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### **SLOVAKIA COUNTS ON TRADE TO CONTINUE ECONOMIC REFORMS AND GROWTH**

After five years of economic and institutional reform, Slovakia's economy is now experiencing robust growth. In the first half of 1995, GDP increased by 6.2 per cent, following growth of 4.8 per cent in 1994, thereby sharply reversing the steep declines in domestic production in the early 1990s. In efforts to establish a market-based economy, Slovakia has decontrolled prices, opened the economy to foreign investment and liberalized its foreign exchange regime. It has also relaxed or eliminated foreign trade restrictions and privatized many of its state enterprises.

Slovak reforms began in 1990 under the Czech and Slovak Federal Republic. They were continued after Slovakia became a sovereign state on 1 January 1993. According to the report, the reforms and the country's liberal trade rules have been effective and are complemented by the country's generally open direct investment regime. A concern noted in the report, however, is the pace of Slovakia's privatization programme. The report questions to what extent privatization is leading to the effective separation of newly privatized firms from state influence.

As a result of Slovakia's transition, the country's trade pattern has changed fundamentally since 1989 when most trade was with the Soviet Union and other central and eastern European countries. Excluding trade with the Czech Republic, which is Slovakia's largest trading partner, the report notes that the share of Slovakia's merchandise exports sold to industrialized countries in western Europe increased from 19 per cent in 1989 to 71 per cent in 1994. As much as 91 per cent of all merchandise imports and exports are exchanged with European countries, including Russia. The Slovak Republic formally applied in June 1995 for European Union membership.

Slovakia and the Czech Republic are part of a customs union and share a common external tariff averaging eight per cent. Goods from third countries, however, do not circulate freely between the Czech and the Slovak Republic. The report states that Slovakia's tariffs are currently applied at their bound rates and that no specific or other non ad valorem tariffs are used, making the external tariff very transparent. Average tariffs rise from four per cent on primary products to six per cent on semi-processed products and 10 per cent on fully processed products. Exceptions can be noted for agriculture, which, following the Uruguay Round, has particularly high tariffs on a few items. Food products and beverages, for example, have tariffs averaging 19 per cent, nearly triple the level elsewhere in the economy. Preferential tariff rates are currently granted under the GSP scheme to imports from developing and least-developed countries.



According to the report, Slovakia's merchandise trade with preferential partners in six regional trade agreements accounts for 83 per cent of exports and 70 per cent of imports. Except for Russia, preferential agreements encompass all major Slovak trading partners. The countries with which Slovakia has preferential agreements would likely be Slovakia's major trading partners even in the absence of such agreements. The report states that this seems to limit the trade diversion that results from preferential agreements and suggests that Slovakia's network of trade agreements is, on balance, net trade-creating.

The report notes that final consumer products are currently subject to a 10 per cent temporary import surcharge. The latter was introduced for balance of payments reasons in March 1994 when Slovakia's official reserves stood at the equivalent of less than one month's merchandise imports. There has since been a substantial improvement in reserves.

Slovakia is an original member of the WTO and is party to all major multilateral agreements in the field of intellectual property. It has no anti-dumping, countervailing duty or safeguards legislation in force and has never applied such measures. However, legislation is now being prepared in these areas for implementation sometime in 1996. The report cautions that such legislation, if used at all, should be designed so as to limit potential abuse by domestic firms trying to stifle economic competition. Non-automatic import licensing requirements are used occasionally, sometimes for environmental reasons.

Slovakia's services trade accounted for most of its substantial current account balance in 1994, largely as a result of tourism receipts and natural gas pipeline fees. Services accounted for 57 per cent of GDP in 1994. The report states that Slovakia was a strong advocate for the introduction of multilateral rules for services trade in the Uruguay Round and made a comparatively large number of commitments in various service sectors. With few exceptions, these include allowing foreign companies to establish commercial presence and become foreign-owned service providers.

The report concludes that Slovakia's size and its high propensity to trade suggest its keen interest in the trade policies of partner countries. The Uruguay Round results and the creation of the WTO should be very beneficial for Slovakia, not only because of the reductions in trade distortions, but because of strengthened and broadened multilateral rules.

