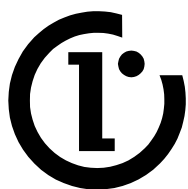


# A Survey of the Economic Elite's Opinions on Topical Issues Concerning the Slovak Economy

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## INTRODUCTION

In 2001, the Institute for Public Affairs (IVO) in co-operation with the American Chamber of Commerce in the Slovak Republic conducted already the third annual research project called "*The Opinions of the Economic Development in the Slovak Republic*". **The main objective of the survey was to map out opinions of managers, entrepreneurs and economic analysts regarding the current problems and development trends of the economic and business environment in Slovakia.** The project's expert guarantors were Oľga Gyárfášová, a sociologist from the Institute for Public Affairs, and Jake Slegers, Executive Director of the American Chamber of Commerce in the Slovak Republic. Peter Pažitný, an analyst from the economic think-tank M.E.S.A. 10 was the consultant of the project. Preparing and carrying out the project involved a number of other experts from various fields. Instrumental to processing and analyzing the survey's empirical results was also Katarína Paľková, research assistant at the IVO.

The survey focused especially on **evaluating changes** in country's entrepreneurial and economic environment over the past 12 months and assessing problems in a number of fields. Overall, the survey examined 40 various areas of economy. Evaluation of existing **problems** and prediction of their possible future **trends** represented two separate aspects of assessing the current economic and entrepreneurial environment. The survey paid a special attention to issues related to **Slovakia's future accession to the European Union (EU)**. The questionnaire also featured a number of "opened" questions in which respondents were given freedom to identify the most significant positive and negative changes in Slovakia's economic conditions, define the most important opportunities and threats of country's economic development and specify laws adopted in the course of 2000 (xxx nie 2001?) which in their opinion have improved/deteriorated conditions for doing business in Slovakia the most considerably. Also, respondents were free to make suggestions aimed at solving the most pressing problems of Slovakia's entrepreneurial environment and identify three changes brought about by the current administration which they view as the most significant.

The survey addressed three different groups of respondents:

- A. **Managers and entrepreneurs** who participated also in previous two volumes of this survey (i.e. 2000 and 2001). Respondents were selected in an expert manner so that they formed a representative sample according to the following criteria:
  1. their businesses' field of activity (e.g. financial and banking sector, industry and construction, trade and services, etc.);
  2. their businesses' legal forms and types of ownership (e.g. state enterprises, joint stock companies with or without state investment, joint stock companies with foreign capital and with purely Slovak capital, limited liability companies with foreign capital and with purely Slovak capital, production and consumer co-operatives);
  3. their businesses' size (according to annual turnover and number of employees).
- B. **Managers and entrepreneurs** who are registered members of the American Chamber of Commerce in the Slovak Republic (the questionnaire was sent to all AmCham members listed in its directory).
- C. **Analysts** who represented leading economic think-tanks, analytical departments of Slovak commercial banks and principal economic periodicals.

Overall, approximately 400 respondents were addressed. Of the addressed respondents, 94 returned their filled-in questionnaires before the stipulated deadline. The 94 questionnaires that were completely filled-in, processed and analyzed represented 84 managers/entrepreneurs and 10 economic analysts. The survey was anonymous and was carried out between April and May 2002.

## I. CONCLUSIONS

- ≠ Both categories of respondents – managers and analysts – agreed that **the greatest improvement can be observed in banks' interest rates** demanded on new loans. The second most positively evaluated change is the improved **foreign political credit of the Slovak Republic** and **conditions pertaining to loan provision by commercial banks**. Other positively evaluated areas include **monetary stability, overall taxation burden, motivation of foreign investors** and **protection of foreign investments**. The greatest difference between the perception of managers and analysts showed in evaluating the availability of domestic capital which is understandable since managers evaluated the issue from the perspective of their own company.
- ≠ In the long term, the greatest problem of Slovakia's entrepreneurial environment is the **poor law enforceability**, which does not apply only to the judiciary but also to state organs and to public administration in general. The second most serious problem in respondents' opinion is **rampant corruption in state administration** followed by **low efficiency of funds allocated to public administration**. Generally speaking, three most problematic areas are directly or indirectly in competence of state institutions.
- ≠ **Very critically perceived is the fact that reforms are not advancing at an expected pace**. In 1999, the Cabinet and Parliament adopted inevitable and often unpopular measures and legislation in order to restore Slovakia's macroeconomic stability. Most of these measures have produced tangible results, such as improved stability of country's economic environment or a substantial decline in banks' interest rates. Quite naturally, the community of entrepreneurs expected that the government would continue in the set course. However, in 2002 the economic elite expressed a certain disappointment over the fact that macroeconomic reforms had slowed down in general and some had not been launched at all. This disappointment has aggravated even more compared to 2001.
- ≠ Slovakia's economic and entrepreneurial circles continue to **view negatively the prevalence of corruption**. Among many corruption-infested fields, corruption within state administration and the judiciary was perceived most sensitively. Although respondents' negative evaluation of the overall situation should not be interpreted as "absolute", truth is that the situation is not improving at an expected pace and members of the economic elite stand very much aloof from activities of the government designed to fight displays of corruption, especially clientelism and protégéism.
- ≠ **Comparison of surveys from 2001 and 2002** indicates that a substantially positive change can be observed in respondents' perception of the **overall tax burden**. Another change is the repeatedly **growing appreciation of Slovakia's foreign political credit** which declined slightly in the past year's survey; however, perhaps due to approaching elections and a possible threat to the continuity of country's foreign political orientation the importance of Slovakia's foreign political position increased again. Strengthening of the positive trend is evident also in the field of **conditions pertaining to loan provision by commercial banks**. On the other hand, negative trends have been strengthened in perception of **quality and transparency of newly adopted legislation. Willingness of the Parliament and Cabinet to enact/implement unpopular measures** was also evaluated more critically than last year. When comparing the most problematic fields in 2001 and 2002, one cannot pass unnoticed a substantial growth in the number of those who indicated **corruption within state administration organs and efficiency of funds allocated to state and public administration** as the most pressing problem. In other words, discontent of the entrepreneurial community is aimed at the state administration more clearly than last year.
- ≠ As far as Slovakia's accession to the European Union is concerned, most respondents – like in the last year's survey – expect especially a **facilitated access to foreign loanable funds and mutual acknowledgement of certificates with EU subjects**. Both groups of respondents invest **great expectations into Slovakia's EU membership also in respect to improved law enforceability and entrepreneurial ethics and morale**. On the contrary, the most widely expected negative implications include **increased expenditures on environmental protection and on state and public administration, as well as departure of qualified workforce abroad known as the "brain-drain" phenomenon**. Nevertheless, the balance of advantages and disadvantages stemming from Slovakia's EU membership is comfortably dominated by the former. In the course of the past year, respondents' EU-related expectations have become generally more moderate. For instance, in the field of expenditures allocated to state and public administration, including EU expenditures, respondents generally expect them to grow. Positive expectations have become more moderate also in terms of Slovak corporations' access to loanable funds abroad, their overall tax burden and improved law enforceability.

## II. TRENDS OVER THE PAST 12 MONTHS

### II.1. What are the most remarkable improvements?

Representatives of Slovakia's economic elite evaluated the development in particular spheres of country's economic and entrepreneurial environment over the past 12 months (i.e. between May 2001 and May 2002). When assessing the changes in individual areas, the following 5-degree scale was applied: the situation has considerably improved – the situation has rather improved – the situation has neither deteriorated nor improved – the situation has rather deteriorated – the situation has significantly deteriorated. Here, it is important to realize that respondents assessed primarily the change in a given situation, but their evaluation may have also reflected changed expectations or urgency of implementing changes in this or that area. Consequently, lingering stagnation of a certain acute problem may be viewed as a considerable deterioration of the situation; on the other hand, a considerable deterioration in a sphere that is not viewed as acute may not be perceived as sensitively as a minor deterioration in another area that is generally viewed as more important.

Respondents' **positive perception of development trends prevailed** over their "negative" or "stagnant" evaluation **in the following 7 out of 40 areas**: development of commercial banks' interest rates, Slovakia's foreign political credit, monetary development, overall tax burden, motivation of foreign investors, conditions to loans conditions, and protection of foreign investments in Slovakia. Compared to respondents-analysts, respondents-managers were generally more critical regarding availability of domestic capital; on the contrary, they were more positive in respect to improved conditions of banks' loan provision. Respondents-analysts could not take a qualified standpoint to a number of presented issues, especially displays of corruption at customs offices, tax offices, and planning department and building control offices as well as corruption in the process of providing loans and financial funds, that is, areas in which they as theoreticians have limited experience.

**Like in the last year's survey, the change that was perceived the most positively by Slovakia's economic elite in 2002 was development of banks' interest rates demanded on new loans.** As many as 85% of respondents perceived a positive trend in development of interest rates over the past year, which is very encouraging in the light of the fact that the first survey conducted in 2000 identified the issue of high interest rates as one of the most pressing problems.

In total, 83% of all respondents (i.e. 82% of managers and 90% of analysts) observed a **positive trend in development of Slovakia's foreign political credit**. In the last year's survey (which evaluated the period between spring 2000 and spring 2001), this phenomenon was not perceived as favorably, as only 65% of all respondents appreciated this positive change. It seems that in 2002, Slovakia's economic elite is growing more sensitive toward possible foiling of country's integration ambitions after the upcoming September elections and, consequently, development in this area has repeatedly gained importance and become one of the most determining phenomena of country's business environment.

