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**What kind of regime develops in Slovakia 7 years after the
communism breakdown?**

Economy and privatisation

Summary

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Introduction

In spite of the turbulent and very controversial political development and the fairly doubtful political image in foreign parts, the Slovak economy reaches very positive macroeconomic results. Nearly all macroeconomic analyses made by prestigious both commercial and non-commercial financial and research institutions came to the conclusion that the results are astonishing and after 1992 unforeseen. The initial prognoses were much more pessimistic ascribed substantially to anticipated consequences of the former federation split as well to anticipated economic voluntarism of non-standard Mečiar's governments.

The table that follows offers an international comparison of macroeconomic indicators reported for the most advanced post-communist countries:

Table Chyba! Neznámy argument prepínača.: Year-on-year macroeconomic indicators in advanced post-communist countries

	Slovakia	Czech Republic	Hungary	Poland	Slovenia
GDP					
1993	-4.1	-0.9	-0.8	3.8	1.0
1994	4.8	2.6	2.0	5.2	4.0
1995	7.4	4.8	1.6	7.0	5.0
1996	6.0	4.3	0.5	5.5	2.5
Inflation					
1993	23.2	20.8	22.5	35.2	32.0
1994	13.4	10.0	18.8	32.3	19.8
1995	9.9	9.1	28.2	27.8	12.6
1996	5.4	8.8	24.0	21.2	10.2
Unemployment					
1993	12.2	3.9	11.3	14.0	15.2
1994	13.3	3.8	10.2	14.4	14.2
1995	13.1	3.6	9.3	13.3	14.4
1996	12.8	3.1	11.0	14.0	13.5

Source: National statistics, OECD (1996 GDP), World Bank, Business Central Europe

The above macroeconomic results along with the semi-autocratic attribute peculiar to the Mečiar's government lead an observer up to denominate the Slovak system "the Singaporean" one, i.e. a system characterised by partially-authoritative political and liberal economic characteristics. In this essay the author tries to explore whether the above hypothesis is true.

There are various economic systems classifications in literature and practice. The very elementary classification, concerning co-ordinate and organisational principles, distinguishes economic systems as follows: traditional economic systems (in which traditions are the decisive factor and decide who produces what); market economies (where demand and supply determine final production and consumption, focusing substantially on liberal prices), and centrally planned systems (command economies). However, depending on dominant possessive relations, either private property (capitalism) or state property (socialism) prevails

in an economic system. (Michal, 1994). Regarding the later classification, it is evident and beyond dispute that the Slovak Republic is a country in transition on its way from the command economy with prevailing state ownership to the market economy of prevailing private ownership.

Such a sketchy specification of economic systems is naturally insufficient since a number of market systems with a variety of institutional, system, and circumstantial characteristics and curiosities exists. Furthermore, advanced market economies develop; not only quantitative but also qualitative changes appear. Forms and extend of state regulation, forms and methods of monetary and fiscal policies, tax rates and taxation forms, social security, economy-openness, unions' role in economy, relationship between a state, unions and employers, public administration decentralisation, (etc.) continuously vary and change. A real system at the same time arises as a result of highly divers factors such as dominant transformation and economic-political doctrine (e.g., neo-classic or Keynesian), dominant civilisation-values traditions, foreign countries influence, especially of those with which some historical, cultural, or civilisation linkages exists, topical political environment, interest impacts, etc.

To comprehend the complexity of the economic system developed in Slovakia it would be necessary to explore all the above and plenty of additional not only economic factors and impacts. This essay is restricted only to several elementary economic and to the economy closely related social-political circumstantial and mainly system issues which might help identify a nature of the developing societal and economic system of Slovakia.

The essay tries to analyse briefly the development since the year 1989, for the most part the development of the last two years, to answer the question - what kind of system develops seven years after the communism downfall in the Slovak Republic. First of all it is necessary to analyse the basic transformation conception, whether does it exist and how is it changed (from the aspect of tendency to one of fundamental theoretical economic schools), what are principal interest forces and what is their impact on the economic system development, and finally, what are its consequences regarding individual policies (privatisation, monetary, fiscal, anti-monopoly, and social policy), individual markets (labour, capital, money market), and a formation of institutional conditions of sustainable growth.

I. Brief recapitulation of system and circumstantial changes during 1989 - 1994.

The economic transformation of the CSFR initiated after 1989 focused on positions of neo-classic and monetarist economic schools. After discussions in the first half of 1990, a conception of radical economic transformation was established. The conception was similar to the conception implemented at the beginning of 1990 in Poland under the guidance of L. Balcerowicz. Principal priorities of the established transformation conception were price liberalisation, thrifty monetary and budgetary policies, internal convertibility and foreign trade liberalisation, and fast and extensive privatisation. The conception was implemented after January 1, 1991 - after several preparatory steps.

Economic transformation was focused mainly to ensure system change within the shortest time period. It was based mainly on the change of economic environment, on the establishment of macroeconomic equilibrium and strict competitive economic conditions, that should alter behaviour of microeconomic subjects and herewith contribute to the upturn of macroeconomic efficiency, effectiveness and competitiveness. The primary goal was establishment of macroeconomic equilibrium, which meant elimination of by-then existing excess of demand over supply, which could be felt as a general scarcity.

The majority of prices (approximately 90%) was liberalised by 1.1.1991. By the same time the subsidies and subventions for business subjects were substantially reduced, the flat tax rate for profits as well as fully commercial loans were introduced. In other words, strict budgetary constraints were brought up to the economy, which replaced former soft budgetary constraints. Such action was aimed at major change of behaviour of business subjects.

The process of price liberalisation during first four months after reform launch brought macroeconomic equilibrium. A rapid increase of prices (more than 50%) during first four months of 1991 occurred as a result of former surplus of demand over supply. However, after that initial four months growth the price level reached its ceiling, because a restrictive monetary and budgetary policy was held along with price liberalisation for preventing inflation spiral, or, by another words, for preventing the state of constant generating of inequilibrium, but on higher and higher levels, the only difference.

On the other hand goals of internal convertibility and foreign trade liberalisation were to transfer external competitiveness inside the economy with the effect of internal competitiveness and severity of economic environment, which should lead to adoption and restructuring of business sphere.

The aim of privatisation is to create efficient ownership structure with high excess of private ownership, the inevitable condition for effective and competitive economy.