#### **Notes to Editors:**

The WTO Secretariat's report, together with a report prepared by the Slovak Republic, will be discussed by the WTO Trade Policy Review Body (TPRB) on 5 and 6 December 1995.

The WTO's TPRB conducts a collective evaluation of the full range of trade policies and practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

Two reports, together with a record of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of the Slovak Republic and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover development of all aspects of the Slovak Republic's trade policies, including domestic laws and regulations, the institutional framework, trade practices by measure and by sector. Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

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Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Costa Rica (1995), Côte d'Ivoire (1995), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992) and Zimbabwe (1994).

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## **TRADE POLICY REVIEW BODY**

### **THE SLOVAK REPUBLIC**

#### **Report by the Secretariat - Summary Observations**

Slovakia became a sovereign state on 1 January 1993 following the dissolution of the Czech and Slovak Federal Republic (CSFR). The dismantling of the former central planning régime and movement toward a market economy were begun under the CSFR in 1990 and have largely been continued by Slovakia. Market-oriented reforms have encompassed the decontrol of prices, the privatization of many State enterprises, the opening of the economy to foreign investment, the liberalization of the foreign exchange régime, and the relaxation or elimination of foreign trade restrictions.

During the reform period the authorities' prudent management of the macroeconomy has facilitated the implementation of reforms. Nevertheless, the collapse of export demand from former key trading partners and the initial effects of economic reforms combined to cause a severe economic contraction during the early 1990s. This was temporarily aggravated by the disruption of marketing channels and the discontinuation of financial transfers associated with the dissolution of the CSFR.

Since Slovakia became a sovereign State, successive Governments have built the institutions instrumental to a market economy and have continued to implement many economic reforms. Although the private sector was responsible for some 62 per cent of GDP in the first half of 1995, delayed privatization and the abandonment of coupon privatization in favour of less transparent methods have fostered uncertainty about this particular area of reform. This should not detract from the successful reforms that have been made throughout much of the economy, particularly with respect to international trade.

With the exception of the 10 per cent temporary surcharge on imports of consumer goods, Slovakia has liberal and transparent international trade policies. Its trade régime is characterized by m.f.n. tariffs applied at moderate rates on an ad valorem basis and by the infrequent use of nontariff barriers. The resulting openness has contributed to Slovakia's recent economic revitalization; the multilateral obligations that Slovakia has accepted in many areas, such as its comprehensive tariff bindings, help to ensure the continuation of this openness.

#### **Slovakia in World Trade**

Led by a 23 per cent increase in the value of merchandise exports, Slovak real GDP grew by 4.8 per cent in 1994. Per capita income increased to the equivalent of US\$ 2,340. Robust growth, led by exports and investment, continued in the first half of 1995, as GDP rose at an annual 6.1 per cent rate. Slovakia's merchandise trade surplus and large services trade surplus were the main factors in an overall 1994 current account surplus equivalent to 5.7 per cent of GDP. The continued strong balance of payments performance generated increases in official reserves to the equivalent of more than three months of imports of goods and services by July 1995, undermining Slovakia's economic argument for the import surcharge it introduced for balance-of-payments reasons in March 1994. Inflation was kept to 13.4 per cent in 1994 and declined to an 11.2 per cent annual rate in the first half of 1995.

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Services accounted for 57 per cent of GDP in 1994, while industry and construction accounted for 36 per cent, and agriculture and forestry for 7 per cent. Slovakia is a net importer of fuels and related products (which comprise one fifth of total merchandise imports) and machinery and transport equipment. It is a net exporter of intermediate manufactured products (two fifths of exports) and miscellaneous manufactures.

Slovakia's geographic pattern of trade has changed fundamentally since 1989, when most trade was with the Soviet Union and other central and eastern European countries. Excluding trade with the Czech Republic, the share of Slovakia's merchandise exports sold to (western) industrial countries increased from 19 per cent in 1989 to 71 per cent in 1994. Slovak trade is concentrated in Europe, with 91 per cent of both merchandise imports and exports exchanged with European countries, including Russia. The largest shares of imports are from the Czech Republic, the European Union (EU) and Russia, while the largest shares of exports go to the Czech Republic and the EU.

