signature	
22	Spain	8/5/80	5/6/81
23	Sweden	16/2/79	8/10/80
24	Switzerland	14/2/97	23/12/97
25	Turkey	2/4/97	2/12/99
26	United Kingdom	5/11/90	20/12/91
27	United States	8/10/93	30/12/93

* New convention in preparation

Source: Slovak authorities

IV. CAPITAL MOVEMENTS OTHER THAN INWARD DIRECT INVESTMENT, AND CURRENT INVISIBLE OPERATIONS

A. Code of Liberalisation of Capital Movements

217. The Foreign Exchange Act of 1995 with subsequent amendments establishes the basic regime for current and capital account transactions between Slovak residents and residents of other countries. It is based on the negative list principle, which means that unless otherwise specified in the Act itself, residents may fulfil contractual obligations vis-à-vis non-residents in Slovak or foreign currency without obtaining foreign exchange permits. Payments and transfers in connection with current account transactions are free. Until 1998, the Act included a surrender requirement for export proceeds and proceeds from invisible transactions and current transfers. A transfer, or repatriation requirement, is still enforced, stipulating that residents are required to transfer or import all funds acquired abroad in Slovak or foreign currency within 30 days. The Act also stipulates that all cross-border non-cash payments must be made either through banks, institutions licensed to handle foreign exchange transactions or the NBS. The Slovak Republic attained Article VIII status under the Articles of Agreement of the IMF in October 1995.

218. The regulatory foreign exchange authorities are the National Bank of Slovakia (NBS) and the Ministry of Finance (MOF). While the MOF exercises jurisdiction in matters relating to other ministries, central bodies of the state administration and certain other entities connected to the state budget, the NBS exercises jurisdiction in matters relating to all other residents as well as to non-residents. Until end-September 1998, the Slovak koruna was pegged to a basket comprising the Deutsche mark (60 per cent) and the US dollar (40 per cent) with margins of ± 7 per cent and the official exchange rate was determined at daily fixing sessions by the NBS. The fluctuation band was abolished on 1 October 1998 in favour of a free float. Since then the NBS policy has been only to intervene in the event of large, erratic movements of the exchange rate, although more frequent recent interventions **reflect the current** ambition to maintain a target corridor for the exchange rate.

219. The first examination of the Slovak Republic by the CMIT/CIME Committees in July 1996 found restrictions still being imposed on most capital outflows while the majority of capital inflows were free. Since that time, a number of measures have been taken to liberalise capital account flows. Certain major liberalisation measures took effect already from 1 December 1996, affecting outward FDI to the OECD area, including real estate acquisitions by residents, outward financial credits with maturities exceeding 5 years, inward financial credits with maturities exceeding 3 years as well as trade-linked credits to and from residents of OECD countries. Limits on the export of cash by individuals for travel or other purposes were also abolished at that time.

220. On 1 April 1998, an amendment to the Foreign Exchange Act of 1995 resulted in the abolishment of all surrender requirements of foreign exchange earnings for legal entities resident in Slovakia. In addition, previous limits on purchase and sale of foreign currencies were abolished. Purchase and sale by residents of securities traded on regulated exchanges in OECD countries were liberalised, as was the issuance of securities in Slovakia by residents of OECD countries. The 1998 amendments also made it possible for branches of foreign banks to acquire real estate for purposes of operating bank offices.

221. A further amendment of the Foreign Exchange Act of the Slovak Republic came into force as from 1 January 2000, through the Act of 7 December 1999, and certain further changes to the implementing provisions for this Act (NBS Decree no. 390/1999 Coll.). In combination with an amendment to the Act on Debt Securities, this effectively liberalised most cross-border capital account flows linked to securities transactions, with the exception of issuance and sale abroad of securities with maturities of less than one year as well as the raising and granting of financial credits abroad for maturities below one year.

1. Capital Inflows

222. As can be seen in Table 14, net inflows of capital from abroad slowed only marginally during 1999, from US\$ 1.9 billion in 1998 to US\$ 1.8 billion for 1999 as a whole. The continued inflows, in combination with the decline in the current account deficit, allowed the NBS to rebuild reserves after the substantial decline registered in 1998.

223. As registered in the balance of payments data, net FDI reached US\$ **693.3** million in 1999, but this figure is not a good indicator of actual inflows as it is significantly influenced by the sale of the Slovak share of the Československá obchodná banka, registered as reflow of Slovak direct investment abroad. Gross inflows of FDI from abroad in 1999 reached US\$ 298 million, compared to US\$ 611 million in 1998. (See paragraph 41 and Table 1.)

224. The balance on portfolio investment declined slightly during the year, to produce a net inflow of US\$ 624 million. Neither non-resident purchases of Slovak Treasury bonds and notes, nor non-resident equity investment contributed substantially to these inflows. Drawings on long-term credits from abroad were maintained at a high level during the year, with several new funding operations undertaken by the Government and state-owned companies. However, repayments on outstanding foreign debt were also substantial, leaving a net inflow of only US\$ 345 million. The Government's current foreign borrowing plans, and the improved market perception of Slovak risk will in all likelihood combine to bring an increased inflow under this item during the current year. Borrowings by the enterprise sector were somewhat lower in 1999 than in 1998 and mostly in the form of medium-term trade related credits.

225. Short-term borrowings continued at a modest level in 1999, compared to the higher inflows registered in 1996 and 1997. Some of this decline reflects the unwinding by Slovak banks (and by branches of foreign banks) of facilities arranged with foreign banks, in response to changes in NBS regulations regarding the net open foreign exchange positions of these institutions. Substantial net repayments to foreign creditors by domestic banks were also registered.

Table 14. **Balance of payments**
 (US\$ Million)

	1993	1994	1995	1996	1997	1998	1999
A. Current account	-601,2	664,9	391,4	-2098,1	-1929,2	-2123,7	-1082,9
B. Capital and financial account	552,7	196,1	1053,9	2192,2	1809,1	1950,0	1822,7
Capital account	529,4	87,0	45,7	29,7	0,0	70,5	156,0
Financial account	23,3	109,1	1008,2	2162,6	1809,1	1879,5	1666,7
Direct investment: net	138,6	236,3	193,9	277,4	83,5	430,9	693,3
Portfolio investment: net	-262,9	271,7	246,1	15,9	25,4	796,7	624,4
Long-term credits extended	248,7	181,9	68,7	136,4	110,7	162,4	-9,0
Long-term credits received	62,7	285,2	526,1	895,8	1006,4	577,3	345,4
Drawings	552,2	784,6	1531,5	1954,8	2102,8	1628,1	1506,1
Repayments	-489,5	-499,4	1005,4	-1059,1	-1096,4	-1050,8	-1160,7
Credit from IMF net	97,0	50,7	-200,9	-124,9	-52,3	-67,2	-52,3
Short-term credits extended	-28,7	-22,6	-5,5	-130,7	-206,9	-247,9	116,9
Short-term credits received	97,0	-106,9	147,8	642,4	645,6	74,7	-592,6
Other short-term capital	-329,5	-787,2	32,0	450,3	196,6	152,6	540,5
Changes in other assets	-534,1	-420,6	-281,1	-351,2	-898,3	310,9	1353,0
Changes in other liabilities	122,2	-22,4	230,1	468,8	860,8	-295,2	-894,3
Other financial transactions	82,4	-344,3	83,0	5,9	63,4	-63,6	81,8
Purchase/sale of foreign currencies	0,0	0,0	0,0	326,8	170,7	200,5	-
C. Errors and omissions	103,4	428,8	133,7	143,0	166,2	-376,2	-19,3
D. Exceptional financing							
Rescheduled obligations							
Changes in arrears							
E. Valuation changes:	0,0	0,0	0,0	0,0	0,0	0,0	0,0
F. Change in gross official reserves	-54,9	-1289,2	-1579,0	-237,1	-46,1	549,9	-720,5

Source: National Bank of Slovakia

1.1. Real Estate

226. Regulations on real estate operations necessary to the carrying out of a direct investment fall within the scope of item I/A. They are dealt with in the section on the Slovak Republic's foreign direct investment measures (see Section II, 1.4).

227. As for other real estate operations, Slovak legislation restricts the building or purchase of real estate, including land, by foreign non-residents, except in special circumstances specified in the Foreign Exchange Act. These concern either inheritance, establishment of diplomatic representation, non-resident acquiring from resident spouse or other specified close relative, exchange for other fixed assets or further special cases or exemptions in other legislation. A full reservation to item III/A1 is thus required. The Act does not entitle the authorities to take additional liberalisation measures by decree or other implementing regulation concerning foreign investments in real estate falling under the purview of item III/A1.

228. The Slovak authorities foresee eventual liberalisation of the acquisition of real estate by foreign non-residents in connection with the future EU accession process and the adoption of its "acquis communautaire".