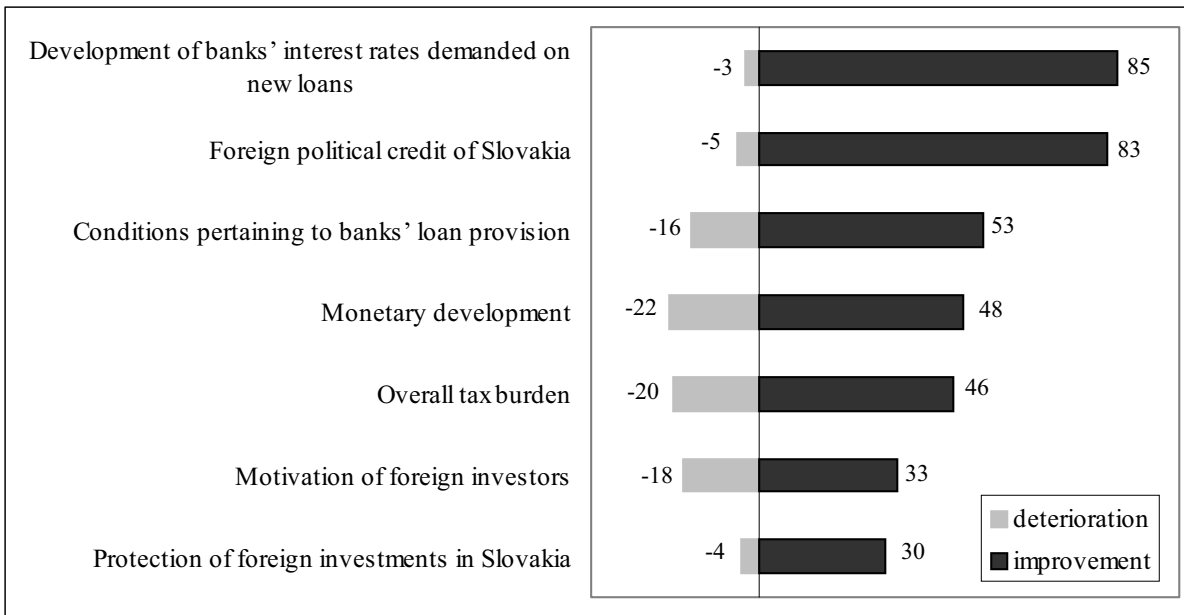
**Other areas that were positively perceived included monetary development, motivation of foreign investors and protection of foreign investments in Slovakia.** The field of monetary stability has not experienced any significant changes compared to the previous period and its evaluation was similarly favourable as in the previous year's survey. The volatility experienced by the currency at the beginning of June 2002 could not be taken into consideration by respondents.

General conditions for foreign investments continued to improve also in the course of 2001. But although the government has adopted a number of measures and enacted important legislation, many entrepreneurs reproach it for sluggishness in implementing them. In relation to foreign investments, an increasingly frequent opinion is voiced that the government should encourage all investors and stop giving a preferential treatment to foreign ones. In 2001, Slovakia managed to attract foreign direct investments totaling \$1.46 billion, a slight drop compared to the historical high of \$2.037 billion recorded in 2000. However, only \$0.43 billion of that volume represented "non-privatization" investments, which amounts to 47% on non-privatization investments recorded in 2000. "This fact also reveals that Slovakia is still lagging behind in creation of attractive investment environment." (Slovak Monthly Report, March 2002, MESA 10).

Another positively evaluated trend is the generally decreasing tax burden. This evaluation reflects adoption of a number of amendments to taxation laws which were adopted in years 2000 and 2001. The laws reducing the overall tax burden also rank high on the list of the most important changes implemented by the Dzurinda administration as well as on the list of laws that have had the most positive impact on the entrepreneurial environment.

**Graph 1**

**What has been the development in this field over the past 12 months?  
(positively perceived changes)**



Source: Institute for Public Affairs, 2002

When answering the question of **What are in your opinion the most remarkable improvements in Slovakia's economic conditions in 2001?** our respondents were given freedom in identifying the fields of most dramatic improvement. Their responses could be summed up into five following categories:

- €# Restructuring and recovering the banking sector, privatization of banks;
- €# Reducing banks' interest rates, improved access to loanable funds and general availability of funds;
- €# Taxation reform, general decline in tax burden, cutting several types of taxes;
- €# Privatization of state enterprises;
- €# International position of Slovakia, its image abroad, gradual approximation toward the EU.

Some respondents also pointed out more subtle changes in overall entrepreneurial culture that are taking place rather gradually, for instance: *"entrepreneurs' ethics and professionalism have experienced a slight improvement; the arrival of foreign investors has brought about standardized and good manners"* or *"gradually emerging is the new class of entrepreneurs who don't cry over the 'good old times' anymore but instead they act, become increasingly swift, punctual and reliable and stick to generally respected standards."*

When answering the question of **Which laws or legislative amendments adopted in 2001 have in your opinion improved conditions for doing business in Slovakia?** Our respondents very often cited especially the following laws:

- €# Amendment to the Income Tax Law, generally reducing the overall tax burden;
- €# Amendment to the Commercial Code;
- €# Act on Bankruptcy and Bankruptcy Procedures;
- €# Amendment to the Trade Law;
- €# Act on Investment Incentives.

## II.2. What are the most deplorable setbacks?

As we have mentioned, our respondents observed favourable development in only seven out of 40 various areas of the national economy. According to representatives of Slovakia's economic elite, all other spheres experienced either deterioration or stagnation.

Most respondents negatively evaluated **adoption of an amendment to the Labour Code** which took effect on April 1, 2002, labelling it as a step backward compared to the previously valid Labour Code. At the same time, it should be pointed out that this issue did not rank among the most pressing problems and its strongly negative perception might be partly attributed to the fact that it was receiving a lot of ink right at the time of conducting our survey. As far as evaluation of the new Labour Code is concerned, respondents-managers seem to agree with respondents-analysts; as far as particular categories of managers go, the deterioration was accentuated more frequently by managers of domestic corporations than those of foreign ones (75% vs. 58%).

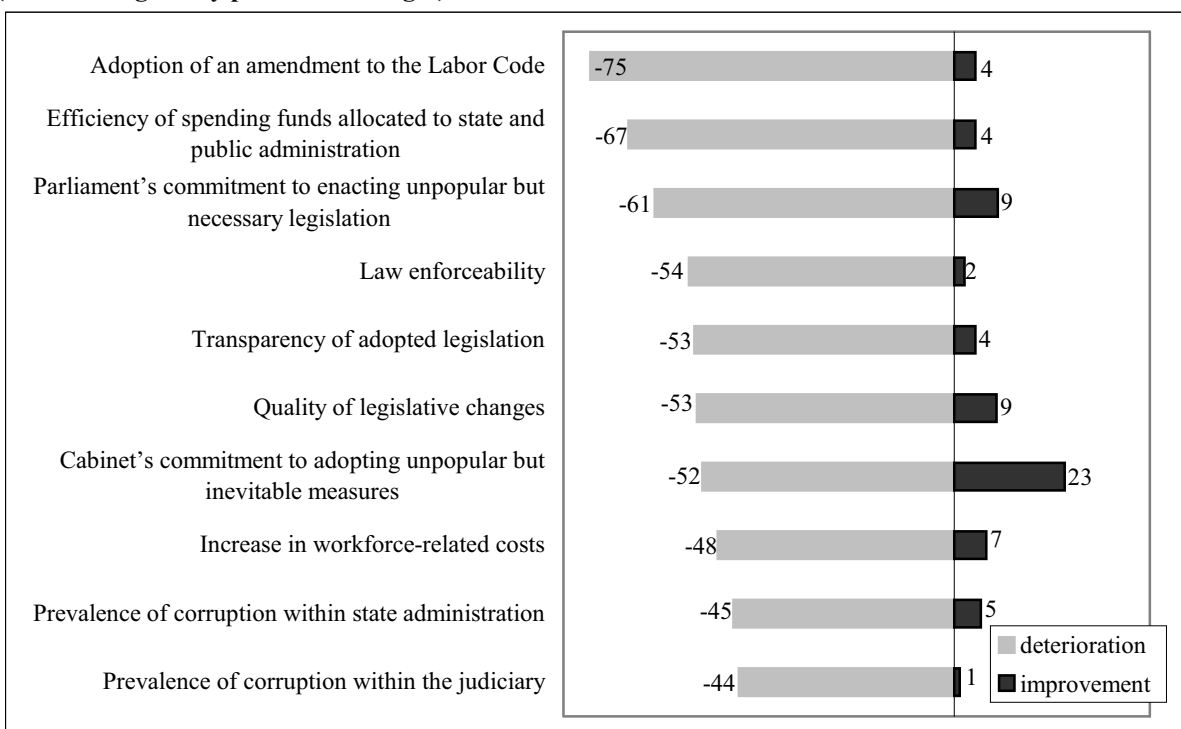
Second on the list of areas that experienced the most dramatic deterioration ranks the **efficiency of spending funds allocated to state and public administration**. Managers are particularly sensitive about this issue, mostly because inefficient spending of public funds mounts pressure on increasing taxes or prevents their reduction, respectively. According to respondents-entrepreneurs, the generally poor efficiency of spending public funds shows also in the fact that the government fails to provide adequate services for taxpayers' money. Managers' and analysts' evaluation of this area does not differ much – on average, as many as 71% of all respondents view development in this area as very negative, while nobody perceived any improvement. In this case, the most negatively perceived is the fact that objectively, there has been no substantial improvement of the unsatisfactory situation. *“The government is too expensive,”* managers repeatedly alleged in 2002.