### **Trade Policy Framework**

A liberal trade policy is seen by the Slovak authorities as central to achieving efficient resource allocation, particularly in the context of Slovakia's overriding economic objective to attain, by 2010, a standard of living comparable to that of the advanced European countries. Slovakia aims for a balanced geographic expansion of trade underpinned by its own trade liberalization and by that of its partners. Whether bilateral or multilateral, Slovakia has emphasized its commitment to undertake such liberalization in compliance with WTO rules.

Czechoslovakia was an original member of the GATT, and Slovakia acceded to the GATT in 1993 with no lapse in its application of the General Agreement. Slovakia ratified the Uruguay Round package in December 1994 and is an original member of the WTO. All WTO members and GATT contracting parties receive at least m.f.n. treatment from Slovakia, as do several other countries with which Slovakia has bilateral agreements calling for m.f.n. treatment.

Slovakia's merchandise trade with preferential partners in six regional trade agreements accounts for 83 per cent of exports and 70 per cent of imports. The six agreements are the Czech-Slovak Customs Union, the EU Association Agreement, the Central European Free Trade Agreement (CEFTA, which includes the Czech Republic, Hungary and Poland), and free trade agreements with Romania, Slovenia, and the countries of the European Free Trade Area (EFTA). Except for Russia, preferential agreements encompass all major Slovak trading partners. Russia provides some 18 per cent of Slovak imports, mostly raw materials on which Slovakia's m.f.n. tariffs are zero. Agreements with other countries are being considered or are under negotiation.

Slovakia's customs union with the Czech Republic took effect on 1 January 1993, upon the dissolution of the CSFR. The countries share a common external tariff, though goods from third countries do not circulate freely between them. Most other trade-related policies, such as import licensing and preferences under the Generalized System of Preferences (GSP), are harmonized. A payments clearance agreement took effect when monetary union ended in February 1993 but was eliminated on 30 September 1995. The Slovak koruna is now fully convertible for current account purposes.

Slovakia applied for EU membership in June 1995. Much of its trade-related legislation has already been harmonized to that of the EU, and this process of harmonization continues. The Czech-Slovak common external tariff, with a simple average of 8 per cent, averages some 2 percentage points less than the EU tariff.

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The countries with which Slovakia has preferential agreements would likely be Slovakia's major trading partners even in the absence of such agreements. This, together with Slovakia's relatively low m.f.n. tariffs, limits trade diversion and suggests that Slovakia's network of trade agreements is, on balance, net trade-creating. So long as tariffs on products from third countries are not raised, these features increase the likelihood that Slovakia's network of trade agreements is economically beneficial from a global perspective.

Slovakia's liberal trade rules are complemented by its generally open direct investment régime. Foreign direct investment is encouraged, and investments in Slovakia under most circumstances are not subject to approval requirements. Following registration, foreign firms and individuals may conduct business in Slovakia under the same conditions and to the same extent as domestic firms, with few exceptions. Foreign investors may transfer their share of after-tax profits to their country of origin, and foreign-owned capital may be fully repatriated in the event of the dissolution of an enterprise. Under the General Agreement on Trade in Services (GATS), Slovakia has undertaken horizontal and specific commitments that help to ensure that foreign firms are able to establish a commercial presence in Slovakia in order to provide many types of services.

Profit-seeking firms that respond to market forces and are free from State influence are essential to the effectiveness of a market economy. The Slovak Government officially recognizes the central role that privatization must play in the process of economic transformation and placed the "continuation and acceleration" of privatization among the stated priorities of its 1995 programme. Privatization has consisted of a combination of standard methods, such as direct sales, and voucher (coupon) privatization. The first wave of privatization was largely complete by the time of the dissolution of the CSFR at the end of 1992. All small-scale enterprises that are to be privatized were included in the first wave, along with some large-scale enterprises.