1.2. Capital Market and Collective Investment Securities

a) Operations in the Slovak Republic

229. The purchase in the Slovak Republic by non-residents of domestic capital market and collective investment securities is free (items IV/C1 and VII/C1). The only exception concerns portfolio investment in shares and other securities of a participating nature that may be affected by regulations on foreign direct investment. At present such regulations restrict foreign investment in air transport, lotteries and similar games, and acquisitions in excess of 33 per cent of the Stock Exchange and 25 per cent of the Securities Centre of the Slovak Republic, which requires a reservation under item IV/C1. The Slovak authorities have indicated that current restrictions on foreign equity participation in the Stock Exchange and the Securities Centre will be removed by the entry into force of a new law on the Stock Exchange and corresponding amendments to the Securities Act currently in Parliament. Hence, the proposed reservation to item IV/C1 includes a time limit of 31 December 2000 for the duration of the reservation concerning foreign investment in these two financial sector institutions.

b) Operations abroad

230. Since 1 January 2000, with the entry into force of the amendment of the Debt Securities Act (No 361/1999 Collection of Laws) as well as the Act amending the Foreign Exchange Act, the issue of domestic debt securities on a foreign market is no longer subject to prior approval, as long as the original maturity is at least one year. Under legislation previously in force, the issue of debt securities, whether on domestic or foreign markets required prior approval from the Ministry of Finance, while issue abroad in addition required a foreign exchange permit from the NBS. Under the new legislation a permit from the Ministry of Finance is only required for the issue of municipal bonds abroad, which calls for a limited reservation to item IV/A1. As shares and other non-debt creating securities, including collective investment securities, can be freely issued abroad by Slovak residents, there is now no other cause for a reservation against item IV/A1, nor any need for a reservation to item VII/A1. The introduction of domestic shares or debt securities on recognised foreign markets is not restricted, except, in the case of debt securities, in cases where the remaining maturity is less than one year. A limited reservation is thus required under item IV/A2, while no reservation is needed with respect to item VII/A2.

231. Residents are permitted to sell abroad any domestic capital market securities, subject to compliance with regulations restricting foreign participation in the equity of domestic companies or public utilities (as set out in Section II of this document). Trading in foreign securities by residents other than foreign exchange entities is subject to a foreign exchange permit and needs be effected through an authorised resident agent. Such a permit is granted automatically and without any delay for the sale of any foreign securities lawfully acquired. Therefore such prior approval requirement does not call for reservations under the items concerned (items IV/D2 and VII/D2).

1.3. Money Market and Other Financial Instruments

232. Purchase by non-residents of money market securities and negotiable instruments and non-securitised claims are not restricted (items V/C1 and VI/C1), nor is the exchange of such assets in the country by non-residents (items V/C3 and VI/C3).

233. The issuance by residents of money market instruments and other debt securities with maturities of less than one year abroad requires prior approval from the NBS, which calls for a reservation to item V/A1. The prior approval requirement also applies to the introduction of such securities with a maturity of less than one year on a foreign market, requiring a reservation to item V/A2. The Slovak authorities intend to maintain this prior approval requirement to the end of year 2002. Hence, the corresponding reservations will cease to apply on 31 December 2002.

234. The sale abroad by residents of money market securities legally acquired is not restricted. However, lending and borrowing operations via such other money market instruments as repurchase agreements are subject to prior approval for resident other than licensed foreign exchange banks, requiring limited reservations to items V/D3, and D4.

235. All residents other than authorised foreign exchange entities are required to obtain a foreign exchange permit in order to engage in cross-border operations in negotiable instruments and non-securitised claims involving foreign securities or currencies under the provisions on financial derivatives contained in the Foreign Exchange Act (Article 16). This calls for a reservation with respect to the issue and introduction abroad of domestic negotiable instruments and non-securitised claims (items VI/A1 and A2). Regarding sales abroad by residents (item VI/D2), the Slovak authorities have confirmed that authorisation is automatically granted for any lawfully acquired instruments. No reservation is therefore needed with respect to item VI/D2.

1.4. Credits and Loans

236. Credits directly linked with international commercial transactions or the rendering of international services can freely be granted to a resident importer by the non-resident supplier. The Slovak authorities confirmed that no measures affect the forms and terms (maturity, interest rate, currency of denomination, etc.) on which such commercial credits are contracted and settled. Credits linked with international commercial transactions or the rendering of international services where a resident participates in the underlying transaction can also freely be granted by third parties (e.g. banks) other than direct trading partners without the need for prior approval. No reservation is thus required to item VIII/A(i).

237. Inward financial credits and loans not linked to any underlying commercial transactions require prior approval by the NBS in cases where the maturity is less than one year, which calls for a reservation to item IX/A. This restriction does not, however, apply to resident foreign exchange banks. The Slovak authorities intend to maintain this restriction until the end of the current year. The proposed reservation to item IX/A will thus cease to apply on 31 December 2000.

1.5. Other Capital Operations

238. Non-residents may freely grant sureties, guarantees and financial back-up facilities in favour of residents (items X(i)A1 and B1, X(ii)/A1 and B1). Non-residents can freely operate deposit accounts in foreign currency and in domestic currency with resident institutions (items XI/A1 and 2). No restrictions apply to the conversion into foreign currency of funds from permitted non-resident deposit accounts and the transfer of the funds abroad.

239. Non-residents are permitted to engage in all foreign operations in the Slovak Republic which are permitted to residents themselves in the country. No reservations are needed with respect to item XII/A1 (Purchase of domestic currency with foreign currency in the country concerned) and item XII/A3 (Exchange of foreign currencies).

240. There are no restrictions concerning transfers in the country of capital and annuities certain due to resident beneficiaries from non-resident insurers, under permitted life insurance contracts (item XIII/A).

241. The Foreign Exchange Act stipulates that the import and export of foreign or domestic banknotes and coins by residents as well as non-residents may be made subject to limits which may be set via implementing regulation issued by the NBS. At the present time imports in excess of the equivalent of SK 150 000 are only subject to a simple prior reporting requirement. The previous prior approval required for amounts in excess of the equivalent of SK 100 000, was removed on 1 December 1996 and no reservation to item XV/B1 is thus necessary.

242. There are no restrictions on the import of documents of title to capital assets acquired in accordance with Slovak regulations. No reservation is therefore required with respect to item XV/A1.

1.6. Deposit Requirement

243. The Foreign Exchange Act contains a special provision which entitles the Slovak authorities to impose a deposit obligation on certain types of capital inflows if they consider this to be in the interest of currency stability. This obligation requires legal entities and private individuals to deposit in a special account with designated domestic banks, a certain percentage of inflows in the form of inter-bank deposits, ordinary bank deposits, loans and proceeds of securities issuance abroad. According to the Act, the percentage of funds to be deposited in these special accounts, the duration of application of this requirement, the entities subject to the deposit requirement and other details are to be set by the Ministry of Finance and the National Bank of Slovakia.

244. The Slovak authorities confirm that this deposit obligation has never been imposed. It is considered as a safeguard provision to be used only temporarily, in cases of exceptional circumstances where the resort to traditional macroeconomic policies and market-oriented solutions has proved insufficient. Following the floating of the koruna in October 1998 and in view of the situation in the economy more generally, the authorities do not consider recourse to such a provision as an immediate possibility. Therefore, they do not propose to reflect the provision regarding the deposit obligation in reservations to the Code of Liberalisation of Capital Movements. The Slovak authorities confirm that they undertake not to apply it, except in exceptional circumstances such as those covered by the derogation clause of Article 7 of the Code of Liberalisation of Capital Movements.

2. Capital Outflows

2.1. *Direct Investment and Real Estate Operations*

245. Slovak direct investment in EU countries has been liberalised since 1 February 1995 as a result of the entry into force of the Europe Agreement between the Slovak Republic and the EC member states. An amendment to the Foreign Exchange Act extended this liberalisation measure to all OECD countries on 1 December 1996. Thus, no reservation is required concerning outward direct investment (item I/B).

246. Investment in real estate abroad not related to a direct investment by residents was likewise fully liberalised on 30 September 1996. No reservation will then be needed with respect to item III/B1.

247. There are no restrictions on the liquidation of permitted direct investments and acquisitions of real estate in the Slovak Republic by non-residents and on the transfer abroad of the proceeds of the liquidation, including capital gains (items II/B and III/A2).

2.2. *Portfolio Investment*

a) Abroad

248. Following an amendment to the Foreign Exchange Act implemented since 1 April 1998, as revised by the amendment to Article 15, in force since 1 January 2000, Slovak residents are allowed to purchase abroad government bonds and any other foreign securities which are traded on a the main market of a foreign stock exchange. Thus, the purchase of other financial instruments, such as those traded on OTC markets requires the prior acquisition of a foreign exchange permit, which calls for limited reservations to items IV/D1, V/D1, and VII/D1. Authorised foreign exchange entities are, nonetheless, allowed to purchase on their own account foreign securities, negotiable instruments and non-securitised claims, subject to regulatory limitations. Swap operations abroad are also permitted to authorised foreign exchange banks. Money market lending abroad by residents is similarly restricted to licensed foreign exchange banks. These provisions allow a narrowing of the scope of the reservations to items IV/D1, V/D1 and 3, VI/D1 and 3, and VII/D1.

b) In the country

249. Sale or issue locally of foreign securities tradable on the main market of a foreign stock exchange, foreign Treasury Bonds or Notes or securities where the Slovak Republic or the NBS participate in the foreign exchange transaction, are fully liberalised since the 1 April 1998 amendment to the Foreign Exchange Act, as revised by Article 15 in force since 1 January 2000. A non-resident wishing to issue other securities, whether through private placement or public sale, or to introduce them on a recognised Slovak market, needs a foreign exchange permit. Limited reservations are therefore required with respect to items IV/B1 and 2, V/B1 and 2, and VII/B1 and 2. Similar foreign exchange restrictions apply to the issue of foreign negotiable instruments and non-securitised claims (item VI/B1 and 2).