Due to the successful and fast enforcement of first three reform principles in Czechoslovak economy there have been a creation of macroeconomic equilibrium (approximately from April - May 1991) and establishment of relatively severe and competitive economic environment for all business subjects. In other words, a switch from the sellers market to customers market occurred. Based on that a substantial change of company behaviours was assumed, particularly in the sphere of adaptation in a way of lowering costs, elimination of reserves, improving of quality e.t.c. Those behavioural changes should, as were expected, after 1-2 years should impose an upturn in macroeconomic efficiency and the transition from economic decrease to economic growth. However the development in this area was slower than expected. The experience showed that main reason of such development is lower progress of privatisation, which cannot be realised immediately from an objective reasons

(when compared with other reform steps). High surplus of state property : induced low adaptability and inertial behaviour of many companies, despite the establishment of severe competitive conditions. Besides other reasons (missing qualification and readiness of people, especially managers, for new conditions, inertia in thinking, old liabilities and burdens e.t.c.) probably the most important role played the fact, that the cost of adaptation or later adaptation of state enterprises pays someone indefinite - government or taxpayers.

The authors of conception of economic transformations were aware of such pitfalls, so they prepared right from the beginning, as an important part of the reform, also wide utilisation of non-standard privatisation methods, so-called voucher method. Its major benefit is a possibility of fast privatisation without need of enormous amount of financial funds, as well as the possibility of mass privatisation for all citizens, who are interested. Experience taught us that the fast and large-scale privatisation is not only a must for fast adaptation of microeconomic subjects, but also the precondition of successful and reasonable restructuralization.

Preparations and launch of large privatisation took more time than was expected at the beginning, chiefly because of tremendous work need to be done in registration of property before privatisation, in the concrete during the verifications of way of acquisition of property by government. Disorder in property registration inherited from communist times was the main reason of such problems. Nevertheless, the large privatisation was launched at last from the beginning of 1992, more concrete the sales of property by standard methods from 1992 spring and the voucher privatisation launched after initial registration of citizens and investment funds during the end of 1991 and beginning of 1992. Voucher privatisation was launched on May 1992 and on principle finished until the end of 1992. Thanks of that almost 30 per cent of all potentially privatisable property in Slovakia was privatised until the end of 1992.

According such point-blank and peremptory proceeding in economic transformation in 1990-1992 some signs of progression of adaptation and birth of economic revival could be recorded as soon as during the year of 1992. Those signs were particularly reduction of unemployment during 1992 (from 12,3% to 10,4%), revival of construction (increase on 10%) and decrease of economic diminution in the individual quarters of 1992.

On the other hand the year of 1992 meant also a essential discontinuity from the point of view of institutional area, in which economic transformation was realised. The results of June 1992 elections intruded splitting of former Czechoslovakia into two individual countries - a Czech Republic and a Slovak Republic - in 1.1.1993. Main reason of this split was the fundamentally different elections results in those two countries, in particular divergent views of election winners in CR and SR in the sphere of polity-juridical settlement of relations between SR and CR and in the sphere of procedure in economic transformation. Even if the split was initiated without preceding referendum and as a result of covenant between winning political powers in CR and SR, from the time distance it appears that the fast split was inevitable and expedient, because farther coexistence along with the existing distribution of political powers determined by elections would only prolong an agony of joint country with all ensuing negative political and especially economic consequences.

The question of continuing or revision of by than in whole Czechoslovakia implemented conception of economic transformation, arising after 1992 elections, became very interesting and actual. The election winner *Hnutie za demokratické Slovensko (HZDS)* (in translation: „The Movement for Democratic Slovakia) represented from April, 1991, when it separated

itself from *Verejnos proti násiliu (VPN)* („The public against violence“), the most powerful opposition party. From its establishment up to the elections held in 1992, *HZDS* sharply and fundamentally deplored the transformation conception, or, to be more concrete, all above named reform priorities, included in a conception schedule. Perhaps most piercingly criticised was the restrictive monetary and budgetary policy, but also the privatisation, especially voucher one, and the internal convertibility, especially its inevitably ensuing currency devaluation to the equilibrium level. Whole conception of by-then being performed transformation has been deplored as a model, created in the Czech environment, and while good for Czech Republic, it is not appropriate to the Slovak conditions. Major argument was the bad situation in Slovakia, interpreted as an adverse impact of the common reform model, and not as a consequence of economy disrupted by communism. An argument was about higher economic decline in Slovakia than in the Czech Republic, the higher (up to 2-3 times) unemployment, the lower foreign capital inflow than in CR, and e.t.c.

High uncertainty in forecasting and evaluation of SR economic development after 1992 elections lied in a fact, that despite of demolishing criticism of the realised reform steps, the winning government proposed a reasonable and complete alternative neither before, nor after 1992 elections. So, the indeterminacy of future development was considerable and it could theoretically fluctuate within very wide boundaries defined by two extreme scenarios. Theoretically was possible, that the government will continue in former Czechoslovak radical reform, despite its disapproval, expressed in pre-election rhetoric. At the other extreme it could hold on its pre-election rhetoric and revise former conception fundamentally in its all major areas. In latter case it would mean for instance emerging regulation at least part of the prices, expansive monetary and budgetary policy, limiting or abolishing of internal convertibility, limiting the foreign trade liberalisation and stopping the privatisation.

In reality, the development after Jun 1992 ran somewhere in between of those extremes. After Jun 1992 and after 1.1.1993 (the founding of independent Slovak Republic) the former reform strategy was fundamentally continued in all major areas, exempt privatisation. In price liberalisation no substantial change occurred until 1995, moreover, the liberalisation range, when compared with the state approved to 1.1.1991, slightly widened. In spite of that some announcement of politicians considering administrative regulation of certain prices, especially of basic food, leaked to public. It seemed that in that times it was mostly the political propaganda to quieten public feeling not comfortable with the development of living standards and real income, than the intention of price regulation.

In the budgetary and monetary policy after 1992 a restrictive policy, even severing of restriction continued. In absolute terms 1993 state budget deficit was higher than in 1992, which could be normally attributed to the less restrictive of budgetary policy, but that phenomenon is necessary to judge not only by mechanical comparison of budget deficit levels, but more in the relationship with the level of costs and revenues restriction in 1993 against 1992.

Declining inflation (23,2% in 1993 and 13,4% in 1994) as well as relatively low state budget deficit and its decreasing share on GDP (6,7% in 1993 and 5,7% in 1994) is predicated on reasonable monetary and budgetary policy in 1993 - 1994.

The internal exchangeability was preserved too, even if some temporary provisions for solving actual problems of balances of trade and payment were approved (compulsory postponement of payment for imports, import surcharge, certificates on import of food-stuff from Czech Republic).