Third on the economic elite's deterioration list was **Parliament's willingness to enact unpopular but economically necessary legislation**. While only 25% of our respondents criticized the assembly for the lack of reformist courage in 2000, their share grew to 55% in 2001 and even to 61% in 2002. In this respect, Parliament is perceived even more critically than Cabinet. However, the negative trend seems to apply to Cabinet too, as respondents' evaluation of Cabinet's commitment to reforms was generally more positive in the previous period (in 2000, the ratio of positive and negative evaluations was 61:23, in 2001 it reversed to 30:48 and in 2002 it deteriorated further to 23:52). In other words, it seems that representatives of country's economic elite are growing sensitive about slowing down and putting back the necessary reforms in the second half and especially toward the end of the current administration's term in office.

A truly long-term problem of Slovakia's economic environment is **poor law enforceability**. More than a half of all respondents observed further deterioration in this negative phenomenon. Other negatively perceived areas are also related to the legislative process, namely transparency and quality of adopted legislation.

## Graph 2

**What has been the development in this field over the past 12 months?  
(ten most negatively perceived changes)**



Source: Institute for Public Affairs, 2002

When answering the open-ended question of **What are in your opinion the greatest obstacles to improving Slovakia's economic conditions?** our respondents gave a relatively broad scale of responses that could be divided into five basic categories summing up the most frequently identified obstacles. The five categories are as follows:

- ⊘ Non-transparent legislation of poor quality, permanently changing laws, general legislative chaos;
- ⊘ Dysfunctional judiciary, poor law enforceability, lengthy judicial proceedings;
- ⊘ Corruption and clientelism;
- ⊘ Bureaucracy, administrative barriers to enterprise;
- ⊘ High unemployment and a failure to tackle it.

When answering the question of **What do you consider the greatest threat to Slovakia from the economic viewpoint?** our respondents most frequently cited the following:

- ⊘ Failure to join NATO and the EU;
- ⊘ High unemployment;
- ⊘ "Brain-drain", outflow of qualified workforce;
- ⊘ Elections, new government led by the HZDS, return of Meiar, political uncertainty;
- ⊘ Balance of trade and balance of payment deficits, foreign trade deficit, state budget deficit, growth in the public debt, continuous growth in expenditures allocated to state administration;
- ⊘ Currency devaluation, unfavorable monetary development, monetary crisis;
- ⊘ Corruption within state administration, prevalence of partial and partisan interests over national ones.

A number of other risks cited by our respondents are related to Slovakia's political stability and continuation of its integration course.

When answering the question of **Which laws or legislative amendments adopted in 2001 have in your opinion deteriorated conditions for doing business in Slovakia?** our respondents cited virtually all crucial laws adopted during the examined period. Besides the most frequently mentioned amendment to the Labour Code, respondents cited mostly the following legislation:

- ⊘ Act on Waste;
- ⊘ Amendment to the Commercial Code;
- ⊘ Act on Bailiffs, Act on Bankruptcy, Act on Distraint;
- ⊘ Act on Tax Administration, Act on Income Tax;
- ⊘ Public Procurement Act.

A relatively great proportion of responses had a rather general character, expressing general discontent over the country's legislative environment. Respondents stated that laws "*are complicated and overly bureaucratic*" and alleged that "*the government's consumption is disproportionately high*".



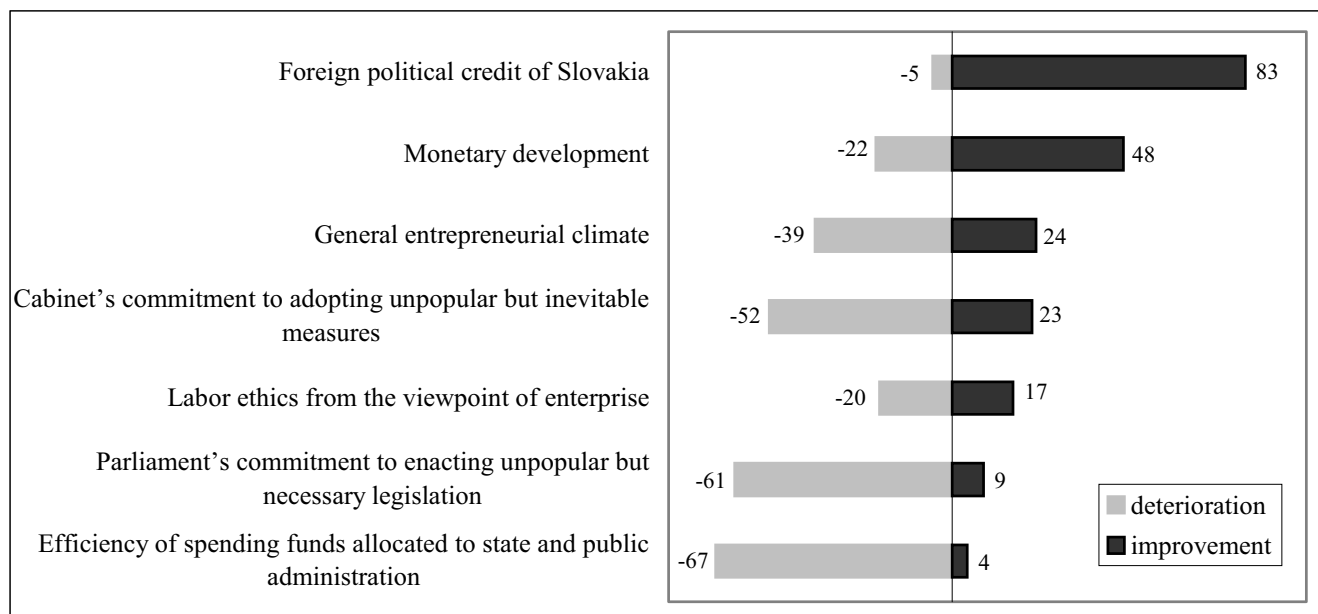
### III. TRENDS AND PROBLEMS IN PARTICULAR FIELDS

#### III.1. Political and macroeconomic environment

The most positively perceived development within the political and macroeconomic environment was Slovakia's improving foreign political credit; also, respondents positively evaluated Slovakia's monetary stability. Slovakia's business environment is negatively influenced especially by the poor efficiency of spending funds allocated to state and public administration. As we have already mentioned, respondents critically perceived also the progress and **pace of economic reforms**. Most respondents believe that Cabinet's and Parliament's determination to pursue/adopt unpopular but economically necessary measures is weakening. As far as issues such as the general entrepreneurial climate and labor ethics are concerned, respondents were not particularly critical nor overly enthusiastic; consequently, the response of "nothing has changed" prevails.

#### Graph 3

**What has been the development in this field over the past 12 months?  
(political and macroeconomic environment)**



Source: Institute for Public Affairs, 2002

Respondents also assessed seriousness of problems within particular fields and were free to identify the one they view the most negatively. Within the political and macroeconomic environment, the most negatively perceived phenomena were unquestionably the poor efficiency of spending funds allocated to state and public administration and the government's fading away determination to adopt and implement unpopular but economically necessary measures.

#### III.2. Capital and general conditions for foreign investors

According to Slovakia's economic elite, the most positive change recorded in the course of the past year was the fundamental turnaround in **development of banks' interest rates**. This substantial change can be attributed especially to the general recovery of domestic banks.

The most positive change over the past year according to representatives of Slovakia's economic elite was the **development of banks' interest rates**. This positive perception lingers on although the most dramatic drop in interest rates occurred already in 1999 as it is illustrated by Table 1. The important turnaround can be attributed mostly to restructuring and recovering domestic banks.

**Table 1**  
**Development of banks' interest rates**

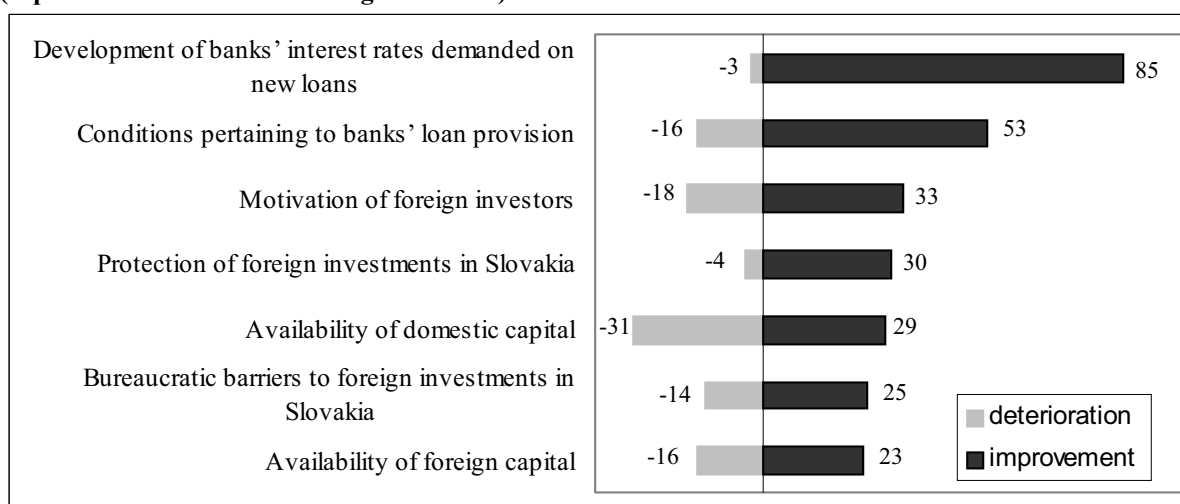
Loans for the corporate sector (% p.a.)	1998	1999	2000	1H2001	2001
Average interest rate demanded on newly-provided loans	18.6	12.6	11.8	9.6	9.5