250. Domestic capital market securities and other financial instruments lawfully acquired by non-residents can be freely sold to residents. Non-residents are also allowed to engage in the country in operations with residents involving foreign instruments provided that these operations are permitted between residents themselves. No reservations are therefore necessary with respect to items relating to the sale of financial instruments by non-residents in the country concerned (items IV/C2, V/C2, VI/C2 and VII/C2).

2.3. Credit Operations

251. Credits directly linked with international commercial transactions or the rendering of international services to a non-resident importer where a resident participates in the underlying trade transaction were liberalised already in 1995, both as concerns a resident supplier and an authorised foreign exchange bank. Trade credits granted by residents other than direct suppliers and banks were exempted from the need to obtain a foreign exchange permit in 1996. No reservation will therefore be needed with respect to item VIII(i)/B.

252. Prior approval is still required for non-bank residents wishing to grant to non-residents i) financial credits in cases where the maturity is less than one year (other than between natural persons for non-business purposes); ii) sureties and guarantees, and financial back-up facilities, even if they are related to international operations in which a resident participates, in the case where a resident secures or requests the securing of a non-resident's obligation where the term for discharging the non-resident's obligation is less than one year. Hence limited reservations to items IX/B, X(i)/A2 and B2 and X(ii)/ A2 and B2 are required.

253. The Slovak authorities are prepared to commit themselves to liberalise all outward credits as well as sureties, guarantees and financial back-up facilities by the end of 2000 at the latest.

2.4. Life Insurance and Personal Capital Movements

254. Transfers of capital and annuities certain due to non-resident beneficiaries from resident insurers, under life insurance contracts, are liberalised (item XIII/B).

255. All personal capital movements were liberalised under the 1995 Foreign Exchange Act (items XIV/A to G). The Slovak authorities confirmed that no personal capital movements, in particular transfers abroad of personal funds by non-resident workers, are subject to bilateral international agreements or reciprocity.

2.5. Other Capital Operations

256. The operation by residents of deposit accounts with non-resident institutions is restricted (except for residents staying abroad and authorised resident foreign exchange entities who can operate accounts in foreign currency, and for foreign currency payments of costs relating to the maintenance of property owned abroad by residents and of specific organisational units located abroad). These restrictions call for reservations to items XI/B1 and 2. The Slovak authorities are prepared to commit themselves to remove these restrictions by the end of the year 2003.

257. Non-residents can freely sell for foreign currency, on a spot or forward basis, any amounts of domestic currency acquired in accordance with Slovak regulations (item XII/A2).

258. Residents are allowed to purchase abroad, on a spot or forward basis, foreign currency with domestic currency for the execution of any permitted transactions. The purchase of foreign currency not linked to any particular underlying transaction is subject to prior approval. This requires a reservation to item XII/B1. **The Slovak authorities are prepared to commit themselves to remove these restrictions by the end of the year 2003.**

259. Foreign exchange acquired abroad by residents other than foreign exchange entities and not spent during their stay abroad must be repatriated to the country within 30 days. This applies *inter alia* to foreign exchange export earnings. This repatriation requirement calls for a limited reservation under item XII/B2 (Sale of foreign currency for domestic currency abroad by residents). **The Slovak authorities are prepared to commit themselves to remove these restrictions by the end of the year 2003.**

260. Residents are permitted to exchange foreign currencies during their stay abroad. Otherwise, the exchange of foreign currencies is reserved to authorised foreign exchange entities. For instance, export earnings denominated in a particular foreign currency cannot be converted into another foreign currency, as they must be repatriated in the original currency of settlement of the trade transaction concerned. This calls for a reservation with respect to item XII/B3. **The Slovak authorities are prepared to commit themselves to remove these restrictions by the end of the year 2003, and have stated that no forms of repatriation requirements will apply beyond that date.**

261. There are no restrictions on the export of documents of title to capital assets acquired in accordance with Slovak regulations. No reservation is therefore required with respect to item XV/A2.

262. At the time of the July 1996 examination of the Slovak Republic by the Committees, residents as well as non-residents could not export foreign or domestic banknotes and coins in excess of the equivalent of SKK 100 000, without prior approval.. The prior approval requirement was replaced by a simple prior reporting requirement for the physical movement of foreign or domestic banknotes and coins in excess of the equivalent of SKK 150 000, as of 1 December 1996. Thus no reservation to item XV/B2 is necessary.

B. Code of Liberalisation of Current Invisible Operations

1. Current Transfers and Payments

263. The Foreign Exchange Act of 1995 removed all restrictions on transfers and payments in connection with international current transactions, in particular current invisible operations covered by the Code of Liberalisation of Current Invisible Operations. Following the entry into force of this Act, the Slovak Republic attained Article VIII status under the Articles of Agreement of the International Monetary Fund, on 1 October 1995.

264. No reservations are necessary for any transfer-related items in Section A (Business and Trade), Section B (Foreign trade), Section F (Income from Capital), Section J (Personal Income and Expenditure), Section K (Public Income and Expenditure) and Section L (General). The Slovak authorities confirmed that the rights to pension benefits acquired in the country by persons now resident in an OECD country are freely transferable abroad (item J/1). They also confirmed that no restrictions apply to the transfer abroad of interest income from domestic-currency accounts that non-residents are permitted to open on Slovak territory (item F/3).

265. Resident travellers can cover abroad any travel and tourism expenses by means of cheques, cash cards or credit cards linked to accounts, including domestic currency accounts, held in the Slovak Republic. Previously existing restrictions on foreign exchange allowances for travel and the export of travellers' cheques and foreign bank notes were removed on 1 December 1996 and replaced by a simple reporting requirement.

2. Trade in Services

2.1. Cross-border Transport Services

266. The Slovak authorities impose no restrictions regarding maritime freight (item C/1). In particular, they accept the obligation of Note 1 to Annex A of the Code stipulating that residents of one Member country must be given unrestricted opportunity to avail themselves of, and pay for, all services in connection with international maritime transport offered by residents of any other Member country

267. A reservation is required with respect to item C/2 (inland waterway freights, including chartering) as far as cabotage is concerned.

268. A reservation along the model used for many OECD countries is required with respect to item C/3 to reflect restrictions on the cross-border provision by non-residents of road transport services (other than "closed door" tours which are permitted) in the Slovak Republic.

269. Bilateral international agreements of the Slovak Republic provide that permits can be given to non-residents to carry out certain inland waterway and road transport activities. The Slovak authorities have confirmed that they stand ready to sign such agreements with any OECD countries that would express an interest in the provision of these transport services on a cross-border basis.

270. There are no restrictions on current payments and transfer of receipts in connection with air transport (item C/4), nor with respect to payments for harbour services, repairs, maintenance, etc. in connection with permitted transport (item C/5).

2.2. Financial Services

271. The Slovak authorities have, under the WTO interim agreement on financial services and the Fifth Protocol on Financial Services to GATS (supplement III, dated February 1998), agreed not to apply any reciprocity provisions which may be contained in Slovak regulations; they are ready to make this commitment permanent under the Codes for OECD Member countries.

272. The provision by non-residents of a large number of insurance, banking and other financial services is still significantly restricted on a purely cross-border basis while only to a minor extent through branching in financial services other than banking, insurance and securities business (including collective securities). However, when they are abroad, residents can purchase banking and financial services as well as certain insurance services.

273. The Slovak authorities justify the maintenance for the time being of restrictions on the access of non-resident financial institutions to the domestic market on a cross-border basis by the still limited capacity of the domestic supervisory authorities to monitor financial institutions established outside Slovak jurisdiction, and the need to facilitate the on-going restructuring of the domestic banking and financial industry as well as the process of privatisation in this sector.

a) Insurance

274. An amendment to the Act No.24/1991 Coll. on Insurance was approved by Parliament on 9 February 2000, introducing two important liberalisation measures in the area of cross-border insurance from 1 April 2000, when it entered into force. The amendment allows the establishment of branches of foreign insurers on Slovak territory and it further allows Slovak residents to enter into insurance contracts

with foreign insurers for those risks located on Slovak territory which would not be covered by domestic insurers.