The second wave of privatization has been a major political issue in Slovakia. Successive Governments have changed policy and even overturned privatization decisions. The result has been persistent delay in implementing the second wave. As a result of legislation recently reaffirmed by the National Council after having been returned by the President, voucher privatization will be abandoned, unless an expected challenge to the Constitutional Court succeeds in overturning the legislation. It is not clear to what extent privatization, as now applied in Slovakia, is leading to the effective separation of newly privatized firms from State influence. Criticism of the way in which standard privatization methods are being applied has centred on the lack of transparency in selection of new owners and management and on whether domestic investors are being preferred over foreign investors.

## **Trade Policy Features and Trends**

### **Type and incidence of policy instruments**

Overall, the Slovak import régime has relatively few non-tariff import barriers or export measures. Non-automatic import licensing requirements are used occasionally, sometimes for environmental reasons. Automatic licensing requirements, apparently motivated by health and safety considerations, exist for the exporting or importing of many products. In some cases, such as for textiles and clothing, exports are restricted or monitored in accordance with bilateral trade agreements. Export subsidies are limited to those in the agriculture sector.

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Slovakia applies the EU's Combined Nomenclature (CN) tariff classification, consisting of 10,446 eight-digit tariff lines. Only 3 per cent of tariff lines in the Czech-Slovak common external tariff were unbound as of the end of 1994. All remaining unbound tariffs were bound upon the beginning of the implementation of the Uruguay Round, on 1 January 1995.

All tariffs are currently applied at their bound rates and no specific, composite or other non ad valorem tariffs are used, making the external tariff very transparent. While the simple average m.f.n. tariff rate is relatively moderate, Slovakia's m.f.n. tariffs are escalatory: average tariffs rise from 4 per cent on primary products to 6 per cent on semi-processed products and 10 per cent on fully processed products. The simple average tariff applied on imports from preferential trading partners ranges from 1.9 per cent for Slovenia to 4.7 per cent for Romania, and equals 4.0 per cent for the EU. Slovakia has low duties on the products that it tends to import from non-preferential partners: when weighted by imports from non-preferential partners, the average m.f.n. tariff is only 1.7 per cent.

Slovakia is a party to all major multilateral agreements in the field of intellectual property. Foreign rightholders receive the same treatment as Slovak legal or natural persons, except that in the areas of industrial designs and patents Slovakia grants national treatment only on a reciprocal basis. The authorities believe that acceptance by other parties of the TRIPS Agreement will be considered to satisfy the reciprocity requirement.

### **Temporary measures**

In March 1994 Slovakia's official reserves stood at the equivalent of less than one month's merchandise imports. Slovakia then introduced a temporary 10 per cent import surcharge on imported goods from all sources for balance of payments reasons. While the basis for the surcharge is broad, covering most chapters in the Harmonized System, in practice it is charged only on consumer goods, which comprised 13 per cent of Slovak imports in 1994. As a result, average import surcharge rates (based on surcharge revenue data) vary widely across product categories: 2 per cent or less for products in 56 HS chapters, but 5 per cent or more in 27 chapters. The application of the import surcharge only to consumer goods, which tend to be highly processed, worsens the tariff escalation already noted. The surcharge has a substantial protective effect on Slovakia's consumer goods industries. The GATT and WTO Committees on Balance-of-Payments Restrictions have requested that Slovakia eliminate the surcharge by the end of 1995, if possible, but in any case before 30 June 1996.

Slovakia's import surcharge could begin to damage the economy. First, the surcharge-based protection of import-competing consumer goods industries pulls resources from exporting industries and from those import-competing industries that do not receive surcharge protection. With fewer resources devoted to the production of their goods, exporting industries reduce exports, while imports of the products made by import-competing industries unprotected by the surcharge increase. Other than perhaps for a short period of several months, trade-restrictive measures will not improve the balance of payments. Second, as time goes on, the protection that the surcharge provides to domestic consumer goods industries will become more and more difficult to eliminate. If the surcharge remains in place for long, its removal could lead to new adjustment pressures, the threat of which would generate opposition to the removal. This may already be happening, because Slovakia's relatively sound external reserves position (which has increased to the equivalent of more than three months of imports) and strong balance of payments situation imply that the initial motivation behind the surcharge no longer exists. Moreover, tariff reductions for preferential partners have been implemented as scheduled even while the surcharge has been in place; this suggests that current conditions provide an excellent opportunity to eliminate the surcharge with a minimum of adjustment being necessary.