Source: National Bank of Slovakia

Other issues that are perceived prevalingly positively include **conditions for loan provision in banks and motivation of foreign investors**. This can be attributed especially to foreign investors' belief that Slovakia is heading irreversibly toward joining European and transatlantic integration groupings which has had a positive impact on their motivation to invest in Slovakia. By acceding to the OECD, Slovakia pledged to continue to liberalize its foreign exchange and capital policies and to accept investment and economic standards of developed countries, which has automatically decreased the risk of investing in Slovakia and investors' increased confidence in improved future performance of its economy. Motivation of foreign investors to invest in Slovakia was evaluated positively, although not as positively as in the previous year's survey. An undisputed fact is the government's endeavor to attract foreign investors. As we mentioned, the government has made a number of steps in order to encourage their interest (e.g. acts on industrial parks and investment incentives).

The **availability of domestic capital** continued to be evaluated rather contradictorily; however, compared to the previous year's survey respondents leaned rather toward negative evaluations which can be corroborated by the fact that this issue was evaluated as the most problematic within this field.

**Graph 4**  
**What has been the development in this field over the past 12 months?**  
**(capital and conditions for foreign investors)**



Source: Institute for Public Affairs, 2002

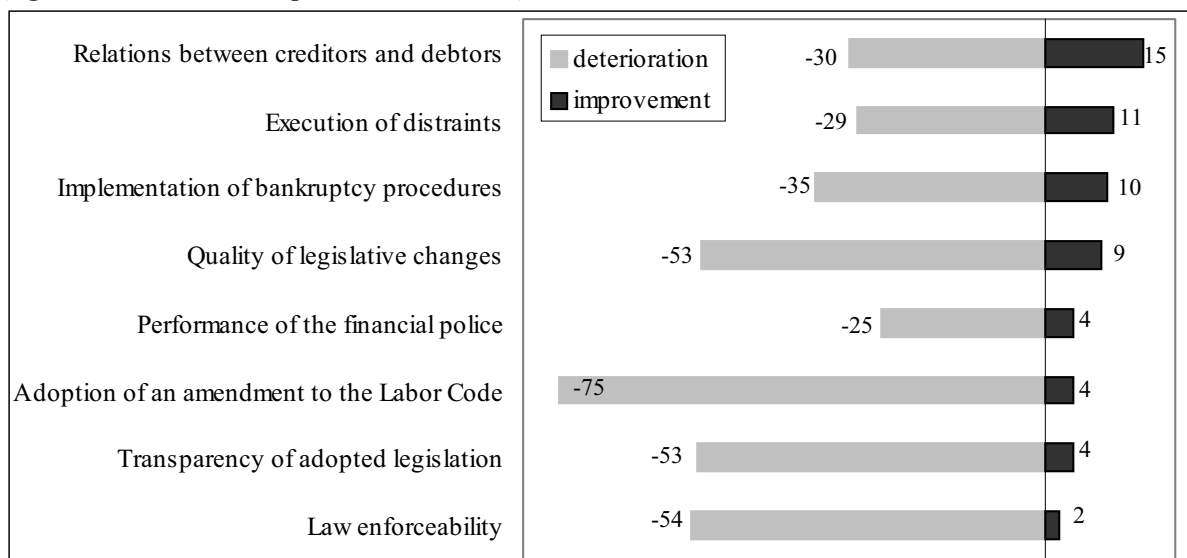
### III.3. Legal framework of entrepreneurial activities

The **legal framework of doing business in Slovakia and everything that is related to it was evaluated very critically**. In particular, **law enforceability was assessed as already poor and still deteriorating**. Representatives of the country's economic elite were equally **critical of transparency and quality of newly-adopted legislation**. Particularly **negatively evaluated was the newly adopted Labor Code**.

**Relations between creditors and debtors** continue to be perceived very negatively, although there was a moderate improvement against the previous year's survey. On the contrary, there was no improvement whatsoever in the previously negative evaluation of bankruptcy procedures.

Among all areas in the field of legal framework for business activities, there was not a single one that would be evaluated favorably. **Respondents identified poor law enforceability as the greatest problem**.

**Graph 5**  
**What has been the development in this field over the past 12 months?**  
**(legal framework of entrepreneurial activities)**



Source: Institute for Public Affairs, 2002

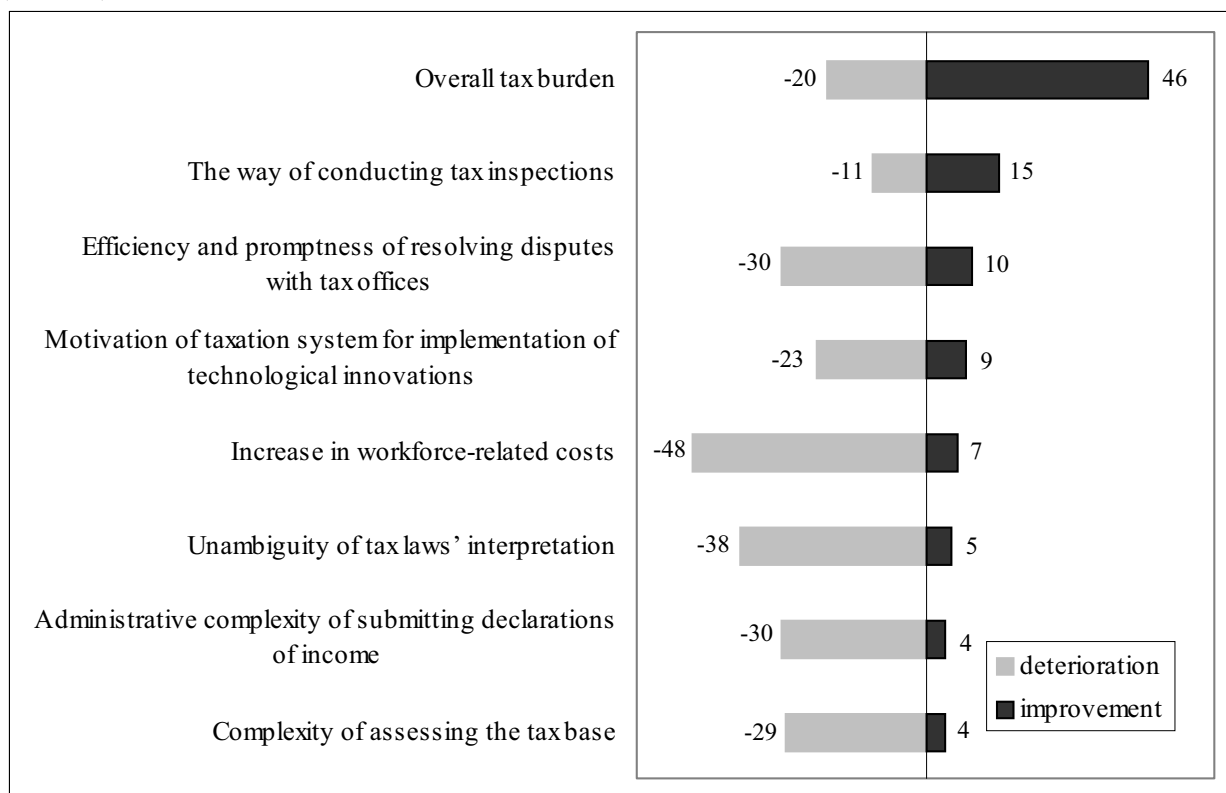
#### III.4. Taxation

There has been an essential turnaround in development of overall tax burden; consequently, after a very critical evaluation of this issue by the previous year's survey positive evaluations prevailed among respondents this year.

As many as 48% of respondents negatively evaluated the development trend in workforce-related costs over the past year, while only 7% observed an improvement.

Respondents continue to be critical of the administrative complexity of submitting declarations of income although there has been a substantial improvement compared to last year (38% of respondents continue to observe deterioration). Similarly, ambiguity of tax laws' interpretation continues to be viewed rather negatively. Respondents suggested that taxation laws are confusing and enable tax inspections to apply their voluntaristic interpretation which potentially increases space for corruption of tax officers.

**Graph 6**  
**What has been the development in this field over the past 12 months?**  
**(taxation)**



Source: Institute for Public Affairs, 2002

Respondents identified the **administrative complexity of submitting declarations of income** to be the greatest problem in this field.