275. The Slovak authorities have stated that further liberalisation will depend on the development of the domestic market and progress with the current programme of reform and strengthening of supervision in the area of insurance. A planned re-codification of the Insurance Act to be undertaken later this year or early 2001 is expected to liberalise some categories of life insurance as well as additional categories of non-life insurance on a cross-border basis.

276. There are no restrictions on the transfer abroad of contributions and premiums for social security and social insurance schemes abroad to which residents have been permitted to adhere, and the transfer abroad of those domestic social insurance benefits which would not be reserved to persons residing in the country under Slovak social insurance regulations. No reservation is necessary with respect item D/1 (Social security and social insurance).

277. Insurance regulations appear to restrict the conclusion of insurance contracts with non-resident insurers relating to goods in international trade owned by Slovak residents on Slovak territory. The amendment to the Insurance Act approved by Parliament on 9 February 2000 does not contain a provision addressing this apparent restriction. However, the Slovak authorities consider that residents are free to initiate the conclusion of a contract with a non-resident insurer for insurance of goods in international trade and intend to clarify this through a specific provision to be included in the re-codified Insurance Act. Thus, the Slovak authorities do not intend to lodge a reservation to item D/2 of the Code of Liberalisation of Current Invisible Operations as they undertake not to impose any restrictions on cross-border insurance relating to goods in international trade.

278. Contracts for life assurance and other insurance can be concluded by residents only with resident insurers, (including subsidiaries and branches of foreign insurance companies), which requires reservations to paragraph 2 of item D/3 (Life insurance) and paragraph 5 of item D/4 (Other insurance). Following the adoption by Parliament of the Amendment to the Insurance Act on 9 February 2000, residents are, however, allowed to enter into insurance contracts with foreign insurers for those risks located on Slovak territory which would not be covered by domestic insurers. A reservation to paragraph 6 under item D/4 is thus no longer necessary.

279. However, residents can conclude insurance contracts with non-resident companies for risks located abroad and civil liability related to damages caused abroad; residents when abroad can also purchase insurance services connected to air and maritime transport, covering goods, aircraft, casco and liability. This allows a narrowing of the scope of the reservation with respect to item D/4, paragraph 5.

280. No restrictions apply in the fields of retrocession and reinsurance so that no reservation to item D/5 is needed.

281. An important liberalisation measure introduced via the amendment to the Insurance Act mentioned above is the possibility for non-resident insurers to establish direct branches in the Slovak Republic. Previously, establishment was permitted only in the form of joint-stock companies, on account of the perceived need to provide adequate consumer protection in a context of still limited capacity of the Slovak authorities in charge of insurance supervision. In the view of the Slovak Government, the planned upgrading and restructuring of insurance supervision (see paragraphs 109 and 112) provides the basis for enlarging the access by foreign insurers to the Slovak market and will contribute to the goal of ensuring the integrity and stability of the financial system as a whole.

b) Banking and other financial services

282. Most of the financial and banking services covered under Section E of the Code of Liberalisation of Current Invisible Operations can only be provided to residents by financial institutions licensed by the relevant Slovak authorities to carry out such services on the basis of an establishment of a branch or a subsidiary in the Slovak Republic. Thus, neither the Banking Act No. 21/1992 Coll. as subsequently amended nor the Securities Act No.600/1992 Coll. as subsequently amended, foresees the provision of any of the range of banking and securities activities normally included in a banking or securities dealer license on a cross-border basis. The Banking Act specifically states that banking activities may also be performed by foreign banks, but through local branches on the basis of a local license. This establishment requirement calls for reservations to the following cross-border services items of Section E: E/2 (banking and investment services), E/3 (settlement, clearing and custodial and depository services) and E/4 (asset management).

283. Activities which are not reserved for licensed resident institutions and with respect to which the Slovak Republic would not require a reservation include the following:

- Within the scope of permitted capital operations, residents can purchase banking and financial services when they are abroad;
- Within the scope of permitted capital operations, residents can purchase payments services provided by non-resident financial institutions, so that no reservation to item E/1 is needed;
- Access to financial market information, communications and execution systems, and to settlement and clearing systems is not restricted. Accordingly, only limited reservations would be needed to items E/2 and E/3, respectively¹³;
- Cross-border advisory and agency services (item E/5);
- Transfers in connection with fees, commissions and other charges are free (item E/6).

284. The Banking Act of 1992 referred to above, allows non-resident investors to establish and operate branches, agencies, etc. in the banking services sector on conditions no more burdensome than those applying to the establishment of financial institutions by domestic investors. Since 1 July 1999, this also applies to the sphere of securities issuance, underwriting and trading through the amendment of the Securities Act, which enables branches of foreign legal entities to acquire a Ministry of Finance license for such activities, provided the investing firm holds a license in the country of establishment. In addition, the Collective Securities Act, which entered into force on 1 January 2000, allows the establishment of branches of foreign investment funds in the Slovak Republic on conditions similar to those applying to domestic investors.

285. As to the establishment of branches within other financial services sectors, the situation is the following: Unless separate legislation or regulation stipulates otherwise, the Commercial Code of the Slovak Republic allows non-resident investors to establish and operate branches and agencies on Slovak

13. Under the Code, the liberalisation obligations apply only to the access to such systems, subject to establishment requirement if necessary in the case of settlement and clearing systems, and not to the provision of such systems. The fact that residents may have access to financial market information, communications and execution systems located abroad does not prevent a Member country from requiring the transfer of funds to complete any international operation to take place through authorised resident agents in order to ensure compliance with existing exchange and capital controls.

territory. However, as acquisition by non-residents of real estate is subject to a general restriction under the Foreign Exchange Act (see Section II/1.4), separate legal dispensation must be provided for foreign branches to purchase their own premises. As such dispensation now exists for banking, securities dealing, collective investment activities and insurance, via separate legislation, the Slovak authorities argue that a non-resident financial services institution wishing to operate from a branch established on Slovak territory does not encounter any effective obstacle to doing so, as long as at least some of the services provided fall within any of these four categories.

286. However, the fact remains that a non-resident investor wishing to establish a branch providing services such as credit reference and analysis or investment research and advice faces a less advantageous legal situation than an insurance agency, a bank, a securities dealer or an investment fund. Non-resident investors cannot acquire premises outright, but must first be licensed for any of the latter activities - or be content to rent offices. Thus, a limited reservation to item E/7, paragraph 1, to reflect this situation is proposed. However, the Slovak authorities have stated that they are bound by Article 45, paragraph 7 of the Europe Agreement to allow non-residents to acquire real estate for operational purposes by the 6th year of implementation of this Agreement (meaning end 2000). This liberalisation will be automatically extended to all OECD Member countries in compliance with the Unilateral Declaration made by the Slovak authorities in 1996 (see Section II/1.1). The reservation will thus cease to apply by 31 December 2000.

287. The Slovak authorities confirm that the total of financial requirements imposed on a non-resident investor wishing to establish more than one branch in the banking and financial sector does not exceed that imposed on the establishment of a bank, securities firm or investment fund by a domestic investor. Capital requirements can be met by funds in domestic currency as well as foreign currencies brought from abroad.

288. The competent authorities decide on each application for authorisation from a non-resident investor not later than six months from the date of which the application is completed, and notify without delay the applicant of their decision. The Slovak authorities state that the total time period needed for processing of an application normally does not extend beyond three months and that the six months limit is invariably respected.

289. There are no restrictions on representation (paragraph 3 in Annex II to Annex A of the Code) and the establishment of representative offices of non-resident institutions is not subject to prior authorisation (paragraph 4).

290. Finally, the right to act as a self-employed intermediary is not reserved to nationals in any financial sectors where the status of self-employed intermediary exists (paragraph 5). There is also no discrimination by nationality as to conditions for membership in the statutes of the Banking Association or any other private professional associations, self-regulatory bodies, securities exchange or organised market (paragraph 6).

2.3. *Cross-border Professional Services*

291. The Slovak authorities declare that they do not restrict the cross-border supply of professional services in the Slovak Republic, except for architectural and engineering services. This requires a limited reservation under item L/6 of the Code of Liberalisation of Current Invisible Operations. The previous citizenship requirement that existed for health care and dental services has been removed in 1999 by amendment to the Law on Health Care.

292. The Slovak authorities intend to remove the restriction concerning the cross-border supply of architectural and engineering services in the forthcoming negotiations in the WTO.

3. **Films**

293. The Slovak authorities have explained that Law No. 468/1991 Coll. on the Operation of Radio and Television Broadcasting does not impose any formal quotas on foreign films and other recordings for private television broadcasts. The Act provides, however, that the competent authorities may grant private television broadcasting licences subject to conditions aimed at ensuring the cultural development of nations, nationalities and ethnic groups in the country and supporting European audio-visual work.

294. The Slovak authorities are currently preparing a new Law on Radio and Television that will transpose into Slovak legislation the EU Council Directive 89/552/CEE, as amended by Directive 97/36/CEE, on the harmonisation of broadcasting quota for European production in private TV networks. Adoption by the Parliament is expected for **June/July** 2000, and entry into force on 1 **November** 2000. The new law will confirm the existing rules concerning cultural development and promotion of independent production. The Slovak authorities therefore suggest a limited reservation under item H/1 of the Code of Liberalisation of Current Invisible Operations.