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Slovakia has no anti-dumping (AD), countervailing duty (CVD) or safeguards legislation in force and has never applied such measures. Legislation is being prepared in these areas and is expected to be implemented sometime in 1996. Slovakia, like other WTO members that choose to include such provisions in domestic law, faces the problem of designing rules so to minimize the possibility that established domestic firms can abuse them to stifle economic competition. Slovakia has sometimes found itself on the other end of such practice and has adopted export monitoring (export license requirements) partly to avoid AD or CVD actions being taken against Slovak exporters. To help protect effective economic competition, a principle enshrined in the Slovak Constitution, Slovakia could consider including two provisions in its legislation. First, the use of anti-dumping measures could be restricted to those occasions when foreign firms can be shown to engage in predatory pricing with the intent of establishing a monopoly position in the Slovak market; similar standards are sometimes used in domestic competition law. Second, a public interest clause requiring that the economic effects of potential AD and CVD measures on consumers and downstream industries be considered in the decision process could be included in the legislation.

### **Sectoral policy patterns**

Slovakia's m.f.n. tariffs are fairly uniform across economic sectors. Exceptions are agriculture, which, following Uruguay Round tariffication, has particularly high tariffs on a few items, and food products and beverages, which have tariffs averaging 19 per cent, nearly triple the level elsewhere in the economy. In contrast to the relative uniformity across sectors, a pattern of tariff escalation is present within most sectors of the economy, as tariffs increase with the level of processing. This is most noticeable in sectors such as food processing, and textiles and clothing, and is worsened by the 10 per cent temporary import surcharge on final consumer goods. Tariffs and the surcharge combine to provide substantial import protection to higher-level processing activities in manufacturing sectors.

Active industrial policy is limited to the agriculture sector. The State is involved through setting intervention prices and granting export subsidies for some commodities and by providing concessionary loans and credit guarantees. Many measures, such as tariff quotas and seasonal tariffs, are applied to agricultural imports, as in many other countries; some of these replaced variable import levies as a result of the Uruguay Round. Notably, Slovakia counts imports made at preferential tariff rates against the m.f.n. tariff quota levels established as a result of the Uruguay Round minimum market access provisions; this reduces the market access for non-preferential suppliers.

Services trade generated most of Slovakia's substantial current account balance in 1994, largely as a result of tourism receipts and natural gas pipeline fees. Slovakia was a strong advocate for the introduction of multilateral rules for services trade in the Uruguay Round and made a comparatively large number of commitments under the General Agreement on Trade in Services (GATS). These include a horizontal commitment (with some sectors excepted) not to limit the ability of foreign firms to establish a commercial presence, thus providing a more secure environment for the establishment in Slovakia of foreign-owned service providers. Slovakia has listed six measures inconsistent with m.f.n. treatment. These measures affect five different services sectors and, under the GATS, should not be applied for more than ten years. They are subject to future negotiations.

### **Trade Policies and Trading Partners**

International trade is extremely important to Slovakia, with the ratio of merchandise and services trade to GDP equal to some 138 per cent in 1994. Recognizing this importance, Slovakia has constructed a relatively open trading régime that underpins its transition to a full market economy. Trade promotes effective economic competition, which lies at the heart of the economic transition. Able to purchase

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inputs from abroad without, in most cases, substantial taxes or restrictions being imposed, Slovak firms are becoming more competitive, both in domestic and foreign markets. This is being reflected in the high export (and, to some extent, import) growth and strong GDP growth of 1994 and early 1995.

Slovakia's size and its high propensity to trade suggest its keen interest in the trade policies of partner countries. The Uruguay Round results and the creation of the World Trade Organization should be very beneficial for Slovakia because of the reductions in trade distortions that were negotiated and because of strengthened and broadened multilateral rules. During the Round, Slovakia was particularly concerned with such issues as increasing the effectiveness of the dispute settlement system and introducing multilateral rules for services trade.