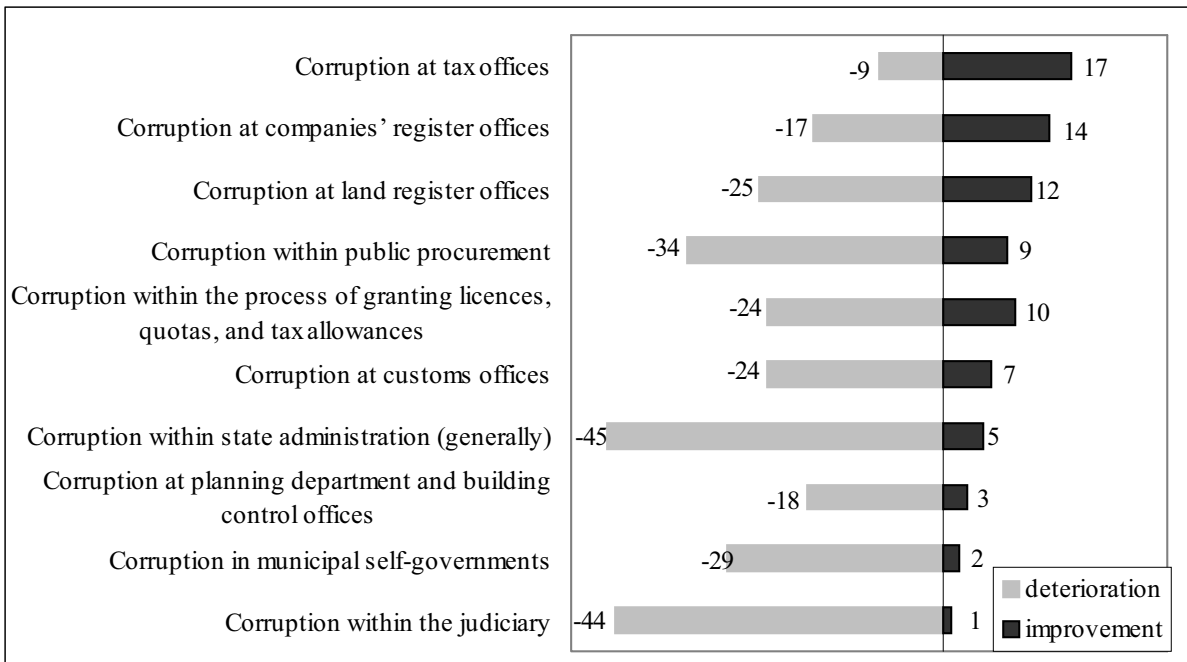
### III.5. Corruption

Businessmen and economic analysts continue to be very critical of the general prevalence of corruption. Over the past 12 months, respondents observed deterioration of the situation especially in the case of **corruption within state administration** (45%) and **within the judiciary** (44%, which is still a slight improvement over the previous year's survey when corruption within this area was viewed as growing by 55% of respondents). **The prevalence of corruption within state administration is generally perceived as one of the most serious problems.**

Corruption as a phenomenon is not a specific feature of Slovakia's economy; on the contrary, in various forms it plagues virtually any country. The most problematic is measuring and collecting evidence on corruption. In Slovakia, perhaps the most positive shift in respect to corruption is the fact that corruption is gradually ceasing to be a taboo and people increasingly often discuss the issue. In 1997, Slovak media published 180 articles focusing on corruption, by 2001 their number increased to 450. Consequently, the general perception of the situation as "deteriorating" should not be interpreted as absolute. Perception of the problem and increased awareness of it also depends on how close attention is paid to it and to what extent is it exposed. Although the government is not satisfied with the up-to-date results of its campaign against corruption, it refuses to see the situation in too dark colors. Ivan Mikloš, Deputy Prime Minister for Economy, stated: „*Systemic restrictions of the space for corruption, stricter punishments and enhanced sensitivity of the public to corruption have led to a substantial reduction in the prevalence of corruption (which is suggested by a survey examining bribery) and to a substantial elimination of corruption from fields such as privatization, banking and business sector*” (Mikloš, 2002).

Unfortunately, though, both managers and economic analysts maintain that the situation is not improving at an expected pace.

**Graph 7**  
**What has been the development in this field over the past 12 months?**  
**(corruption)**



Source: Institute for Public Affairs, 2002

## IV. TEN MOST SERIOUS PROBLEMS

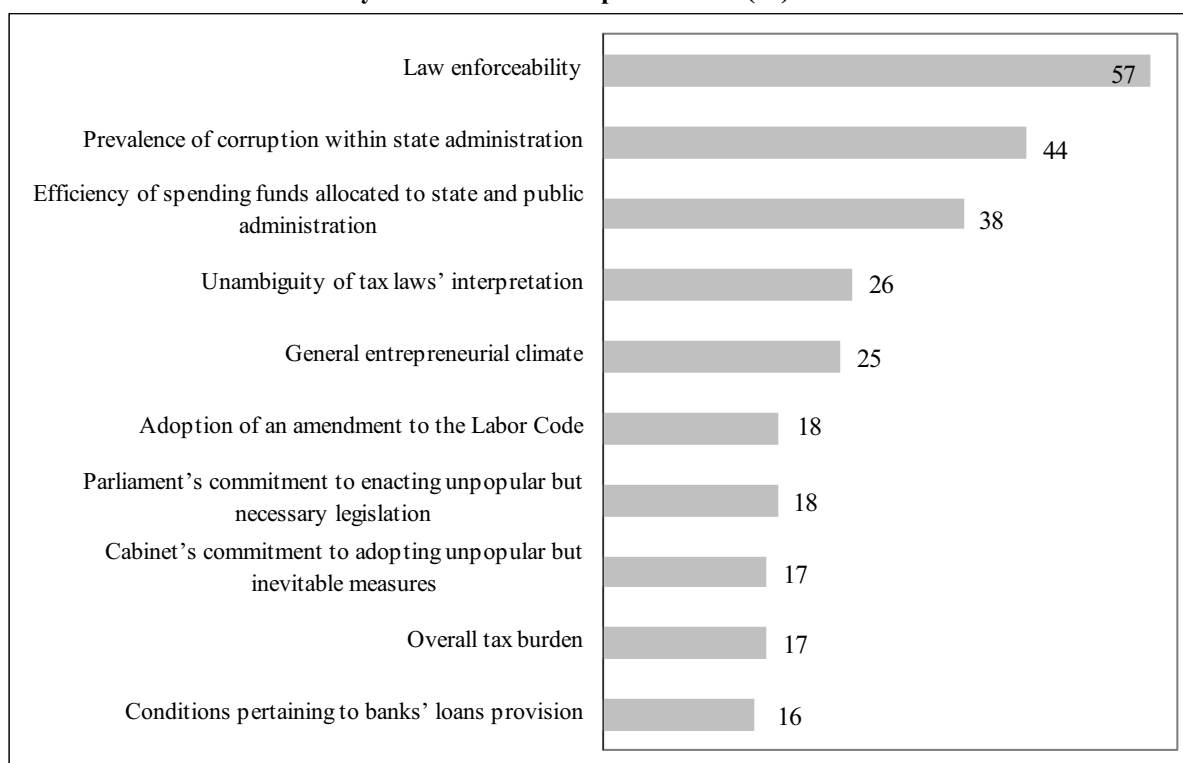
Besides identifying trends that have emerged over the past 12 months, respondents were asked to pick five out of 40 areas which they personally view as the greatest problems of Slovakia's current economic and entrepreneurial environment.

According to representatives of Slovakia's economic elite, the greatest problem of country's entrepreneurial environment is **poor law enforceability** (this problem was cited by 55% of respondents-managers and as many as 75% of respondents-analysts, making a total figure reach 57% which is a slight increase compared to last year's 52%). Important is that the issue of poor law enforceability does not concern exclusively the judiciary but also state organs and public administration in general. The issue of law enforceability is a chronic problem of Slovakia's business environment which regularly appears in all surveys focusing on entrepreneurs and managers. Vice-premier Mikloš also admitted the so far insufficient progress in the field of law enforceability (Mikloš 2002). **Objectively, improving law enforceability has to overcome various barriers and perception of these barriers should not be interpreted as entrepreneurs' subjective feeling.**

Second on the list of the most serious problems ranks **prevalence of corruption within state administration**. Compared to the previous year's survey, this issue has experienced a substantial increase – the number of respondents who view it as serious has grown from the last year's 22% to this year's 44%!

### Graph 8

Ten fields of the Slovak economy viewed as the most problematic (%)



Source: Institute for Public Affairs, 2002

## V. ARE THERE ANY SOLUTIONS ?

Our respondents were asked to suggest, in brief, their own solution to problems they identified as the most pressing. Their responses represent a wide range of possible measures and methods which in respondents' opinion might lead to tackling the most acute problems. Every single response was a valuable suggestion, regardless whether it was an involved manager/entrepreneur or an independent analyst.

Due to better transparency, we decided to sum up dozens of our respondents' suggestions into the following categories:

**1. Restriction of the government's role** – in general, representatives of Slovakia's economic elite expressed a great dissatisfaction over the excessively important role of the government and over the meddling of politics in general and political parties in particular with the business environment. Respondents view the state administration as poorly working, inefficient, incompetent, excessive and overly expensive. They also criticized meddling of political and partisan interests with economic ones. As suggested by other findings of the present survey, the economic elite is growing very sensitive to corruption within the state administration.