295. The Slovak authorities estimate that the implementation of the EU Council Directive 89/552/CEE will have no discriminatory effect on non-EU OECD Member states. According to the Slovak authorities, calculations show that the production broadcast in private TV networks currently approaches the 50 per cent share of European production (including Slovak and 50 per cent non-European production).

296. There exists a separate Act on Audio-vision No. 1/1996 Coll. that applies to cinemas. Under the 1996 version of this Act, distributors, producers or operators of audio-visual works (other than those exclusively intended to television broadcasting) were required to reserve at least 30 per cent of audio-visual works (including films covered by item H/1) to European production, of which at least 30 per cent should be Slovak. This Act has been amended by Act No. 116/1998 Coll.. The latter contained a recommendation for distributors to "prefer European and Slovak audio-visual works". On 8 February 2000, the Slovak Parliament adopted another amendment of the Act on Audio-vision that eliminated this restriction relating to non-European films in Slovak cinemas.

297. The Slovak authorities confirm that Slovak legislation imposes no discriminatory taxes on foreign films and other recordings for cinema exhibition or for television broadcasts, and that benefits granted to domestic information or documentary films are extended to foreign information or documentary films of a similar category.

Annex 1

Draft Decision of the Council

amending Annexes B to the Code of Liberalisation of Capital Movements and the Code of Liberalisation of Current Invisible Operations

1. Code of Liberalisation of Capital Movements

THE COUNCIL,

Having regard to Article 5 a) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Having regard to the Decision of the Council of ...inviting the Slovak Republic to accede to the Convention on Organisation for Economic Co-operation and Development [C(2000)..];

Having regard to the Code of Liberalisation of Capital Movements;

Having regard to the Report by the Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises on the Slovak Republic's position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises [C(2000)..];

DECIDES:

Annex B to the Code of Liberalisation of Capital Movements shall upon the date that the Slovak Republic becomes a Member of the Organisation be amended by the addition of the following reservations:

“SLOVAK REPUBLIC

List A, **Direct investment**
I/A

- In the country concerned by non-residents.

Remark: The reservation applies to:

- i) The establishment of branches of non-residents in the energy sector;*
- ii) The purchase of real estate by branches of non-residents other than in banking, insurance, securities dealing, and collective investment services.*

Remark: This reservation will cease to apply on 31 December 2000.

iii) *Operation of lotteries and similar games;*

Remark: This reservation does not apply to betting games in casinos, for which an authorisation may be granted to legal persons established in the Slovak Republic with state ownership of at least 51 per cent. This ownership requirement will cease to apply on 31 December 2000.

iv) *The purchase of more than 49 per cent of the equity capital in air transportation companies;*

v) *The purchase of more than one third of the equity capital of the Stock Exchange by non-residents or by residents with a foreign participation more than 50 per cent, and the purchase of more than 25 per cent of the equity capital of the Securities Centre by non-residents.*

Remark: This reservation will cease to apply on 31 December 2000.

List B
III/A1

Operations in real estate:

- Building or purchase in the country concerned by non-residents.

List A,
IV/A1 and 2,
B1 and 2,
C1, D1

Operations in securities on capital markets:

- Issue through placing or public sale of domestic securities on a foreign capital market.

Remark: The reservation applies only to the issue of municipal debt securities, which is subject to prior approval under the Foreign Exchange Act and implementing regulations under the Debt Securities Act.

- Introduction of domestic securities on a recognised foreign security market

Remark: The reservation applies only to the introduction of debt securities with a remaining maturity below one year, which is subject to prior approval. The reservation will cease to apply on 31 December 2002.

- Issue through placing or public sale of foreign securities on the domestic capital market.

Remark: The reservation does not apply to issuers whose securities are traded on the prime market of a foreign stock exchange nor to foreign government debt securities. The reservation will cease to apply on 31 December 2001.

- Introduction of foreign securities on a recognised domestic security market.

Remark: The reservation does not apply to securities traded on the prime market of a foreign stock exchange nor to foreign government debt securities. The reservation will cease to apply on 31 December 2001.

- Purchase in the country concerned by non-residents.

Remark: The reservation applies only to the purchase of shares and other securities of a participating nature which may be affected by regulations on inward direct investment in air transport, operations in lotteries and similar games, the Stock Exchange and the Securities Centre.

- Purchase abroad by residents.

Remark: The reservation does not apply to purchases by authorised foreign exchange entities for their own account, and to the purchase of securities traded on the prime market of a foreign stock exchange, nor to government debt securities. The reservation will cease to apply on 31 December 2001.

List B, V/A1 **Operations on money markets:**

and 2, B1

and 2, D1, 3

and 4

- Issue through placing or public sale of domestic securities and other instruments on a foreign money market.

Remark: The reservation applies only to the issue of debt securities with a maturity of less than one year, which is subject to prior approval under the Foreign Exchange Act and implementing regulations of the Debt Securities Act. The reservation will cease to apply on 31 December 2002.

- Introduction of domestic securities and other instruments on a foreign market.

Remark: The reservation applies only to debt securities with a remaining maturity of less than one year, which is subject to prior approval. The reservation will cease to apply on 31 December 2002.

- Issue through placing or public sale of foreign securities and other instruments on the domestic money market.

Remark: The reservation does not apply to issuers whose securities are traded on the prime market of a foreign stock exchange nor to government debt securities. The reservation will cease to apply on 31 December 2002.

- Introduction of foreign securities and other instruments on a recognised domestic money market.

Remark: The reservation does not apply to issuers whose securities are traded on the prime market of a foreign stock exchange nor to government debt securities. The reservation will cease to apply on 31 December 2002.

- Purchase of money market securities abroad by residents.

Remark: The reservation does not apply to purchases by authorised foreign exchange entities for their own account and to purchases of securities traded on the prime market of a foreign stock exchange, nor to government debt securities. The reservation will cease to apply on 31 December 2002.

- Lending through other money market instruments abroad by residents.

Remark: The reservation does not apply to authorised foreign exchange entities. The reservation will cease to apply on 31 December 2002.

- Borrowing through other money market instruments abroad by residents.

Remark: The reservation does not apply to authorised foreign exchange entities. The reservation will cease to apply on 31 December 2002.

List B,
VI/A1 and 2
B1 and 2,
D1 and 3

Other operations in negotiable instruments and non-securitised claims:

- Issue through placing or public sale of domestic instruments and claims on a foreign financial market

Remark: The reservation applies only to issuance by residents other than authorised foreign exchange entities. The reservation will cease to apply on 31 December 2002.

- Introduction of domestic securities on a foreign market.

Remark: The reservation applies only to introduction by residents other than authorised foreign exchange entities. The reservation will cease to apply on 31 December 2002.

- Issue through placing or public sale of foreign instruments and claims on a domestic financial market.

Remark: The reservation does not apply to issuers whose securities are traded on the prime market of a foreign stock exchange. The reservation will cease to apply on 31 December 2002.

- Introduction of foreign instruments and claims on a recognised domestic financial market.

Remark: The reservation does not apply to securities traded on the prime market of a foreign stock exchange nor to foreign government debt securities. The reservation will cease to apply on 31 December 2002.

- Purchase abroad by residents.

Remark: The reservation does not apply to purchases by authorised foreign exchange entities for their own account. The reservation will cease to apply on 31 December 2002.

- Exchange for other assets abroad by residents.

Remark: The reservation does not apply to authorised foreign exchange entities acting for their own account. The reservation will cease to apply on 31 December 2002.

List A,
VII/ B1 and
2, D1

Operations in collective investment securities:

- Issue through placing or public sale of foreign collective investment securities on the domestic securities market.

Remark: The reservation does not apply to issuers whose securities are traded on the prime market of a foreign stock exchange. The reservation will cease to apply on 31 December 2001.

- Introduction of foreign collective investment securities on a recognised domestic securities market.

Remark: The reservation does not apply to securities traded on the prime market of a foreign stock exchange. The reservation will cease to apply on 31 December 2001.

- Purchase abroad by residents.

Remark: The reservation does not apply to purchases by authorised foreign exchange entities for their own account within specified limits and to purchases of securities traded on the prime market of a foreign stock exchange. The reservation will cease to apply on 31 December 2002.

List B,
IX/A, B

Financial credits and loans:

- Credits and loans granted by non-residents to residents.

Remark: The reservation only applies to credits other than granted between natural persons for non-business purposes with maturities below one year where the borrower is not an authorised resident foreign exchange entity. The reservation will cease to apply on 31 December 2000.

- Credits and loans granted by residents to non-residents.

Remark: The reservation only applies to credits other than granted between natural persons for non-business purposes with maturities below one year where the lender is not an authorised resident foreign exchange entity. The reservation will cease to apply on 31 December 2000.