The Uruguay Round and the international trading system have helped provide greater economic security for Slovakia. Slovakia's firm commitment to multilateral rules, displayed, for example, through its comprehensive tariff bindings, will help ensure that Slovakia provides a secure trading environment. The prompt removal of the import surcharge would reaffirm Slovakia's commitment to a transparent system of import protection based on bound tariffs.

**TRADE POLICY REVIEW BODY****THE SLOVAK REPUBLIC****Report by the Government - Summary Observations****Introduction**

The Slovak Republic became a sovereign State on 1 January 1993 after the dissolution of the Czech and Slovak Federal Republic. As one of the two successor States the Slovak Republic continued the process of the economic transformation, the basis of which was laid down in 1989 for the common Czech and Slovak economic space. Basic pillars of economic reform introduced in 1991 were: privatization and de-monopolization of State-owned companies, restructuring of the economy, price liberalization, foreign trade liberalization, introduction of internal convertibility of the currency, support of the private sector in the framework of macroeconomic measures and creating new conditions for economic development in an international competitive environment.

The fast implementation of the economic reform, the disintegration of the COMECON with the consequent collapse of the Eastern European markets as well as the global economic recession of the world economy together had some negative consequences. These elements caused major disruption to economic and trade relations and processes, and to traditional trade flows and changes in the system of payments. They also led to the deepening of the Slovak economic recession: decline in production; low level of production capacity utilization; obsolete technological equipment; high growth of unemployment; increase of inflation rate mainly caused by price liberalization; decline in currency and foreign exchange reserves; and decline of exports with the consequent decline of domestic production. In 1991 GDP decreased by 14.5 per cent, in 1992 by 7 per cent and in 1993 by 4.1 per cent.

This situation required substantial changes in the structure of industry, trade and services; continuous solutions to the consequences of the fast conversion in the machinery industry (armament industry); creation of a new economic, financial, and monetary policy; and the adoption of fundamental legislation measures to overcome the economic transformation process.

Economic transformation necessarily needs to be structured to diminish, to the extent possible, its negative effects on the living standards of the population and to preserve social harmony.

In spite of the unfavourable start in 1993 and the beginning of 1994, the Slovak Republic is continuing the process of economic transformation and the results of 1994 and the first half of 1995 illustrate the gradual revival of the Slovak economy. The positive impact of the measures adopted by the Government and the recovery from the world economic recession can be proven by the low rate of inflation, the stable level of the unemployment rate, the growth of GDP and increasing exports.

The GDP in constant prices as of 1 January 1994 was US\$5.88 billion and in comparison with 1993 increased by 4.8 per cent. The openness of the Slovak economy (the share of exports in GDP in current prices) reached 53.8 per cent in 1994, while in 1993 it was 49.3 per cent. In 1994 in comparison to 1993 Slovak exports increased by 27.8 per cent and imports by 8.6 per cent. The rate of inflation declined from 23.2 per cent in 1993 to 13.4 per cent in 1994. The rate of unemployment reached 12.2 per cent in 1993 and 13.3 per cent in 1994.

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In the first half of 1995 the Slovak Republic continued economic development; GDP increased by 6.2 per cent in comparison to the first half of 1994. This growth was due to increased domestic demand. The rate of inflation reached 11 per cent and the slowdown in the growth of the rate of inflation was due to the positive relationship between the increase of labour productivity and the increase of the average nominal salary, the small increase of loans in domestic currency and by the stable level of foreign exchange stocks. In the first half of 1995 the rate of unemployment reached 13.7 per cent, exports increased by 22.8 per cent and imports by 24.6 per cent resulting in a balance of US\$18.75 million, and openness of the Slovak economy reached 54.5 per cent.

### **Foreign Trade and Macroeconomic Linkages**

Foreign trade plays a vital rôle in the economic development of the Slovak Republic. Consequently trade policy forms an integral part of the global economic strategy of the Slovak Republic, having regard to the fact that economic growth can be achieved only if Slovak exports are competitive. Measures serving this aim are being taken in the macroeconomic environment and in the microeconomic environment, including measures for the intensification of exports, promotion of foreign investment, etc. The Slovak Republic has played an active rôle in the liberalization process and supported international efforts to liberalize global trade in the framework of the Uruguay Round of GATT on a multilateral basis. This process is being further supported by regional agreements.