The most important drift away from original transformation strategy occurred in privatisation. 1993 was the year of its almost complete cessation (it has been privatised about 1,29% of privatisable property). At the beginning of 1994 V. Mečiar accelerated privatisation, mainly through direct sales methods benefiting people in favour of government coalition. It was also one of the reasons of Vladimír Mečiar's government repeal in March 1994 and its replacement by government of wide-range coalition previously functioning in opposition, with the head of J. Moravčík.

Government of Moravčík abolished some privatisation determinations of Mečiar government, which were in conflict in laws. Its main goal in privatisation was the preparation of second wave of voucher privatisation. However Moravčík government's mandate was limited in time, because parliament decided on early parliament elections at the crossing of September and October of 1994. In September 1994 it launched therefore registration of public into a second wave. 3,4 mil. of people, which is almost all adult citizens, were registered.

Conclusion

To the conclusion, in 1991-1994 the transformation conception launched in former CSFR was in principle followed, despite of the fact, that during that period not only Czechoslovakia was split, but also four governments were changed (first Mečiar's government, Āarnogurský's government, second Mečiar's government and Moravčík's government). From a point of view of basic conception course we could conclude that all those governments in principle respected system priorities agreed in 1990. In other words, despite of governmental discontinuity, at least in essential questions of reform direction, the content continuity was followed.

II. Development during present government of V Mečiar (from December 1994)

After elections in autumn of 1994 the period of governing coalition forming followed. More than at governmental level this coalition was created at the level of parliament. It was done a month after elections, at the beginning of November 1994.

At night from 3rd to 4th November 1994 the new parliament majority (*HZDS*, *ZRS* (in translation: „the Association of Slovak Workers“) and *SNS* („Slovak National Party“) completely grasped public media and privatisation. Because at that time it was not clear, whether and which way *HZDS* enters into government, the privatisation was controlled through taking power over National Property Fund (NPF) and through transfer of competencies of executing privatisation decisions from the government to the NPF. All previous members of top-executive bodies were called out and replaced by new ones, all loyal to new coalition parties.

The government of *HZDS*, *SNS* and *ZRS* was named in the half of December 1994 and its first action was a decision of cancelling first for-round of second wave of voucher privatisation.

II.1. Government Program Declaration - in principle continuity

Present government enunciated in its program declaration the intent of "to continue in establishment of social - market - democratic area, compatible with the world developed democracies". As its strategic objective, government defined to "lay foundations for achievement of comparable level of economic efficiency and living standards with developed European countries in the change of millennium - not later than by 2010. It would enable full integration of Slovakia into European structures. In accordance with that government considers its priority the acceleration of transformation process proceeding" (Source: Government Program Declaration /12/)

Concrete aims of Program Declaration are in principle compatible with the overall declared goals, in other words, the Program Declaration is not the promulgation of change in by-than realisation of conception of transformation. Only there are three exemptions: first exemption is an intention of transfer from a restrictive finance policy to expansion one. Second contradiction is the promulgation of active sectorised approach in the area of industrial policy (support of sectors and branches selected by government) and the third one is in an area of privatisation.

In privatisation we could talk about the promulgation and benefiting of domestic applicants. Government bound itself to "create such ownership structures, in which substantial share will have domestic businessmen and the employees of privatised companies." Such an approach was argued by "establishment of firm core of participation economy". Another discontinuous steps, promulgated in Government Program Declaration was an intention of "ensuring of state concerns in privatisation of strategically important enterprises, especially in "energetic, gas, telecommunications, in water management, military production and banking".

In particular we can say that beyond some exemptions, the Government Program Declaration was based particularly on continuity of previous transformation course, even though it included some features of promulgated clientelism and etatism.

II.2. Description of flourishing clientelism and etatism

II.2.1 Privatisation

Privatisation is a dominant area of economic transformation of third Mečiar's government (from December 1994). It is dominant in many spheres. Domestic and foreign analysts and observers, they both agree, that the privatisation concerns is a main bond, which holds together ideologically so different political powers as ideologically amorphous, populist and on the charismatic leader based *HZDS*, non-Bolshevik and extremely left-oriented *ZRS* („Association of Slovak Workers“) and nationalistic and extremely right-oriented *SNS* („Slovak National Party“). It could be paraphrased that it is more a relation of collusion than relation of co-operation.

Other reason why privatisation is so important is based on its scale and pace and at the same time in specificity given by almost absolute obscurity and uncontrollability. Those characteristics than shape the type of economic system forming in Slovakia. The reason is especially a fact, that particularly in the process of privatisation we witness such relevant actuality and practices, which induce systematic erosion of some basic system values, on which the functioning of market economy rests. The values are distinctly the equality of chances, *laissez-faire*, separation of political and economic powers, equality in law, respecting of constitution and laws. Importance of privatisation lies in a matter of fact, that if such practices of considerable principles disobeying would spread by way of privatisation, they would not necessarily disappear at the end of privatisation. It could be proven by present experience in Slovakia. Practices of clientelism are being used by influential business subjects also outside privatisation with a thread of remaining in future as well. For simplification we could say, that the main reason of that is following: those who profit from clientelism want to profit later too; firstly, it is lucrative and secondly, they are unable to make business in other way, under conditions of *laissez-faire*, because they never made business under such conditions.

From the reasons above we would pay closer attention to analyse process of privatisation and its influence on shaping of Slovak economy system characteristics. At first, we will produce a brief recapitulation of major events in the process of privatisation during 1994-1997. Later, we will give examples of some most important and concrete cases. For those interested in more detailed analysis and more complex survey of privatisation causes we recommend Marcinčín /3/, Mikloš /5,6,7/.

Most substantial mark of privatisation during third Mečiar's government (from December 1994) is the gradual full enforcement of managerial lobby influence and the reorganisation of overall privatisation process at the benefit of those groups. Those groups are primarily old management cadres from socialistic era, opposing from the beginning both voucher privatisation and the participation of foreign subjects on it, because namely those privatisation methods where jeopardising their chances of gaining privatised companies into their property. So-called "old structures", in past they were to the great extend in direct

connection with an old communist regime, because in former CSSR reigned severe and rigid communist rule, according of which an inevitable condition for any managerial position was the membership in Communist Party nomenclature. Now those people are organised in the Organisation of Employees Unions and Associations (OEUA), and, meantime, most of the former managers of large industrial enterprises became also its owners. OEUA openly promoted all government steps in the area of voucher privatisation abolishment and preferring of "domestic applicants" (see OEUA Declarations from 14.04.1995 and 20.06.1995 - *Pravda*, 12.04.1995, *Slovenská republika* 21.06.1995). OEUA president Michal Ľach directly confirmed the OEUA influence on privatisation changes, when he announced that "a privatisation philosophy, assumed by government, was by the particular way formulated jointly." (*Slovenská Republika* 21.06.1995). Apposite evidence of the influence of that groups is a truth, that during the existence of independent Slovak Republic breathed three governments, in which six ministers of economy were exchanged, all of them were representatives of above discussed industrial lobby in high positions.