List A,
X(i)/A2 and
B2

Sureties, guarantees and financial back-up facilities in cases directly related to international trade, international current invisible operations or international capital movement operations, in which a resident participates in the underlying international operation concerned:

- Sureties and guarantees given by residents in favour of non-residents.

Remark: The reservation does not apply to authorised resident foreign exchange entities, nor to securing by residents of obligations of non-residents where the term for discharging the non-resident's obligation is at least one year. The reservation will cease to apply on 31 December 2000.

- Financial back-up facilities granted by residents in favour of non-residents.

Remark: The reservation does not apply to authorised resident foreign exchange entities, nor to facilities granted by residents to non-residents where the term is at least one year. The reservation will cease to apply on 31 December 2000.

List A,
X(ii)/A2

Sureties, guarantees and financial back-up facilities in cases not directly related to international trade, international current invisible operations or international capital movement operations, or where no resident participates in the underlying international operation concerned:

- Sureties and guarantees given by residents in favour of non-residents.

Remark: The reservation does not apply to authorised resident foreign exchange entities within specified limits, nor to securing by residents of obligations of non-residents where the term for discharging the non-resident's obligation is at least one year. The reservation will cease to apply on 31 December 2000.

List B,
X(ii)/B2

Sureties, guarantees and financial back-up facilities in cases not directly related to international trade, international current invisible operations or international capital movement operations, or where no resident participates in the underlying international operation concerned:

- Financial back-up facilities granted by residents in favour of non-residents.

Remark: The reservation does not apply to authorised resident foreign exchange entities within specified limits, nor to facilities granted by residents to non-residents where the term is at least one year. The reservation will cease to apply on 31 December 2000.

List B,
XI/B1 and 2

Operation of deposit accounts:

- By residents in domestic currency with non-resident institutions.
- By residents in foreign currency with non-resident institutions.

Remark: The reservation does not apply to authorised resident foreign exchange entities, and residents staying abroad for covering the justified operating costs of the resident's local representation or agency abroad, and for the payments of fees, taxes and other documented expenses related to the administration and maintenance of property owned by residents abroad. The reservation will cease to apply on 31 December 2003.

List B,
XII/B1 to 3

Operations in foreign exchange:

- Purchase of foreign currency with domestic currency abroad by residents.

Remark: The reservation applies only to the purchase of foreign currency with domestic currency not linked to any particular underlying transactions. . The reservation will cease to apply on 31 December 2003.

- Sale of foreign currency for domestic currency abroad by residents.

Remark: The reservation applies only to foreign exchange acquired abroad by residents other than authorised foreign exchange entities and not spent during their stay abroad. The reservation will cease to apply on 31 December 2003.

- Exchange of foreign currencies abroad by residents.

Remark: The reservation applies only to foreign exchange held abroad by residents other than authorised foreign exchange entities and not spent during their stay abroad. The reservation will cease to apply on 31 December 2003.

2. Code of Liberalisation of Current Invisible Operations

THE COUNCIL,

Having regard to Article 5 a) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Having regard to the Decision of the Council of ...inviting the Slovak Republic to accede to the Convention on Organisation for Economic Co-operation and Development [C(2000)..];

Having regard to the Code of Liberalisation of Current Invisible Operations;

Having regard to the Report by the Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises on the Slovak Republic's position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises [C(2000)..];

DECIDES:

Annex B to the Code of Liberalisation of Current Invisible Operations shall upon the date that the Slovak Republic becomes a Member of the Organisation be amended by the addition of the following reservations:

“SLOVAK REPUBLIC

C/2. Inland waterway freights, including chartering

Remark: This reservation applies only to cabotage.

C/3. Road transport: passengers and freights, including chartering.

Remark: The reservation applies to the following operations:

a) *for passengers:*

- *transit;*
- *picking up or setting down on an international journey;*
- *transport within the country;*

b) *for freights:*

- *transit;*
- *delivery on an international journey;*
- *collection on an international journey;*
- *return cargo where collection is authorised;*
- *return cargo where delivery is authorised;*
- *transport within the country.*

D/3. Life assurance.

Annex I to Annex A, Part I, paragraph 2

D/4. All other insurance.

Annex I to Annex A, Part I, paragraphs 5 and 6.

Remark: The reservation on paragraph 5 does not apply to insurance services for risks located abroad and civil liability related to damages caused abroad and to insurance services purchased abroad which are connected to air and maritime transport and cover goods, aircraft, hull and casco.

E/2. Banking and investment services

Remark: The reservation does not apply to access to financial market information, communications and execution systems on a cross-border basis.

E/3. Settlement, clearing, custodial and depository services

Remark: The reservation applies only to the provision of custodial services by non-residents on Slovak territory.

E/4. Asset management

Remark: The reservation applies only to asset management services provided by non-residents on Slovak territory.

E/7. Conditions for the establishment and operation of branches, agencies, etc. of non-resident investors in the banking and financial service sector.

Annex II to Annex A, paragraph 1

*Remark: The reservation applies only to the extent that establishment of branches in financial services sectors other than banking, securities dealing and collective investment services is not provided the same **special authorising legislation** with respect to the acquisition of premises. This reservation will cease to apply on 31 December 2000.*

H/1. Exportation, importation, distribution and use of printed films and other recordings - whatever the means of reproduction - for private or cinema exhibition, or for television broadcasts.

[The text of this reservation is to be finalised].

- L/6. Professional services (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.).

Remark: The reservation applies only to architectural and engineering services provided by non-residents on Slovak territory.”

Annex 2

Draft Decision of the Council

amending Annex A to the Revised Decision of the Council on National Treatment

THE COUNCIL,

Having regard to Article 5 a) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Having regard to the Decision of the Council of ...inviting the Slovak Republic to accede to the Convention on Organisation for Economic Co-operation and Development [C(2000)..];

Having regard to Article 1 of the Third Revised Decision of the Council on National Treatment of 12, 13, 17 and 19 December 1991;

Having regard to the Report by the Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises on the Slovak Republic's position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises [C(2000)..];

DECIDES:

The following entry for the Slovak Republic shall be inserted into Annex A to the Third Revised Decision on National Treatment:

“SLOVAK REPUBLIC

A. Exceptions at national level

I. Investment by established foreign controlled enterprises

Lotteries and Similar Games

Operation of lotteries and similar games is reserved to Slovak entities, except for **betting games in casinos through an enterprise established in the Slovak Republic with state ownership of at least 51 per cent. This ownership requirement will cease to apply on 31 December 2000.**

Authority: Act No. 224/1996 Coll. on Lotteries and Similar Games.

Air Transport

Operation of air transportation is reserved to enterprises with a foreign equity participation not exceeding 49 per cent.

Authority: Aviation Act of 1 July 1998.

Stock Exchange and Securities Centre

The acquisition of shares in the Stock Exchange by enterprises with foreign participation in excess of 50 per cent is not permitted if this acquisition would bring foreign ownership of the Stock Exchange above 33 per cent.

Authority: Act No. 214/1992 on Securities Exchange, as subsequently amended; Securities Act.

II. *Official Aids and Subsidies*

None

III. *Tax obligations*

None

IV. *Government Purchasing*

None

V. *Access to local finance*

None

B. *Exceptions by territorial subdivisions*

None”

Annex 3

**The Slovak Republic's Proposed Transparency Measures
regarding National Treatment**

A. Transparency Measures at the Level of National Government

I. Measures based on public order and essential security considerations

a. Investment by established by foreign controlled enterprises

None

b. Corporate organisation

None

c. Government purchasing

None

d. Official aids and subsidies

None

II. Other measures reported for transparency at the Level of National Government

a. Investment by established foreign controlled enterprises

None

b. Corporate organisation

Foreign natural persons entrusted to **represent** the entrepreneur have to submit a permit to stay in the Slovak Republic.

Auditing

The majority of the members of the Board of auditing companies established in the Slovak Republic must be auditors registered in the Slovak Chamber of Auditors or a similar register in an OECD Member country.