For instance, respondents suggested *“significant cuts in the number of administrative employees within the state administration”, “general ‘slimming-down’ of state and public administration”, “setting work limits for administrative employees”, “staffing executive organs with experts or politicians who are able to listen to expert opinions”, “increasing the moral responsibility for public affairs on the part of top government officials, civil servants and parliamentary deputies”, “eliminating the existing influence of party top officials over the economic development”, “adopting uncompromising measures based on identified shortcomings and staffing important posts within the state administration by experts.”*

According to one respondent, the state administration should also place an *“emphasis on labor productivity, the state should be steered by managers as opposed to politicians who should retain merely supervisory powers (similar to supervisory boards in corporations), the administrative burden should be generally reduced.”*

Important prerequisites to tackling the issue of corruption within the state administration include *“enhancing and supervising the transparency of public officials' private property”, “making more stricter the supervision over undeclared income through state organs”, “resisting the pressure from lobby groups”, “beginning to tackle corruption at top executive posts, not only within state administration but also in state enterprises, regional self-governments, etc.”, “enhancing transparency of all cash-flows within state administration and municipal self-governments”, “promptly and severely punishing cases of fraud and embezzlement”, “preventing tunneling of the state budget to the benefit of political parties through state orders.”*

**2. Another painful spot is the legislative power.** Here, respondents suggested to implement the following measures: *“increase professionalism of the legislative process and eliminate the influence of narrow groups that pursue their partial interests”, “put access to the legislative process on an equal footing, for instance by abolishing the tripartite”, “substantially enhance the performance of courts of law”, “focus on enhancing the transparency of taxation laws”, “eliminate black economy through control and repressive mechanisms, even if it means increased state budget expenditures”, “strengthen the expert capacity of people responsible for preparation of legislation (e.g. through intensified communication with the private sector)”, “make law enforceability a top priority of country's economic life”, “make law enforceability in Slovakia to comply with EU standards within a short period of time and adopt resolute measures in the field of judiciary and prosecution”.*

3. The issue of **corruption** ran through our respondents' perception of Slovakia's entrepreneurial environment as a red thread. Here, respondents suggested especially making punishments for corruption substantially stricter: *"introducing rigorous punishments of corruption (e.g. banning people from public posts)", "improving the performance of agents-provocateurs (i.e. exposing corruption)", "making criminal punishments more stricter and banning people for life from political or public posts", "beginning to tackle corruption at top executive posts, not only within state administration but also in state enterprises, regional self-governments, etc.", "punish severely all cases of malpractice and corruption."*

Less frequently mentioned but by no means less important were the following three categories:

4. **Infrastructure** – *"accelerate building of a modern infrastructure, highway network, modernization of railway network."*

5. Frequently voiced was also the requirement to elaborate a **consistent long-term economic policy** *"that would be pursued regardless of what government is in power", "define basic priorities of Slovakia's national economy for the next 5 to 15 years", and "increasing the consistency of implementing a transparent strategy of Slovakia's economic policy."*

6. Some respondents touched upon the **social sphere** – *"the problem that plagues our society the worst is a **bad financial condition of the country's health service**. I see the only way out through introducing an efficient and transparent scheme of redistributing available funds if the government is unable to allocate to the system more funds from the state budget", "prevent further **deterioration of education system** and make education of young people an absolute top priority!", "introduce much more liberal ways of **citizens' voluntary participation in pension schemes**."*



## VI. OPPORTUNITIES AND THREATS OF THE SLOVAK ECONOMY

When responding to the open-ended question “**What do you consider the Slovak economy’s greatest opportunity?**” most respondents mentioned especially the necessity of maintaining and increasing the Slovak economy’s general openness along with the related key condition for its development, namely **integration to Euro-Atlantic groupings**. Respondents suggested that Slovakia has optimum preconditions for opening its economy even further, citing mostly the geographic location, qualified, flexible and relatively cheap workforce and a good export potential.

**Generally speaking, the responses can be summed up into the following categories:**

- ⊕ Integration to international groupings, joining the EU and NATO;
- ⊕ Inflow of foreign direct investments;
- ⊕ Capitalization on country’s human potential, population’s qualification level and well-educated people;
- ⊕ Qualified, cheap and diligent workforce`
- ⊕ Regional development;
- ⊕ Development of tourism.

When responding to the question of **What do you consider the greatest threat to the Slovak economy?** respondents cited mostly non-economic threats and factors, especially **unfavourable effects of political factors** such as abandoning the integration course after the upcoming parliamentary elections due to a new government led by Meiar’s HZDS.

Another threat ensues from **insufficient investments** into research and development or higher education, neglecting the issue of health service’s indebtedness and an ambiguous approach to the issue of unemployment. Other threats stem from reforms that failed to be launched, were unfinished or half-hearted (e.g. university education reform or public administration reform).

Besides the most frequently mentioned problems, individual respondents also stated the following: *“poor inventiveness of Slovak entrepreneurs (I mean lawful inventiveness, as their unlawful inventiveness is abundant)”, “low interest of large corporate investors in Slovak people or the Slovak market, high degree of Slovakia’s indebtedness, deliberate obscuring of the actual state of Slovakia’s economy, nonobservance of commercial laws, distorted legal environment, limited access to (development) capital, general dishonesty and lack of personalities.”*

## VII. WHAT HAS THE CURRENT ADMINISTRATION ACCOMPLISHED ?

In several months, the Mikuláš Dzurinda administration's term in office will end. The government that took power after the 1998 parliamentary elections suffered throughout the entire term in office from the fact that the ruling coalition was formed by parties of various ideological background, ranging from leftist SD or SOP through center-right SDKÚ and conservative KDH. At the end of the current administration's term in office we deemed it appropriate to ask representatives of Slovakia's economic elite to answer the following question: **What are the three most important changes brought about by the current administration?** Responses to this open question featured a number of specific measures and changes implemented by the current administration in economic field. However, all answers seemed to have one common denominator: great understanding for the fact that everything the current administration has achieved was **despite, and not thanks to, existing conditions**. Another frequently cited common denominator which is not as flattering is that the government had the courage to make some essential steps in the right direction, but their implementation was far from perfect and a number of reforms were half-hearted, for instance *"the decision to privatize natural monopolies such as SPP or SE, although the privatization itself was not a full success", "[the government] approved an audit of state institutions, which was the first attempt to evaluate critically the efficiency of state administration", or "the process of changes between state administration and public administration was launched."*

Most respondents (60%) cited the most undisputed achievement of the current administration, namely returning Slovakia onto the integration path, **achieved progress in integration to the EU and NATO and joining the OECD** in 2000. One in three respondents mentioned also the accomplishment of **restructuring and privatizing Slovakia's largest commercial banks**, one in four cited **reduction in overall tax burden** and one in five **privatization of key industries (natural monopolies)**. About one in ten respondents praised the current administration for restoring Slovakia's macroeconomic stability, improving communication and enhancing transparency.

**Table 2**

**What are the three most important changes brought about by the current administration? (%)**

Country's foreign political orientation, integration success, joining the OECD	61
Bank restructuring and privatization	33
Reduction in overall tax burden	25
Privatization of key industries	20
Currency stability, monetary development, stability of economic environment	12
Improved communication, enhanced transparency	10

Source: Institute for Public Affairs, 2002

A number of respondents pointed out that the Cabinet has managed to *"increase the transparency of adopted decisions"* and that it *"tried to improve citizens' access to information on public affairs."*

In May 2002, Deputy Prime Minister for Economy Ivan Mikloš summed up the Cabinet's ups and downs in the field of economy. When speaking of the Cabinet's most remarkable achievements, he highlighted especially the following: restoring the country's macroeconomic stability, approximation of Slovakia's legal order to that of the European Union, reduced interests rates and cheaper loans, amending the bankruptcy law, introducing the lump-sum tax and substantially reducing the corporate income tax, introducing the right of lien, encouraging foreign direct investments, introducing arbitration, relatively successful campaign against organized crime and wrestling down corruption within business circles. On the other hand, Mikloš was critical about the following failures: so far incomplete implementation of reform measures, insufficient progress in the field of law enforcement and the social factor (Mikloš, 2002).

Independent economic analyst Karol Morvay, for his part, viewed the government's performance in the field of economic policies as follows: **"Generally speaking, the government was more successful in implementing short-term rather than long-term measures: on the one hand, it managed to perform a successful rescue maneuver in 1999; on the other hand, it underrated some reforms of the public sector and neglected the policy of maintaining competitiveness. Nevertheless, certain qualitative changes indicate that Slovakia's economy is in a qualitatively different condition that it was before 1999. [The current administration] implemented positive changes within Slovakia's business environment and reduced the possibility of government's political interventions in economy. Restructuring and privatization of banks has further eliminated the risk of political meddling in the banking sector. These changes have implanted certain safeguards into Slovakia's economy whose removal would be difficult"** (Morvay, 2002).