Exactly those "old structures" supported V. Mečiar already since 1991, when he was in opposition, and when then government of J. Ľarnogorský promoted two things denied by those structures. Those two things were: in privatisation - utilisation of voucher method and the equal conditions for domestic and foreign investors; and in political area - the so-called "Lustračný" Act¹

Because as early as from 1991 Mečiar's philosophy was both against voucher privatisation and against participation of foreign investors, and at the same time against „Lustračný“ Act, it became natural, that he gain allies among old structures. Economic power of those people and the resulting possibility of real financial support of selected political subjects was increasing constantly over time, especially because of so-called spontaneous privatisation.

In the Mečiar's government Program Declaration the showing of interests of those groups in privatisation was carefully considered, especially in the thesis of need for benefiting of domestic applicants with the aim of establishing of domestic capital class, as well as in reference to purposeful permitting of foreign applicants to the process of privatisation. At the same time, however, the Program Declaration included the commitment of starting of second wave of voucher privatisation (which preparation phase launched the previous government of Moravčík), and „with no useless delay“.

But what was the reality? Purposeful participation of foreign investors became almost no participation (from 367 decisions in 1995 only 5 were in favour of foreign applicants, in 1996 from more than 400 decisions only 2 of them went to foreign investors). The voucher privatisation was abandoned and the only privatisation method became absolutely opaque and uncontrollable direct sales, by means of which the most lucrative property is being sold to the persons which are close or identical with the peak of government coalition - for symbolic price.

The motif of voucher privatisation cancellation was mostly a reluctance of managerial lobby to sacrifice any size of property to the method, over which they have no direct control. At the same time both V. Mečiar and the old structures were afraid of the potential influence of so-

¹ the No 451/1991 Zb. Act about the provisions of some other conditions for execution of some functions in government bodies and organisations of CSFR, Czech Republic and Slovak Republic. This Act explicitly states, which Communist Party officials, members and co-operators of a secret state police and graduates of Moscow police schools have forbidden to work in some state organisation and institutions for a period of 5 years. Applied to managerial structures was especially fact, that former Czechoslovak Communist Party officials may according this Act not execute managerial functions in state companies, state joint stock companies, foreign trade companies, state funds and state financial organisations.

called „new structures“, which were connected with voucher privatisation, and which could gain in case of second wave of voucher privatisation more strength. These are primarily the investment funds and investment corporations and broker firms - the subjects connected with capital market. The term „new structures“ we use also in relationship with personal occupation (they are mostly young people and people not marked with collaboration with old regime), as well as in relationship with new activities associated with the functioning of a capital market, not present during communism. First wave of voucher privatisation and following trade in a capital market brought to the most successful investment corporations, funds and broker firms a substantial profits and the increase of their independence and economic influence. Exactly the reason of possible further influence of those corporations, which Meèiar was not able to control, led him to the conspiracy with old structures in order to fight against new structures.

In his fight, V. Meèiar did not stop in cancelling second wave of voucher privatisation. He went further to limit the influence, which investment funds and corporation already had. During September 1995 the restrictive Investment Corporations and Investment Funds Act Amendment was approved with the main goal of wide reducing of influence and power of this subjects (for more details see Mikloš /7/, page 96). Basically it meant the degradation of investment funds and corporations to the function of portfolio shareholder, and, at the same time, not even minimal protection of minority shareholder rights exists, so the effective and reasonable functioning of portfolio investors is hampered. The president of Investment Funds and Investment Corporations Association R. Ťachkoviè to the interest background of amendment announced, that it means the red light for voucher privatisation, investment funds, and finally also for capital market. In the background of such attacks, R. Ťachkoviè sees mostly the companies managers, and also from that companies, privatised in the first wave of voucher privatisation, who did not like a fact, that particularly the large investments funds were their strategic owners, so they defined the rhythm in those companies and affected for decades unchanged and uncontrollable structures regulating among other things the financial flows between companies too. (*Slovenský profit*, 28/1995)

The result of changes is present reality, when the most of investment corporations tries to escape from destroying Act via transformation of funds to joined stock companies. Based on plenary assembly decisions the registration courts realise such transformation, but Ministry of Finance claims, that the transformations are illegal.

During 1995-1997 Slovak privatisation took a course of demonstrative promotion of small groups and even increasing pace of participation of political elite on the privatisation process. It could be documented with several open expressions of top NPF and coalition parties representatives, avowing that facts more openly or less openly. From all we could mention the expression of former Minister of Economy and now the adviser of Prime Minister Ján Ducký, that it is a natural thing, because „each government in the world gives to those, who co-operate with it“ (*Trend* 40/1996), or the expression of NPF Presidium Chairman and ZRS vice-chairman Štefan Gavorník, that among real new owners there were also politicians of high rank and that he new about them, but did not tell, and that if he decided to write memories, he would be dead even before finishing the first chapter (*Pravda*, 29.1.1997). Honorary chairman of coalition SNS and, by means of his wife the active privatiser too, Víazoslav Mòric expressed himself even more clearly, when he published, that „the fair privatisation does not exist, we al know, that the only criterion is a loyalty“. And, to eliminate any doubts, he emphasised: „The winner takes everything“. (*SME*, 1.2.1997).

II.2.1.1. The case of PSIS

Besides of above described wide liquidation of investment funds some other addressed attacks occurred too. The Ministry of Finance deprived of license one of the largest and most successful investment corporation, *Prvá Slovenská Investičná Spoločnosť (PSIS)*, in 1995. This corporation was the best in an area of open share funds management, where it managed the largest one - *Sporofond*, where the resources of more than 2 bil. SKK (67 mil. USD) were deposited by more than 40 000 subjects. At the same time, *PSIS* would become the most successful investment corporation in a second wave of voucher privatisation, because during the pre-round on Autumn 1994 an incomparable highest number of investment vouchers owners (up to 800 000 from 3,4 million) were bound by agreement to invest through funds, created by this corporation.