Authority: Law No. 73/1992 Coll. on Auditing Services and the Slovak Chamber on Auditors.

c. *Government purchasing*

None

B. Measures reported for transparency at the Level of Territorial Subdivisions

None

Annex 4

New Slovak Legislation

ACT	FIRST ENTRY INTO FORCE	LATEST AMENDMENT	PENDING LEGISLATION	PLANNED LEGISLATION
Commercial Code	Act No. 513/1991, effective as of 1 st January 1992	Act No. 127/1999, effective as of 1 July 1999		
Act on Strategic Enterprises	Act No. 192/1995, effective as of 1 October 1995	Cancelled by Act. No. 253/1999, as of 12 October 1999		
Act on large-scale Privatisation	Act No. 92/1991, effective as of 1 st April 1991	Act. No. 253/1999, effective as of 12 October 1999		
Foreign Exchange Act	Act No. 202/1995, effective as of 1 st October 1995	Act No. 388/1999, effective as of 1 st January 2000		End of 2000 (to adapt on liberalisation commitments)
Act on Collective Investment	Act No. 385/1999, effective as of 1 st January 2000			
Insurance Act	Act No. 24/1991, effective as of 1 st March 1991	Act No. 101/2000, effective as of 1 April 2000		Expected recodification: 2001
Debt Securities Act	Act No. 530/1990, effective as of 1 st February 1991	Act No. 361/1999, effective as of 1 st January 2000		
Income Tax Act	Act No. 366/1999, effective as of 1 st January 2000			
Auditing Act	Act No. 73/1992, effective as of 1 st February 1992	Act No. 272/1996, effective as of 1 October 1996	Amendment just submitted to the Parliament; Entry into force expected as of 1 June 2000	
Energy Act	Act No. 70/1998, effective as of 1 st July 1998			
Telecommunication Act	Act No. 110/1964, effective as of 1 July 1964	Act No. 212/1995, effective as of 1 July 1995	New Telecommunication Act just submitted to the Parliament; Entry into force expected as of 1 st June, or 1 st July 2000	
Post Act	Act No. 222/1946, effective as of 1 st January 1947			New Post Act scheduled for Government approval, in December 2000 (adoption of EU acquis), in Parliament 2001
Civil Aviation Act	Act No. 143/1998, effective as of 1 st July 1998			Amendment of the Act scheduled for Government approval in December 2000

New Slovak Legislation cont...

ACT	FIRST ENTRY INTO FORCE	LATEST AMENDMENT	PENDING LEGISLATION	PLANNED LEGISLATION
Railway Transportation Act	Act No. 258/1993, effective as of 30 September 1993			Amendment of the Act in order to transform Slovak Railways onto j.s.c.; to be submitted to the Government in June 2000
Act on Audio-vision	Act No. 1/1996, effective as of 1 st March 1996	Act No. 62/2000, effective as of 1 March 2000		
Act on Radio and TV Broadcasting	Act No. 468/1991, effective as of 1 st January 1992			New Act on Broadcasting and Retransmission scheduled to be passed in September 2000
Securities Act	Act No. 600/1992, effective as of 2 nd December 1992	Act No. 128/1999, effective as of 1 st July 1999		Expected recodification: 2001
Act on Office for supervision over the Financial Market			Submitted for the Legislative Board of Government; Expected to enter into force as of 1 st July 2000	
Act on Stock Exchange	Act No. 214/1992, effective as of 21 April 1992		New Act on Stock Exchange submitted to the Legislative Board of Government; Entry into force scheduled as of 1 st August 2000	
Bankruptcy Law	Act No. 328/1991, effective as of 1 st October 1991	Act No. 281/1999, effective as of 1 st December 1999	Comprehensive Amendment of the Act passed by the Government and just submitted to the Parliament	
Banking Act	Act No. 21/1992, effective as of 1 st February 1992	Act No. 170/1998, effective as of 12 June 1998, and Act No. 252/1999, effective as of 11 October 1999		2001 (Amendment adopting further part of the EU acquis)

Annex 5

Natural Monopolies = Utilities And Infrastructure Companies

	Natural Monopolies ¹	Founder	Current Owner	Permanent Ownership of the State
1	SPP, s. p., Bratislava	ME SR	ME SR	51 %
2	ZsEZ, s. p., Bratislava	ME SR	ME SR	51 %
3	SsEZ, s. p., Zilina	ME SR	ME SR	51 %
4	VsEZ, s. p., Kosice	ME SR	ME SR	51 %
5	Slovenska posta, s. p., Banska Bystrica (Slovak Post Company)	MTPT SR	MTPT SR	Part of the property ²
6	Slovensky vodohospodarsky podnik, s. p., Banka Stiavnica (Slovak Water Management Company)	MA SR	MA SR	Part of the property ³
7	Zeleznice SR, s. p., Bratislava (Railways Company)	MTPT SR	MTPT SR	Part of the property ⁴
8	Transpetrol, a. s., Bratislava		ME SR	51 %
9	Slovenske elektrarne, a. s., Bratislava (Slovak Electricity Company)		NPF SR 90,45% ⁵	51 %
10	Slovenske telekomunikacie, a. s., Bratislava (Slovak Telecom)		MTPT SR	34 %
11	Lesy SR, s. p., Banska Bystrica (Forests of the Slovak Republic)	MA SR	MA SR	Part of the property ⁶

ME SR = Ministry of Economy SR

MA SR = Ministry of Agriculture SR

MTPT SR = Ministry of Transport, Post and Telecommunications SR

NPF SR = National Property Fund SR

ZsEZ = West Slovak Energy Enterprises

SsEZ = Middle Slovak Energy Enterprises

VsEZ = East Slovak Energy Enterprises

s. p. = State company

a. s. = joint stock company

- Under the Act No. 92/1991 Coll., Article 10, Para 2.
- Under the Act No. 92/1991 Coll., Article 10, Para 3: shares of trading companies or property for delivering post services defined by the State.
- Under the Act No. 92/1991 Coll., Article 10, Para 3: surface and ground waters and property for administration and protection of waters and ground waters and shares of their trading companies.
- Under the Act No. 92/1991 Coll., Article 10, Para 3: railway transport routes a East Slovakia Reloading Stations Cierna nad Tisou and Matovce.
- Under the Act No. 92/1991 Coll., Article 10, Para 3: forests, constructions and facilities for forest management and shares of their trading companies under the State ownership.
- Shareholder's rights are executed by ME SR.

*Annex 6***Procedure for Privatisation Process**

Ministry in Charge	- drafts proposals for privatisation of companies and prepares privatisation projects
Ministry for Administration and Privatisation of the National Property of the Slovak Republic (MAPNP SR)	- issues decisions on privatisation, and/or drafts proposals for decisions on direct-sale privatisation
Slovak Government	- decides on direct-sale privatisation
NPF SR	- implements decisions adopted by the Government, and/or the MAPNP SR on State company privatisation - issues decisions on privatisation of part of the property in joint stock companies which are owned by the NPF SR (after prior approval of the MAPNP SR)

Verifying Legality of Privatisation

The Government declared its will to verify the legality of privatisation in its Manifesto. In the framework of the declaration, the purchase contracts concluded by the NPF SR from 5 November 1994 to 10 November 1998 were examined at the NPF SR with a view that the legal procedures set for the decision-making process and implementation of privatisation decisions had been met.

Under the Resolution of the Government of 17 March 1999, 906 contracts have been assessed by the NPF SR, out of them 482 contracts on company sales and 424 on shares transferred by purchasing with payment. The examination focused on the consistency of privatisation decisions, their changes and amendments to contracts with the generally binding legislation valid in a given year in relation to the amendment of the Act No. 92/1991 Coll.

The findings of the examination are as follows: no deviations were found in 720 cases. However, deviations were found out in 186 cases, out of them were 79 contracts on property sales and 107 contracts on share sales. After a detailed investigation of findings, it has been shown that in 145 contracts only legally insignificant deviations occurred, not causing the invalidity of legal actions. Significant breaches of legislation were found out in 41 contracts concluded in the above period.

The examination verifying the legality of privatisation has been concluded by Government Resolution of 22 December 1999. The Fund continues to rearrange legal relations resulting from contracts concluded in an invalid manner and to amend contracts, taking into account court trials or settlement procedures pursuant to the Civil Code, and/or to negotiate contract withdrawals.

Annex 7

**Overview of total number of enterprises (outputs) and the
volume of privatised property in the first wave of privatisation**

First wave of privatisation	Number of enterprises	Property (SKK million)
Enterprise entering into privatisation	678	169 097
Privatisation outputs	1 010	169 097
From it:		
– sales of property	330	12 428
– payment-less transfers	116	2 086
– restitution	7	19
– equity contribution into a joint stock company (a.s.)	557	154 564
From it:		
– equity of a joint stock company		154 564
from it: Basic equity		134 705
Reserve and other funds		19 859
Distribution of shares		
– shares sold through standard methods		3 419
– shares sold through voucher privatisation		79 752
– shares assigned for resolving restitution claims (allocation into RIF)		3 797
– shares in portfolio of the FNM SR		47 737

**Distribution of outputs according to individual methods
applied in the course of the first wave of privatisation**

Privatisation method	Portion of total number of outputs (%)	Portion of total volume of property (%)
Sales of the property via standard methods	32.7	7.3
Payment-free transfer of the property	11.5	1.2
Equity contribution to the property of a joint stock company	55.1	91.4
Physical returning a property	0.7	0.1
From it		
Distribution of shares in a joint stock company:		
– sales of shares via standard methods		2.5
Standing or interim participation of the FNM SR, including original offer for voucher privatisation		94.6
Other (contribution into RIF, payment-free transfer)		2.9

**Overview of total number of enterprises (outputs) and the
volume of privatised property in the second wave of privatisation**