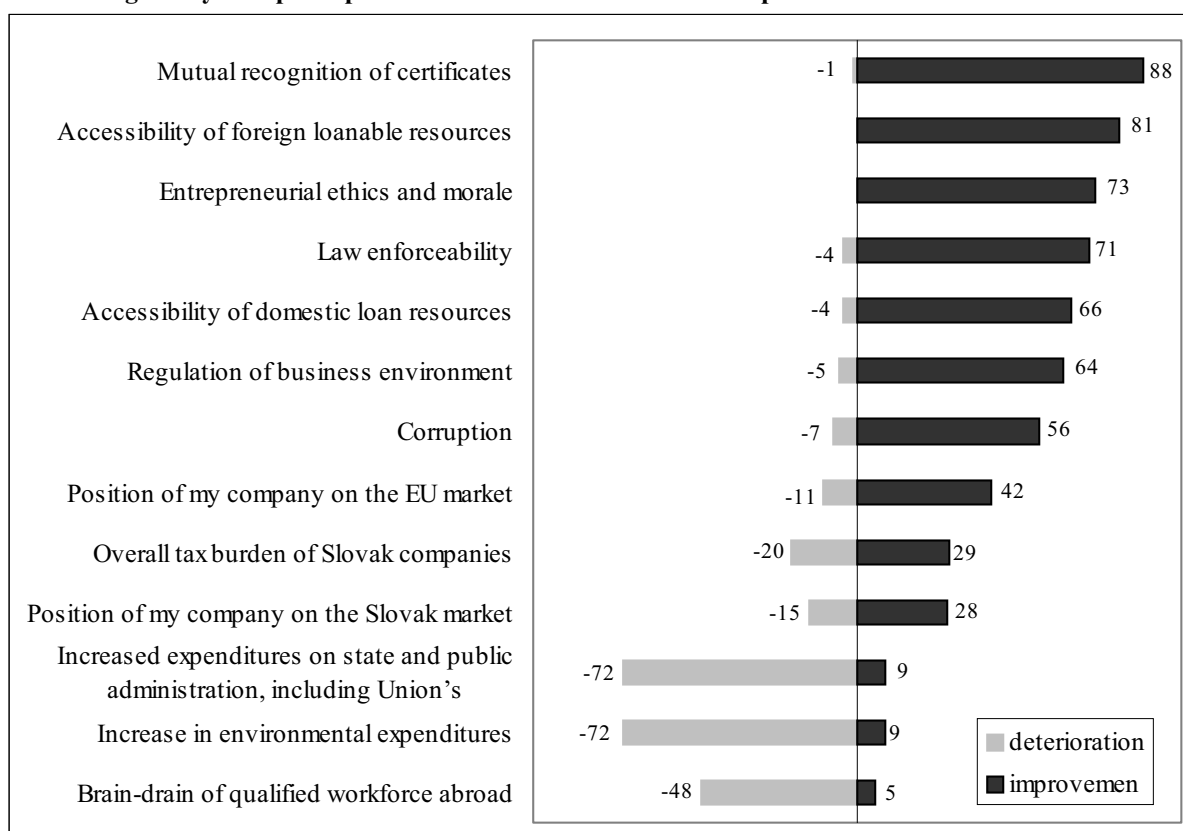
## VIII. EUROPEAN UNION – EXPECTATIONS AND ANXIETIES

What changes do representatives of Slovakia's economic elite expect following the country's accession to the European Union? In this field, respondents evaluated a total of 12 areas. Positive expectations prevailed in nine of them, most unambiguously in the area of **mutual recognition of certificates** (88%) and **accessibility of loanable resources abroad** (81%). Upon Slovakia's accession to the EU, the country's economic elite expects improvements also in areas that are currently viewed as the most problematic – namely **law enforcement, entrepreneurial ethics and morale and corruption**. Respondents' opinions were almost evenly spread over the issue of Slovak corporations' overall tax burden, with 29% of them expecting an improvement (i.e. further tax cuts) while 20% expecting a deterioration (i.e. increase in tax burden).

On the other hand, representatives of the country's economic elite negatively perceive that fact that Slovakia will have to **increase its environmental expenditures substantially** in order to reach the ecological standard of the current EU-15. Another issue that is perceived rather sensitively is **leaving of qualified workforce abroad**, or the so-called "brain-drain" phenomenon. Slovakia's EU membership will bring about a free movement of goods, services, and persons; however, it can be realistically expected that the current EU member states will protect their labour markets from an excessive inflow of workforce.

**Graph 9**

**What changes do you expect upon Slovakia's accession to the European Union?**



Source: Institute for Public Affairs, 2002

In the last year's survey we observed that especially respondents-entrepreneurs keep highly positive expectations in respect to Slovakia's EU membership. However, this year's survey indicated that some of their expectations have become more moderate over the past year. In particular, this applies to the issue of **increased expenditures allocated to state and public administration, including the Union's**: while negative and positive expectations were in a virtual equilibrium in the previous year's survey, this year's survey indicates that respondents expect these expenditures to grow. Other **positive expectations that have experienced certain moderation included the issues of availability of loanable funds abroad, overall tax burden of Slovak corporations and law enforcement**.

**Table 3**  
**What changes do you expect upon Slovakia's accession to the European Union?**  
 (evaluation of managers)

<b>Area</b>	<b>2001</b>	<b>2002</b>
Availability of foreign loanable funds	61.3	48.3
Mutual recognition of certificates	54.8	55.1
Enhanced law enforceability	51.6	38.8
Improved entrepreneurial ethics and morale	41.9	41.2
Availability of domestic loanable funds	37.9	34.1
Intensified fight against corruption	37.7	30.5
Reducing companies' overall tax burden	30.0	3.0
Getting a foothold on EU markets	26.3	17.7
Company's improved position on the Slovak market	1.6	7.6
Increased expenditures on state and public administration, including the EU's	0.0	39.2
Brain-drain	-36.1	-35.1
Increased environmental expenditures	-39.7	-40.6

**Note:** Responses of managers and analysts have been transformed into a scale ranging from -100 to +100 (negative figures express a prevalence of pessimistic expectations, and vice versa)

**Source:** Institute for Public Affairs, 2001, 2002

## IX. THE MOST REMARKABLE CHANGES 2001 – 2002

### IX.1. Positively perceived changes

The fields that are perceived prevailingly positively by our respondents have experienced the following substantial shifts in perception:

1. appreciation of Slovakia's foreign political credit, conditions pertaining to banks' loan provision and especially of the decreasing overall tax burden occurred more often compared to the previous year's survey;
2. on the other hand, the issue of motivation of foreign investors witnessed a negative shift compared to the previous year's survey.

#### Graph 10

What has been the development in this field over the past 12 months?

Positively perceived changes - comparison of 2001 and 2002

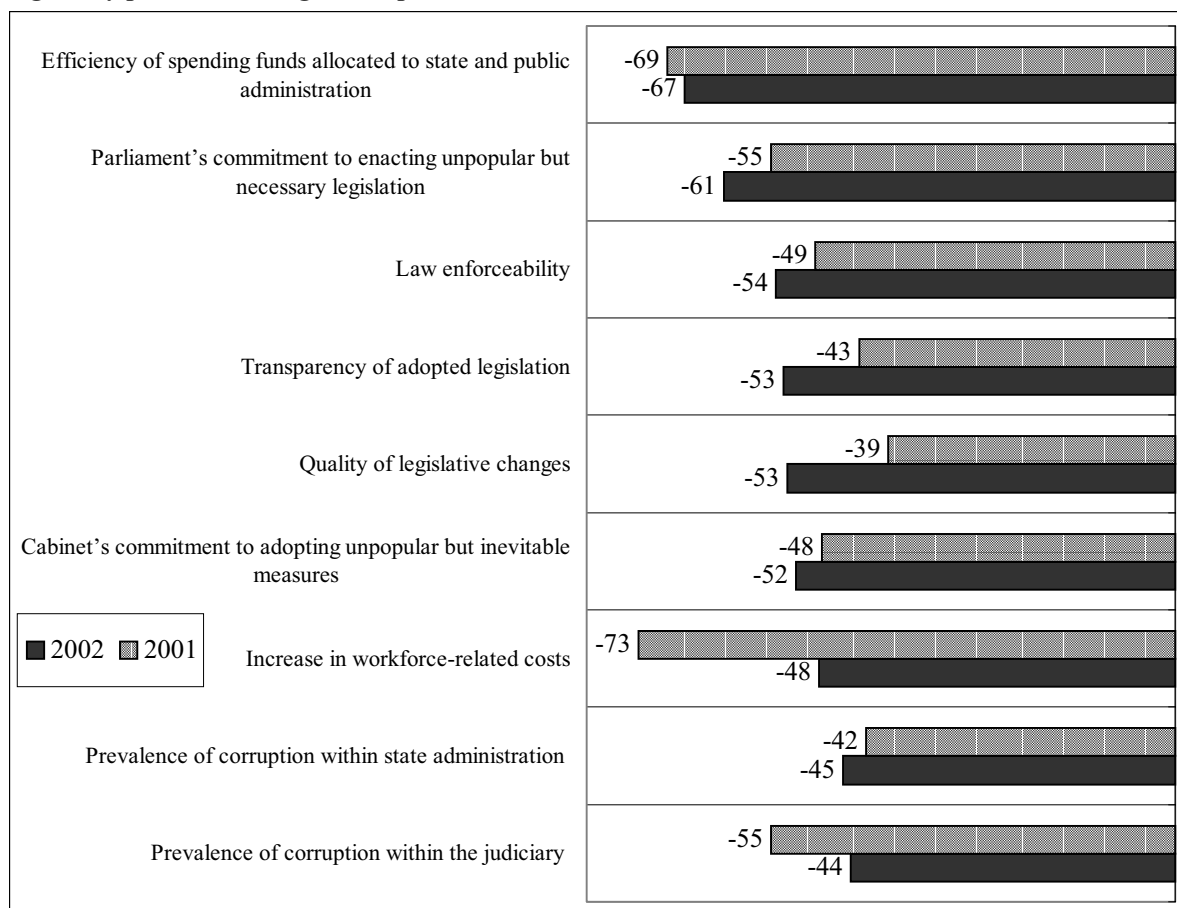


Source: Institute for Public Affairs, 2001, 2002

### IX.2. Negatively perceived changes

The fields that are perceived prevailingly negatively by our respondents have experienced the following substantial shifts in perception:

1. the previously negative perception has been further strengthened especially in respect to quality of legislative changes and transparency of adopted legislation. Also, respondents were more critical than last year about Cabinet's commitment to adopting unpopular measures and Parliament's commitment to enacting unpopular legislation.
2. on the contrary, the previously negative perception has somewhat improved in the field of workforce-related costs and corruption within the judiciary.