By the end of 1995 Supreme Court labelled the deprivation as illegal and nullified it. But in spite of that, Ministry of Finance refused to release the property of *PSIS*, and at the beginning of next year it sent to *PSIS* new inspection and took off the license again.

The importance of *PSIS* case lies in a fact, that it is a precedent of not respecting of inviolability of private property by the decision of government body with the evidently political context (for more information about the *PSIS* case see Mikloš /7/, page 97-98). The political context could be proved besides the above mentioned efforts of new structures influence elimination also the fact, that *PSIS* was among other things also a publisher of most effectual opposition daily - *SME*.

II.2.1.2 The sales of NPF capital shares

The Slovak MP for DÚ Viliam Vaškovič warned in parliament soil, that National Property Fund (NPF) in increasing level makes sales of shares through the capital market by way, which is not in accordance with Large Privatisation Act and by which both NPF and the government losses hundreds of millions of SKK.

According the Act, sales of shares on the capital market should be realised via auctions, as they were realised in 1994. Major axiom of such method was, that all potential buyers were informed on time. The information included where and how they can apply for shares, so the real auction market price could be generated. Nevertheless, from 1995 this process runs by different way: the information about the time, volume and price possess only one applicant, which expresses purchasing offer immediately after the initial sale offer of NPF. So, even if the process would run through *RMS* (the provider of market with non-blue chip stock and bonds), in reality it is a direct sale, in which shares are being sold for symbolic prices - far under the real market prices, generated by normal auction method. V. Vaškovič proclaimed: „A real suspicion exists, that through the sales of shares with the previously given buyer on a *RMS* counter (*RMS*, the note of I.M.) prices of those joined stock companies are being artificially lowered“ He stated, that by this way more than 151 companies were sold, „it sold the property of 1,044,631 shares amount of 1,044,631,000 SKK, for 108 mil. SKK, which means, for about 10% of nominal price“ (*SME*, 30.3.1996). V. Vaškovič declared, that it passed to NPF Presidium chairman Š. Gavorník the stimulus for revision of those data, but he did not get any answer within a determined time period. He publicised his decision of forwarding this case to the court. (*SME*, 6.4.1996)

As an example of such sale we can give the sale of decisive share package of *Turčianske Papierné, a.s.* to the Slovak *Hanco, s.r.o.* for 352 SKK per share. *Hanco, s.r.o.* sold

immediately all package to the Austrian investor for 1000 SKK per share, so the margin (net profit for *Hanco, s.r.o.* and the net loss for NPF) was more than 34 mil. SKK. (*Národná Obroda* 23.2.1996)

II.2.1.3. The case of Nafta Gbely

Nafta Gbely, a.s., is one of the most flourishing company in SR. In 1995 its profit before taxes climbed to 1,075 mil. SKK (35,8 mil. USD). By means of profit per turnover in 1995, *Nafta Gbely* was the fourth most profitable company in Slovak Republic. Its shares were the most lucrative in the Slovak capital market and during the end of July, 1996 its market price were fluctuating from 2236 SKK per share to 2360 SKK per share (while its nominal price is 1000 SKK per share). At the same time it is a company, classified as „strategic“ by Strategic Companies Act from September 1995. 54,1% of its shares were privatised in the first wave of voucher privatisation.

1.8.1996 NPF SR decided on the direct sale of remaining 45,9% of *Nafta Gbely* shares to the unknown company *Druhá obchodná a.s.* for 500 mil. SKK, while the first payment was 150 mil. SKK within 30 days and the rest, according payment calendar, was scheduled within the 10 years. At the same time it is possible to invest a part of the latter payments to the company - in that case the investment is deducted from payments. However, *Nafta Gbely* generates more than 1 billion of SKK profits annually, so it is obvious, that the new owner will comfortably repay its liabilities from dividends, which he would gain as a new owner. Again, it is an example of „automatic cash-cow“ privatisation (e.g. see the model of *Slovnaft, a.s.* privatisation, Mikloš /7/, page 100).

Many domestic and foreign investors applied for participating on *Nafta Gbely* privatisation, among them, for instance, *Ruhrgas, OMV, Gas de France*. The NPF Presidium president and ZRS vice-chairman Štefan Gavorník announced, that the decisive factors were price, domestic applicant and his credibility (*Národná obroda*, 8.8.1996)

The sales price was 500 mil. SKK, while according actual price in the capital market (2200 SKK per share) it would reach 3,2 billion of SKK (based on 45,9% of all shares). The real market price would be even higher, because it is a controlling package of lucrative company (other 54,1% of shares sold under voucher privatisation is scattered). Almost all domestic and foreign investors offered much higher price, than the winner. We could conclude, that the direct loss ensuing from that sale amounted approximately to 3 billion of SKK.

To the „credibility“ and „domestic character“ of new owner we can add this: as was revealed by media, the residence of *Druhá Obchodná a.s.* was found in an abandoned and dilapidated family house. At the plenary sessions it is represented by deputies and the statutory representatives of *Druhá Obchodná a.s.* are local businessmen. The Stock and Bonds Act Amendment, enforced by coalition MP's at the end of a year is closely related to *Nafta Gbely* privatisation and to other privatisation causes. The mentioned Act annihilated the obligatory dematerialization of securities introduced in 1995, so it established the paper form without liability of recording data of owners again. For the second time the uncontrollable institute of shares on delivery emerged - exactly this characteristics have shares of *Druhá Obchodná, a.s.* In other words, it is impossible to find out, who is a real owner of for symbolic price privatised controlling package of *Nafta Gbely* shares.

As a result of this privatisation, information, that real owners could be the top representatives, namely Parliament chairman Gašparoviè, Parliament vice-chairman Húska, government vice-chairman Kozlík and former closest co-operator of Meèiar - Anna Nagyová - could be find in

press several times. Those people deny their participation in privatisation, but at the same time statutory representatives of *Druhá Obchodná* a.s. admit, that they are not real owners of this company and they refuse to give information about real ownership referring to „business secret“. This secret is ensured by the shares on delivery, which were enabled by recent voting of coalition MP's. There exist many other indirect evidence and indications about the interests of top representatives of HZDS in this transaction.