Second wave of privatisation	Number of enterprises	Property (million SKK)
Enterprise entering into privatisation	610	136 804
Privatisation outputs	1,366	136 804
From it:		
– sales of property via standard methods	813	52 226
From it:		
– direct sales	645	45 072
– public tender	155	7 140
– public auction	13	14
– payment-free transfer (on municipalities and SPF funds)	303	2 822
– physical returning the property	16	22
– contribution to equity of joint stock company, including property participation by the state	234	81 734
From it:		
– basic equity of joint stock companies		70 933
Distribution of shares		
– sales of shares via standard methods		36 041
From it		
– direct sales		34 801
– public tender		1 240
– standing or interim participation of the FNM SR, including original offer for voucher privatisation		30 317
– payment-free transfer of shares (on municipalities and SPF funds)		2 414
– allocation to RIF		2 161

**Inclusion of outputs according to individual methods
applied in the second wave of privatisation**

Privatisation method	Portion of total number of outputs (%)	Portion of total volume of property (%)
Sales of the property via standard methods	59.5	38.2
Payment-free transfer of the property	22.2	2.1
Equity contribution to the property of a joint stock company	17.1	59.6
Physical returning a property	1.2	0.1
From it		
Distribution of shares in a joint stock company:		
– sales of shares via standard methods		50.3
Standing or interim participation of the FNM SR, including original offer for voucher privatisation		42.7
Other (contribution into RIF, payment-free transfer)		6.5

Annex 8

Inward FDI (equity capital & reinvested earnings)**Corporate sector**

US\$ million

Year	As of 1 January	Net change	Valuation changes	End of year
1993	287.85	177.01	-39.58	425.28
1994	425.28	255.22	39.39	719.89
1995	719.89	206.59	76.80	1,003.28
1996	1,003.28	259.37	-75.51	1,187.15
1997	1,187.15	182.15	-112.06	1,257.23
1998	1,257.23	413.46	-40.10	1,630.59
1999	1,630.59	302.36	-196.14	1,736.81

Banking sector

US\$ million

Year	As of 1 January	Net change	Valuation changes	End of year
1994	34.82	17.70	3.44	55.95
1995	55.95	22.90	4.31	83.16
1996	126.96	78.41	-5.49	199.87
1997	357.05	6.96	-30.27	333.74
1998	333.74	37.85	-21.28	350.31
1999	350.31	-0.97	-42.31	307.03

Total

US\$ million

Year	As of 1 January	Net change	Valuation changes	End of year
1994	460.09	272.92	42.83	775.84
1995	775.84	229.49	81.11	1,086.44
1996	1,130.24	337.78	-81.00	1,387.02
1997	1,544.19	189.11	-142.33	1,590.97
1998	1,590.97	451.31	-61.37	1,980.90
1999	1,980.90	301.40	-238.46	2,043.84

1996 - inclusion of CZK in the group of convertible currencies

1997 - inclusion of equity capital in Sk

(in 1994 - 1996. only capital in foreign currency)

Annex 9

**List of Top 100 Companies with Foreign Equity Capital
in the Slovak Republic**

(As at 31 December 1999)

Identification Number (I•O)	Name of company	Country of investor
35757442	Volkswagen, a. s.	Germany
31321828	Tesco Stores SR, a. s.	United Kingdom
36181498	VS U.S. Steel, s. r. o.	USA
31340628	Coca-Cola Beverages Slovakia, s. r. o.	The Netherlands
00011088	VS Holding, a. s.	United Kingdom
31322832	Slovnaft, a. s.	USA
31663630	Chemlon, a. s.	France
00214973	Hirocem, a. s.	Germany
31626572	Sauer Sunstrand a.s.	Germany
30998140	Ina Skalica	Germany
31411771	Slovakofarma, a. s.	Austria
31587011	Slovalco, a. s.	United Kingdom, Norway
31422322	Zlatý Ba ant, a. s.	The Netherlands
35697270	Globtel GSM, a. s.	France
31322093	Slovak International Tabak, a. s.	Germany
31399134	MOL Slovensko, s. r. o.	Hungary
31362681	Pepsi-Cola SR, s. r. o.	USA
31411011	Amylum Slovakia, s. r. o.	The Netherlands
31435688	Pozagas, a. s.	France
31641725	Ferona Slovakia, a. s.	Czech Republic
00604381	ÖMV - Slovensko, s. r. o.	Austria
31418805	ZVL - LSA, a. s.	USA
31578896	Fermas, s. r. o.	Germany
31357296	UPC Slovensko s.r.o.	The Netherlands
31329519	Rajo, a. s.	Austria
36227943	Slovakia Electronics Industries, a. s.	USA
31320180	Jacobs Suchard Figaro, a. s.	USA
31411878	Juhocukor, a. s.	The Netherlands
31361081	Shell Slovakia, s. r. o.	United Kingdom
30230217	Harvardská investičná spoločnosť a.s. /IF PSIPS/	Liechtenstein
31664571	Tatranský Permon, a. s.	Czech Republic
36305448	Continental Matador s.r.o.	Germany
00585441	Kooperatíva, družstevná poisťovňa, a. s.	Austria
31652191	Whirlpool Slovakia, a. s.	Italy
31615945	Yazaki Debnar Slovakia, s. r. o.	Japan
35691999	Nationale-Nederlanden Poistovňa, a. s.	The Netherlands
17084954	QBE, Slovenská investičná poisťovňa, a.s.	Australia
17324246	Henkel Slovensko, s. r. o.	Austria
31392229	McDonald's Slovakia, s. r. o.	USA

36016667	Sauer Z•S, a.s.	Germany
31349307	Siemens, s. r. o.	Austria
31418821	Wienerberger - Slovenské tehelne, s. r. o.	Austria
31347037	Billa, s. r. o.	Austria
31568211	Nestlé Food, s. r. o.	Switzerland
35725613	Burmerange, a. s.	Belgium
31322221	•ahké stavebné hmoty, a. s.	Cyprus
35705019	EuroTel Bratislava, a.s.	USA
35703008	Allianz pois•ov•a, a. s.	Germany
31623182	Gelima, a. s.	France
31447317	Sachs Slovakia, s. r. o.	Germany
31723837	SCA Hygiene Products, s. r. o.	Sweden
31448976	Carnaudmetalbox Slovakia, s. r. o.	France
31353738	IKEA Bratislava, s.r.o.	Germany
31320929	Rieker Obuv s.r.o.	Switzerland
30841143	Kablo Bratislava, s. r. o.	Austria
00685852	Messer Tatragas, s. r. o.	Germany
00653501	Pois•ov•a Ot•ina, a. s.	Austria
31412106	CEMMAC, a.s.	Austria
31630278	Heatco, s. r. o.	Austria
31362605	Bristol - Myers Squibb Slovakia s.r.o.	Hungary
31411801	Pal Inalfa, s. r. o.	The Netherlands
00604313	Simac Holding, a. s.	Austria
31325203	Feroservis, a. s.	Czech Republic
31342531	Eduscho, s. r. o.	Austria
31560784	Hoechst - Biotika, s. r. o.	Germany
00634794	Alcatel Slovakia, a. s.	Germany
31322051	Union, pois•ovacia a.s.	The Netherlands
31619380	Doka Drevo, s. r. o.	Austria
35718641	Lucas Sei Wiring Systems Slovakia, s. r. o.	United Kingdom
34115366	Polus Inv s.r.o.	The Netherlands
31362737	Esso Slovensko, s. r. o.	Germany
31669786	Siemens Automative s.r.o.	Germany
35681039	Conoco Slovakia s.r.o.	USA
31400639	SK Auto Leasing, s. r. o.	Austria
31576524	Liaz, s. r. o.	Czech Republic
31416373	Obal - Vogel a Noot, a. s.	Austria
31354327	•eská pois•ov•a - Slovensko, a.s.	Czech Republic
36228711	Slovkord a.s.	Czech Republic
31431127	Punch Products, s. r. o.	Belgium
31355994	Aral Slovakia, s. r. o.	Austria
31401333	Minerfin a.s.	Spain
31354572	Swedwood Slovakia s.r.o.	The Netherlands
35709332	Generali pois•ov•a, a. s.	Austria
31599486	TIS 2000, s. r. o.	Czech Republic
17321981	Probugas, a. s.	The Netherlands
31568386	Gemercukor a.s.	Austria
31372961	Bramac strešné systémy, s. r. o.	Austria
30228654	Berndorf - Sandrik, a. s.	Austria
36024473	1. banskobystrická energetická spoločnosť, a.s.	Austria

17308615	Slovasfalt, s. r. o.	Austria
31562116	Turpak obaly, a.s.	Czech Republic

35737948	Billa Reality Slovensko s.r.o.	Austria
31363245	Kersan, s. r. o.	United Arab Emirates
31339778	I-center, s. r. o.	Germany
31445799	Hebel Pórobotón, s. r. o.	Germany
35704713	OB Leasing, a. s.	Czech Republic
31352316	Vitana Slovensko, s. r. o.	Czech Republic
00000671	Kerametal, a. s.	Germany, United Kingdom
31402071	Amslico, 1. americko - slovenská pois•ov•a, a. s.	USA
31335632	Tchibo Slovensko, s. r. o.	Germany

**Source: National Bank of Slovakia - Statistics Department
Bratislava, 6 April 2000**