Trade policy is formulated in accordance with the possibilities of economic growth. The legislation creating the framework for this policy is the most important instrument along with the responsible ministries and institutions that participate in the implementation of this policy according to their powers.

The basic objective of the trade policy of the Slovak Republic is to promote the economic growth of Slovakia and to promote the creation of new jobs based on the development of exports. These objectives can be realized only in an open international trading system without barriers and any form of discrimination. The fundamentals of the foreign-trade policy of the Slovak Republic and the starting points for further development of foreign trade in the next few years were established considering the above-mentioned facts and in the context of the continued process of liberalization and demonopolization of all activities, particularly in foreign trade.

The fact that the stability of conditions in the foreign trade environment influences to a high degree the formation of export-import proportions and relations has been confirmed especially in the first two years of the existence of the sovereign Slovak Republic. In 1993 GDP declined by 4.1 per cent compared with 1992, and industrial production by 3.8 per cent compared with 1992, but unlike in 1992 this decline was mainly due to the reduction in exports. The influence of unstable conditions in foreign trade was reflected in structural, territorial and global indicators.

The creation of stable relations in foreign trade and the establishment of new export-import proportions is a long-term process. The Slovak Republic is strongly committed to the creation and development of such relations with all countries of the world. The defined trade relations of the Slovak Republic with individual territories, written down in Agreements, increase the rate of stability in the area of foreign trade.

### **Trade Policy**

Considering the needs of the Slovak economy for the next two years, the trade policy aims at maintaining a positive balance in foreign trade; maintaining the degree of openness of the Slovak

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economy at the level of approximately 55 per cent and the improvement of the commodity structure of the exports in favour of the commodity groups with higher value added; and the creation of new jobs by means of the export promotion in those branches with existing capacities and competitive products. These aims are declared in the conception of the foreign trade, including the instruments to achieve them.

The concept of the foreign trade of the Slovak Republic is based on and corresponds with foreign policy and complies with its priorities. The first priority is the intensification of the existing policy of closer relations with the European Union. The aim is the integration of the Slovak Republic to the EU and the intensification of relations with all neighbouring countries, i.e. the Czech Republic, Poland, Hungary, Austria and Ukraine and development of economic relations based on mutual benefit with almost all countries of the world.

The industrial policy of the Slovak Republic contributes to the achievement of these aims. It is based on the identification of internal and external problems, it determines the principles of creation of the basic conditions for successful development of the industry and private enterprises. At the same time measures are taken to ensure the realization of the policy.

As the industrial policy is interrelated with the foreign trade policy it is important that these two policies are co-ordinated in order to create a competitive environment through the liberalization of the trade policy. This will contribute to developing the competitiveness of domestic products.

The concept of the foreign-trade policy of the agricultural sector is oriented towards the implementation of instruments typical for this specific trade complying with the Agreement on Agriculture in the framework of the WTO. Other objectives are to increase the rate of liberalization of trade and to remove barriers to trade in agricultural products, to improve the exploitation of the concessions based on regional and bilateral agreements and to increase the exports of those commodities where domestic production will exceed demand on the domestic market.

The trade policy is also co-ordinated with the anti-monopoly policy as they are closely interrelated and directly influence trade. Judgement of restrictive trade practices is considered in accordance with the legislation, which corresponds to anti-monopoly legislation in developed market economies. Special attention is given to export and import cartel agreements, voluntary export restraints, market access barriers, supranational mergers and strategic dumping, where they have a direct influence on the trade structure of the Slovak Republic and its competition environment.

### **The Policy of Transport Infrastructure**

The acceleration and rationalization of the transport of goods plays an important rôle in foreign trade. Therefore the concept of the policy of transport infrastructure aims to accelerate the development of the infrastructure with the parallel adaptation of the transport sector to the conditions of a free market and the harmonization of technical and economic conditions with those of the EU. The concept proceeds on the assumption that comparable conditions for the Slovak forwarders will be established based on mutual benefit. When creating infrastructure connections to the continental and regional European transport networks it is necessary to increase the technical standards and the state of means of transport, to modernize the equipment of stations and transit points to neighbouring countries and to complete and connect the international motorway network.