Recently abdicated for-a-long-time spokesman of Parliament chairman Gašparoviè told to a journalist of *PLUS 7 DNÍ* in front of witnesses, that during the time, when the parliament was deciding on abdication of MP Gaulieder², he was trying to resolve for a long time, whether to abdicate or not. Then, according Jurík, he had a telephone call, which persuaded him to not abdicate. In front of witnesses, former spokesman to the motive of such persuasion said: „And are you surprised, when the deal is 3,2 billion?“ (*Plus 7 Dní*, 8/97, page 16)

Media announced too, that shares of *Nafta Gbely* already changed the owner - they were sold to Russian gas giant *GAZPROM*. It is known, that *GAZPROM* showed purchasing interests, especially because of underground storage space, which has a strategic importance for large exporters of gas. As a result of its efforts of maintaining the positions in gas exports against expanding corporations from West Europe, *GAZPROM* recently activates itself substantially in markets of Central Europe. For example it is known the dumping offer of *GAZPROM* for gas supply into Czech Republic, in order to prevent Czech diversification of gas imports to Norway and possible other European suppliers.

Druhá Obchodná representatives denied the sales of a shares package to *GAZPROM*.

II.2.1.4. Grain and mills

The price of grain in Slovakia is a subject of regulation and it is presently lower than world prices. For producers, the difference is compensated by state subsidies. Therefore, it is evident, that the export has to be, and so it is, controlled by export licenses and limits. In 1996 it was revealed, that ministries of economy and agriculture allowed export exceeding the level of mentioned limits, by means of which exporting firms gained substantial profits, generated from the difference between world export price and purchasing domestic subsidised price. About the level of initially defined limits were the issued permissions for export of 199,2 thousand tons of grain not conforming the regulations. In some of the mentioned firms are directly engaged the members of those ministries and some coalition parties (*HZDS*, *Roľnícka Strana Slovenska*) of high rank (e.g. the wife of Ministry of Agriculture State Secretary). (for more details see e.g. *Nový Èas* 2.10.1996, *Trend* 2.10.1996, *Národná Obroda* 3.10.1996).

Export over the agreed limits was one of the reason of grain shortage at the domestic market. On April 1996 grain stock was exhausted both in basic producers, as well as in Market Regulation State Fund. In this case the supplies of State Material Reserves was being sold and a situation occurred, when the mills of *Považské Mlyny Pieš any*, that owns the father of Ivan Lexa, the second man of *HZDS* and the director of a secret police SIS, got 50 thousand tons of grain, while all other Slovak mills got in total 30 thousand tons of grain. The price, under which the grain was sold by State Material Reserves, was 3600 SKK per ton, while the market price fluctuated around 5000 and more SKK per ton. The effect of unequal distribution of grain was that while *Považské Mlyny Pieš any a.s.* has in June excess of grain

² former coalition MP, who was after leaving of HZDS MP Club involuntary deprived of his mandate by voting of coalition majority

for three months, other mills had to be shut down for days and even for weeks. Similar method of "regulation" of sales from State Material Reserves was applied in the case of rye, where from 18 thousand of tons 15 thousand of tons got *Považské Mlyny*, while all other mills got in total 3 thousand tons of rye. (for more details see *Hospodárske Noviny*, 12.6.1996 and *Domino*, 23/1996)

II.2.1.5 VSŽ

With annual sales of SKK 49.8 billion (USD 1.66 billion) and a gross profit of SKK 5.26 billion (USD 175.3 million), the East Slovakia Steel Company (*VSŽ*) Košice was ranked by *TREND Top 100* as Slovakia's number one in 1995. The strength and importance of the company is also demonstrated by the fact that in 1995 *VSŽ* accounted for 11.6% of Slovakia's exports. *VSŽ* is a wholly private company with majority stakes in the hands of top managers. Key positions among shareholders are occupied by Alexander Rezeš, minister of post and telecommunications in the Mečiar Cabinet since December 1994, and by the current *VSŽ* president, Ján Smerek. Alexander Rezeš's 26 years old son, Július Rezeš, is a *VSŽ* vice-president.

These shareholders largely acquired their majority stakes as a result of preferential treatment by the NPF selling them shares during the second and third (current) Mečiar governments (1994 and 1995). In both instances the prices at which they bought shares were about half of the capital market price at the time.

VSŽ controls several minor banks, e.g. *Priemysel'ná banka Košice*, *Dopravná banka*, *Poštová banka*. Interestingly enough, majority stakes in the latter two banks were acquired at the expense of state-owned enterprises operating under the auspices of the minister for transport, post and telecommunications, Mr Rezeš. *VSŽ* has a significant holding in *Slovenská poisťovňa*, formerly a monopolist state insurance company. Significantly, *Slovenská poisťovňa* retains a monopolistic position on the Slovak insurance market (78% in 1995) and at the same time acts as a major shareholder in several medium-sized banks (*Istrobanka*, *Poľanobanka*). In 1996 *VSŽ* also bought 20% shares in *Tøinecké železiarne* [steel company] in the Czech Republic and paid SKK 1 billion (USD 33 million) for the purchase of indebted Czech soccer club *Sparta Praha*.

In 1996 *VSŽ* gained control over *Investičná a rozvojová banka (IRB)*, one of Slovakia's three largest banks. *VSŽ* and associated companies are estimated to control over 40% shares in this bank.

Under the Slovak Banking Act, a company or several companies acting in unison to attain a greater than 15% share in a bank need *NBS* consent. In a decision taken on October 2, 1996 the National Bank of Slovakia declined to grant its consent to the take-over bid and required that *VSŽ* reduce their stake to below 15%. This step by the *NBS* was also praised by the International Monetary Fund mission in October 1996, which "welcomed the [*NBS*] decision to prevent an industrial company from taking over one of the largest banks of which it is a principal borrower."

The *VSŽ* president responded by saying that "even without *NBS* blessing, *VSŽ* has other options of attaining its goal." Criticisms from several political parties, which described this statement as a public attempt to bend the law, were dismissed by Smerek, who accused the critics of "disliking *VSŽ* and, apparently, disliking Slovakia's development."

On Wednesday, January 22, 1997 the *IRB* Supervisory Board dismissed five out of six members of the *IRB* Board of Directors, including president Jozef Tkáč. Voting in favour of

this dismissal were representatives of companies directly or indirectly associated with VSŽ. The vacancies were filled by persons close to VSŽ owners, most of them inexperienced in bank management. The new IRB president, Vojtech Vranay is a relative of Alexander Rezeš. Observers explain this open take-over of IRB by the unwillingness on the part of the former management to finance the investment expansion of VSŽ. There are, however, more than enough reasons for prudent behaviour as IRB has been carrying a heavy burden of old loans, especially those granted to the energy sector, which is an issue it will not be able to address without government guarantees.