**Graph 11****What has been the development in this field over the past 12 months?****Negatively perceived changes- comparison of 2001 and 2002**

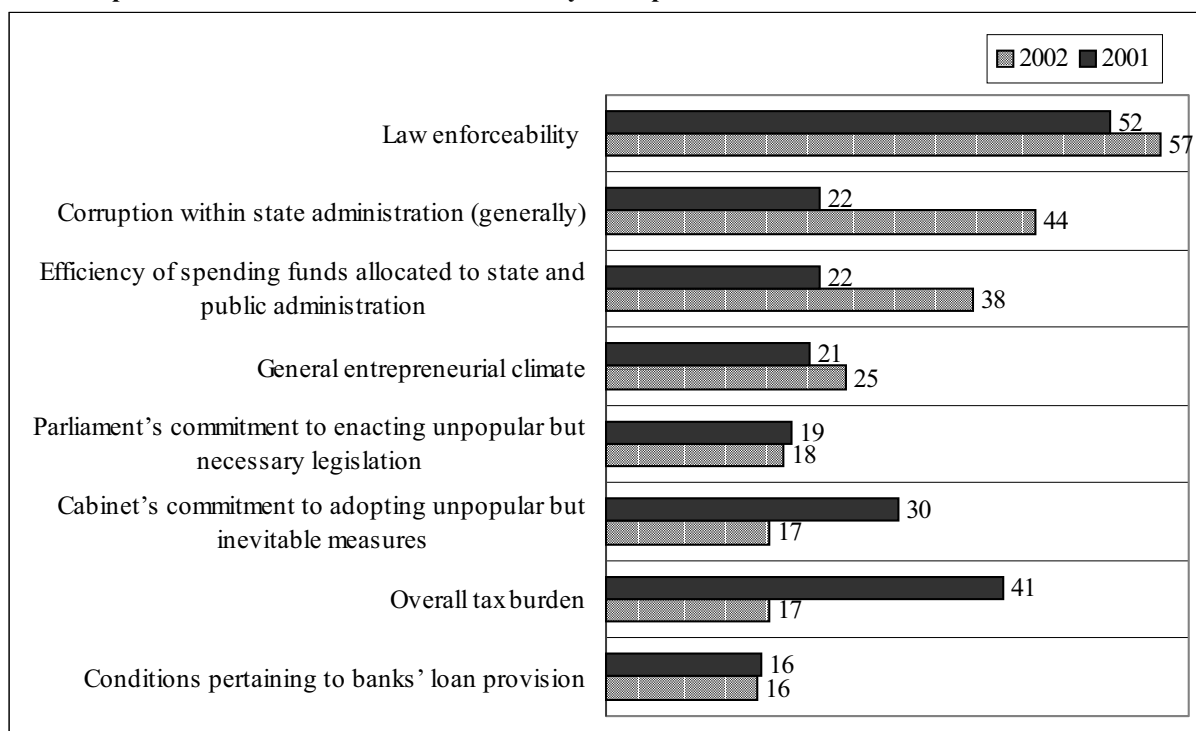
Source: Institute for Public Affairs, 2001, 2002

**IX.3. Most pressing problems**

When comparing the most problematic areas identified in 2001 and 2002, one cannot pass unnoticed the substantial growth in the number of those who identified **corruption within state administration** and **efficiency of spending funds allocated to state and public administration** to be the most pressing problems. In other words, discontent of the entrepreneurial community is aimed at the state administration more clearly than last year.

On the other hand, urgency of some issues has decreased substantially – in particular, this applies to the **overall tax burden** which has decreased due to taxation laws' reform. Despite the government's commitment to adopt and implement economically inevitable measures is perceived as deteriorating, most respondents view it less critically than last year which may be related to the fact that Slovakia's business community is already focusing on the new government that will be formed after the upcoming September elections.

**Graph 12**  
**The most problematic fields of the Slovak economy - comparison of 2001 and 2002**



Source: Institute for Public Affairs, 2001, 2002

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## ANNEX

## Selected Economic Indicators of the Slovak Republic

									<i>Forecast</i>	
		1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>REAL ECONOMY</b>										
Real GDP growth***	%	6,7	6,2	6,2	4,1	1,9	2,2	3,3	<b>4,0</b>	<b>4,2</b>
Contribution of final consumption of households to GDP growth***	%	1,7	3,4	3,1	2,4	0,2	-1,7	1,9	<b>2,0</b>	<b>1,5</b>
Contribution of final government spending to GDP growth***	%	0,6	4,2	0,0	0,1	0,1	-0,2	1,0	<b>0,6</b>	<b>0,2</b>
Contribution of gross investment to GDP growth***	%	8,3	11,6	1,4	1,9	-4,9	0,6	4,4	<b>2,0</b>	<b>2,2</b>
Contribution of net export to GDP growth***	%	-3,7	-12,5	2,1	0,0	6,5	3,5	-4,1	<b>-0,7</b>	<b>0,2</b>
Net export/GDP ratio (constant prices)***	%	1,8	-12,0	-10,3	-11,2	-3,8	-0,3	-4,2	<b>-5,2</b>	<b>-4,8</b>
Industrial production index	%	na	na	na	na	-3,4	9,1	4,6	<b>6,5</b>	<b>7,2</b>
Index of construction	%	2,9	4,4	9,2	-3,5	-25,8	-0,4	0,8	<b>4,0</b>	<b>4,2</b>
Retail sales	%	2,0	7,0	4,8	8,6	9,8	2,3	4,2	<b>5,0</b>	<b>4,5</b>
Inflation (CPI - average)	%	9,9	5,8	6,1	6,7	10,6	12,2	7,3	<b>4,6</b>	<b>6,0</b>
Producers Price Index (PPI)	%	9,0	4,1	4,5	3,3	3,8	9,8	6,6	<b>4,2</b>	<b>5,5</b>
Unemployment rate*	%	13,1	11,3	11,8	12,5	16,2	18,6	19,2	<b>19,0</b>	<b>18,8</b>
Average monthly wage	USD	242	266	274	284	259	247	256	<b>280</b>	<b>308</b>
Real wage growth	%	4,0	7,1	6,6	2,7	-3,1	-4,9	0,8	<b>5,2</b>	<b>1,6</b>
Labor productivity growth	%	4,6	5,7	6,3	4,9	4,2	2,8	1,8	<b>3,2</b>	<b>3,4</b>
<b>EXTERNAL SECTOR</b>										
Merchandise export**	USD bill.	8,6	8,8	9,6	10,6	10,2	11,9	12,6	<b>13,8</b>	<b>15,9</b>
Merchandise import**	USD bill.	8,8	11,1	11,7	12,9	11,3	12,8	14,8	<b>15,7</b>	<b>17,5</b>
Trade balance**	USD bill.	-0,2	-2,3	-2,0	-2,3	-1,1	-0,9	-2,1	<b>-1,9</b>	<b>-1,6</b>
Current account	USD bill.	0,6	-2,1	-1,9	-2,1	-1,1	-0,7	-1,76	<b>-1,6</b>	<b>-1,4</b>
Current account/GDP****	%	3,5	-10,6	-9,5	-9,9	-5,6	-3,6	-8,8	<b>-7,4</b>	<b>-5,8</b>
FDI inflow	USD mn.	226	357	198	485	359	2032	1190	<b>3700</b>	<b>na</b>
Gross foreign debt (end of period)	USD bill.	5,8	7,8	9,9	11,9	10,5	10,8	11,3	<b>11,5</b>	<b>11,5</b>
Gross foreign debt/GDP****	%	31,6	39,4	48,5	55,9	53,3	56,2	56,6	<b>52,9</b>	<b>47,4</b>

									<i>Forecast</i>	
		1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>PUBLIC FINANCES</b>										
General government balance** <sup>1</sup>	USD mn.	74	-257	-1082	-1278	-705	-384	-819	-1088	-1190
General government balance/GDP**** <sup>1</sup>	%	0,4	-1,3	-5,3	-6,0	-3,6	-2,0	-4,1	-5,0	-4,9
Exchange rate SKK/USD (average)		29,7	30,7	33,6	35,2	41,4	46,2	48,3	48,5	47,5
Exchange rate SKK/EUR (average)		-	-	-	-	44,1	42,6	43,3	43,5	43,0
Average interest rate on new loans	% p.a.	14,0	13,5	20,9	18,6	12,6	11,8	9,3	8,9	8,5

**Note:** \* According to Labor Force Surveys

\*\* Calculations by M.E.S.A. 10

\*\*\* Data before 1999 were calculated applying the ESA 79 method; data beginning 2000 were calculated applying the ESA 95 method

\*\*\*\* Calculations are based on the average exchange rate

<sup>1</sup> The data do not include the income generated by privatization or expenditures allocated to bank restructuring

**Source:** Statistical Office of the Slovak Republic, National Bank of Slovakia, Ministry of Finance

**Chart:** M.E.S.A. 10.