### **Financial Policy**

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With regard to the objectives of the foreign trade policy, the priority task of the financial policy is to create conditions for investment promotion, the development of science and technology and to ensure a positive trade balance. The main financial instruments are taxation, tax exemptions and tariff reductions. The activities for the promotion of the capital market, prepared in the framework of new legislation, and the continuous transformation of the banking sector, enhanced by the prepared amendment to the Law on the National Bank of the Slovak Republic and Act on Banks, should contribute to a revival of the economy.

### **Price Policy**

After comprehensive liberalization of prices in 1991 and further deregulation of prices in the following years only approximately 5 per cent of the prices of goods and services is regulated in retail trade. These are prices for public services, prices of energy, gas, heat and electricity, which are regulated for private consumers. These prices do not cover the costs. The government is preparing a progressive adaptation of prices of natural gas and electricity in order to cover the costs. These adaptations are prepared very carefully in relation to the social programme.

### **Monetary Policy**

The establishment of an independent monetary system in the Slovak Republic after separation from the Czechoslovak currency required an independent monetary policy. The basic aims were to stabilize the national currency, to minimize the inflationary tendencies, to maintain the balance of payments, to strengthen the foreign exchange reserves and to maintain the internal convertibility of the currency.

The internal convertibility of the currency was introduced from 1 January 1991 in the former Czech and Slovak Federal Republic. This was maintained also in the Slovak Republic until 1 October 1995. The internal convertibility régime of the Slovak Crown made it possible for entrepreneurs to make their payments to their foreign partners in foreign currencies. These currencies could be purchased from the commercial banks in the Slovak Republic for Slovak Crowns. On the other hand the entrepreneurs were obliged to sell to the bank all foreign currency reserves, except for the capital share of a foreign subject in a joint-venture, or donations, inheritance or devise.

Following the gradual programme to achieve the full convertibility of the Slovak Crown, the fact that Foreign Exchange Act No. 528/1990 has not fully reflected the stage of economic transformation of the Slovak Republic, and to continue the liberalization of foreign economic relations, a new Foreign Exchange Act came into force on 1 October 1995. This new Act brings into effect the convertibility of the Slovak Crown on the current account of the balance of payments. Transactions on capital account are subject to NBS' s foreign exchange permission. The new Foreign Exchange Act allows non-residents to carry out financial transfers pertaining to current account transactions and also allows residents to carry out payments abroad. The Foreign Exchange Act equalizes the position of legal and natural persons, who are residents, in executing transactions on current account. Trading in foreign securities, purchase of foreign exchange in cash, granting financial credits and guarantee instruments for non-residents, acceptance of financial credits from abroad, export/import of domestic and foreign currency and opening bank accounts in foreign currency (except certain exemptions) is, according to the new Foreign Exchange Act, subject to foreign exchange permission. The Foreign Exchange Act concerns the following:

- rights and duties of residents and non-residents: trading in foreign exchange assets, acquisition of real estate for non-residents, acceptance of financial credits from abroad,

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investment abroad, reporting and surrender requirements, duty to transfer financial funds, duty to deposit, operations on capital and money markets and other foreign exchange relations;

- sphere of activity of foreign exchange authorities;
- sphere of activity of customs authorities according to this Act;
- foreign exchange control.

The new Foreign Exchange Act fulfils the provisions of Article VIII of the IMF Articles of Agreement.

### **Protection of the Intellectual Property**

The Industrial Property Office has been established to protect intellectual property rights. The Slovak Republic has signed all important multilateral agreements concerning the protection of intellectual property. These agreements include the Paris, Bern and Rome Conventions (with their revised and amended wordings), as well as the Madrid, Lisbon and Locarno Agreements and other bilateral and multilateral agreements setting the rules for the protection of intellectual property in the framework of the World Intellectual Property Organization (WIPO).

The legislation of the Slovak Republic is fully compatible with those agreements and with the agreements concluded in the framework of the WIPO and the WTO. The Slovak Republic guarantees efficient protection of intellectual property. In the Slovak legislation covering the sector of intellectual property no regulations are included which would not comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

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