The concentration of economic and political power in the hands of Rezeš & Co. has been clearly illustrated by the most recent developments. For more than a year Alexander Rezeš has been indicating that he was about to resign as minister of transport and telecommunications citing his poor health as the reason (he underwent serious heart surgery). In January 1997 he said that his resignation was being delayed because he was unable to agree with prime minister Mečiar about his successor. He announced publicly at a press conference that he was sure that a successor would be a person close to him. The situation in which an outgoing minister seems to have a say greater than that of the prime minister in who his successor will be is, to put it mildly, unconventional. Such an unconventionally high influence of the economic eagles confessed also Vladimír Mečiar, when he announced in his appearance in broadcast from 7.2.1997, that if the politics would not respect the interests of economic sector, "the economic sector would always enforce its interests". About those not respecting this principle, he said, that they could appear in the position of "puppets". (*Slovenská Republika*, 8,2,1997)

On January 29 the daily *SME* reported that in December 1996 minister Rezeš endorsed a 13.5% reduction of transport tariffs *Železnice SR š.p.* [Slovak State Railways] charge VSŽ *Košice* (a different source even reported a 20% cut). This would enable VSŽ to save SKK 850 million (1.5 billion) annually. *Železnice SR* have long been loss-making and their loss, to be paid for by taxpayers through the state budget, will be augmented by the amount saved by VSŽ. According the approved state budget of 1997 the worth of such present from the state budget is 597,4 mil. SKK (about 20 mil. USD)

Another way of profiteering by VSŽ owners using their political clout can be observed in the fact that the state budget is paying the costs of an SKK 597.4 million loan to build an iron ore processing factory in Krivoi Roh in Ukraine. Significantly, the government has a zero stake in the Ukrainian venture and the holding arising from the investment loan is fully in the hands of a private VSŽ.

The private TV channel *Markíza* reported on January 29, 1997 two more instances of VSŽ "unconventional" influences and business ways. One report was about alleged plans to privatise the most lucrative part of *Slovenská plavba dunajská*, a shipping company operating under the Rezeš ministry and on the official list of strategic enterprises, for the benefit of VSŽ. The other report said that foremen and top managers at VSŽ were urged to join *HZDS* (Mečiar's governing party whose nominees in the Cabinet include, among others, Rezeš) and that this "recruitment" exercise was organised on site, i.e. within VSŽ.

The detailed and well-informed article in German daily *Frankfurter Allgemeine Zeitung (FAZ)* brought information on the topic of Slovak privatisation and Rezeš influence. It states besides others, that "through the minister Rezeš VSŽ act in enforcing its interests in privatisation of financial institutions not in role of the beggar, but in the role of someone, accustomed to fulfilment of its requests" The article comments also one of the latest declaration, in which Rezeš stated on TV that "at the present time is Mečiar irreplaceable ",

while *FAZ* says, that "attentive viewers apparently noticed an emphasis, given by Rezeš on the words "at the present time".

II.2.1.6 Devín banka

Initially established by production co-operatives and unions during 1993-1994, the *Devín banka* bank became famous for its problematic management and also in Slovak terms incommensurate growth of classified loans. At the beginning of 1995 Russian stakeholders entered to this bank and now they possess determining power. From that times we evidence increasing its increasing influence towards the government. With new stakeholders arrived new CEO, Karol Martinka, too. His closest work fellow moved to the Ministry of Finance to considerable position of State Secretary and the wife of Martinka gradually became a closest co-operator of Vladimír Mečiar, replacing Anna Nagyová, feared and all-mighty right hand of Mečiar. Anna Nagyová left Mečiar in the middle of 1996.

Devín banka to a large extent agitated a public in relationship of its government assignment to extort Slovak receivables from Russia. In form of goods, the bank mediated an import of eight *MIG 29* air-fighters priced for about 6 bill. SKK (200 mil. USD) and for this service it obtained from government budget a provision of around 296 mil. SKK (c. 10 mil. USD). As an answer on interpellation of MP Smognerová, the finance minister reacted wit explanation, that the provision was adequate to the price, settled by *Devín banka* (according him, government budget saved 3,35 mil. USD on each of 8 *MIG 29*). According to *Nový èas*, Schmognerová promulgated, that "the unofficial whispers, that *Devín banka* serves as a centre of former Russian secret police in Slovakia, are being to appear in another light" (*Nový èas*, 7.11.1996)

KDH chairman J. Èarnogurský publicised, that the Ministry of Defence State Secretary affirmed to him, that no provision was paid for settlement. (*SME*, 10.3.1997)

Devín banka is involved in privatisation of the most lucrative and most famous Slovak baths *Slovenské lieèebné kúpe³4e a.s. Pieš any (SLK)*. NPF arbitrated on 23.3.1996 the sale of 51% of shares of *SLK* to the *SLK* employee joined stock company *Spoloènos zamestnancov pieš anských kúpe³4ov (SZPK)*. The purchased price was 302 mil. SKK, with the nominal value of 1,6 bil. SKK and the generally accepted view, that the real market price is higher than nominal. *SZPK* was established and controlled by four members of top management and FNM decided to their benefit despite of the fact, that a city of *Pieš any* offered much higher sum and the Highest Control Bureau (HCB) charged *SZPK* with several law violation during its establishment. (*Pravda*, 3.6.1996)

At the end of January, 1997, 51% of *SLK Pieš any* was transferred from *SZPK* to the corporation *Vadium Group, a.s. Bratislava*, which founder is Karol Martinka, CEO of *Devín banka*. One of the four co-founders of *SZPK* and the chairman of unions Tibor Krajèoviè in daily *Pravda* proclaimed, that he was shocked by the transfer and that he was informed from the chairman of *SZPK* Board of Directors, that the shares were transferred "according some appendix to the purchasing contract between NPF and *SZPK*, about which existence I knew anything". The *SLK Pieš any* employee team wrote a letter to the Slovak constitutional executives with a warning, that the new owners want to the end of 1997 "to sell majority of baths shares to its Russian partner". (*Pravda*, 5.2.1997)

23.1.1997 government decided on establishing of air transporter, which will be *Slovenské aerolýnie, a.s.*. Its stake distribution will be:

- *Devín Group s.r.o* (daughter company of *Devín banka*): 33,5% of shares
- *a.s. Willi* (the corporation with Russian capital): 28,9% of shares
- unspecified distinguished Slovak subjects: 34,2%
- *OKB Jakovlev*: 3,2%

The project is based on principles, that *Devín group* will be assigned by government with settle Slovak receivables in Russia by means of civil planes, utilised by Slovak national transporter *Slovenské areolýnie a.s.*) for its business. It is remarkable in its transaction, that the government debt will be settled by private subject with majority of stake in Russia and, moreover, the subject of settlement (state property) will be used after the settlement in private company with Russian majority stake. (*SME*, 17.1.1997, *Hospodárske noviny*, 24.1.1997)

Igor Cibula, former boss of Slovak secret service agency in 1993-1995, in broadcasting *Slobodná Európa* from 3.3.1997 said, that „*Devín banka* is not the ordinary banking institution. Through this bank Russian influence is being imposed in our country. I would like to highlight, that this bank is closely linked directly to the prime minister Vladimír Mečiar, and not only via Mrs. Martinková, who replaced the position of Mrs. Nagyová. Mr. Mečiar has contact with the chairman of Boar of Directors of that bank - Mr. Gorotkov. On the subject of this bank, Mr. Mečiar intervened via Russian ambassador Mr. Zotov. I dare to conclude, that by its way *Devín banka* functions as Trojan horse of Russian interests in Slovakia.“ (*SME*, 5.3.1997).

II.2.1.7. Privatisation process control

Privatisation is being run absolutely with no control. The opposition parties do not have its delegates in NPF bodies. The highest controlling bureau does not have rights to control NPF (because according law it is not a state administration body), there are no press conferences organised in NPF, and also the other forms of public informing about NPF are extremely unsatisfactory. The information concerning the corruption and obscurity of privatisation leak out to public only through independent and opposition dailies with quantitatively limited number of readers. Via TV, especially the so called „public-legal“ TV under full control from government, which public influence is incomparable higher, the citizens will know absolutely nothing about the privatisation causes (e.g. those evaluated above). That is also one of the reasons of insufficient public opinion pressure, and, hence, one of the reasons, enabling misuse the government power in the area of privatisation without thread of loosing of political support from the major part of uninformed or intentionally misinformed public.

II.2.2. Revitalisation

In February 1997 the Slovak Cabinet approved an enterprise revitalisation bill and the plan is to submit the bill to the next session of parliament. The stated objective is to deal with the issue of extensive insolvency, which Prime Minister Mečiar a vice premier Kozlík estimated at about SKK 70 billion. Recent market analyses suggested that the insolvency issue is indeed very serious, with 50% of sampled enterprises affected by what is know as secondary insolvency and about 5% in the grips of primary insolvency.

The problem was primarily caused by the absence of an effective bankruptcy system, by a lack of prudential behavior, especially on the part of state-owned enterprises, and is a result of debtors enjoying an accounting and legislative status that is superior to that of

lenders. Instead of dealing with the root causes of the problem, the Cabinet is intending to implement a system that will be just another instrument of providing preferential treatment to a narrow group of like-minded entrepreneurs at the expense of the taxpayer and of most businesses without access to such preferential treatment.

That this is indeed the case is suggested by the fact that the revitalisation scheme will be highly selective. There will be no legal entitlement to a revitalisation arrangement and relevant decisions are to be taken by revitalisation commissions, which will most probably be comprised of public servants and appointees of the most influential management and owner lobbies colluding with the powers-that-be and seeking to have their liabilities waived. An enterprise under revitalisation will be exempted from bankruptcy and composition proceedings and creditors will not be allowed to seize its property pledged as collateral.

The Cabinet seems intent on addressing a debt problem worth dozens of billions by allocating a mere SKK 2 billion for this purpose in the 1997 budget. Nor do official documents available from the government suggest that there will be larger allocations in the years to come. In which case there would be no alternative other than alter the tax implications of waiving the liabilities of enterprises under revitalisation. At present businesses that write off their claims without a court decision are not allowed to deduct them from their tax base. By the same token, waived liabilities are deemed a taxable income increasing the tax base. It is probable that some enterprises, mostly private ones, will be allowed to treat waived liabilities as a non-taxable income, whereas their creditors will be able to treat written off claims as a deductible expense. Unless no significant amounts are to be spent on revitalisation (and there is no indication of that), the process will be largely confined to claim write-offs and liability waivers. This approach would certainly benefit debtors, who will not have to pay anything, but will be less attractive to creditors deprived of a chance to collect at least part of outstanding claims. However, a standard mechanism such as bankruptcy and composition proceedings offers creditors some hope of a complete or partial recovery of claims.

The government is the largest creditor operating through tax offices, the state budget, insurance funds and state-owned enterprises. State-owned banks constitute another major creditor group. Debtors are primarily represented by enterprises, most of them privatised.

An ulterior motive behind the revitalisation scheme seems to be that the government will arrange for the liabilities of certain, mostly private, enterprises (the largest debtors) to be waived. The disadvantaged creditors will be largely represented by state-owned businesses where the government has enough clout to enforce such unprofitable transactions. This is exactly what the government will do as it organizes the entire scheme. The implications will be lower state budget revenues, lower revenues and aggravated deficits of insurance funds as well as deteriorating primary insolvency of state-owned enterprises joining the exercise in their capacity of creditors forced to write off claims.

In advanced economies insolvency is primarily addressed through the mechanisms of bankruptcy and composition, by realizing pledged security, or by obligation to account for claims and liabilities for maximum period of two or three years, while provisioning for uncollectable claims and liabilities is obligatory not only for banks.

In Slovakia an opposite approach appears to have gained prominence. Instead of making, at long last, bankruptcy proceedings more feasible and effective, plans are under way to further cripple bankruptcy mechanisms and replace them by an absurd new scheme. The idea is to establish one more way of chandelling even more taxpayer money and funds away from unprivileged entrepreneurs into the pockets of a narrow privatisation industrial lobby.

Already, there are quite a few such channels that have been used in the past and will continue to be utilised in the future. Now another channel is being added, one of the largest of that.

II.2.3. Different other forms of clientelism

In Slovakia exist and are presently being utilised a lot of other forms of clientelism and flourishing corruption. The Highest Controlling Bureau notifies on various such cases in parliament and through media without major response, especially on evading and not obeying the Public Acquiring Act, on the mass expansion of the own business activity of government companies managers at the expense of those companies, which they manage for the benefit of their own private firms (e.g. see the reportage with *NKÚ* chairman Štefan Balejík, *Národná obroda*, 10.2.1997).

A specific topic is the area of government grants for local self-governments. In Slovakia exists the highly centralised system of public administration, especially in the state government administration and self-governments relationship. By know there are no regional self-governments and the competencies, especially those of public financing, are centralised in the government administration, while the local self-government is hinges on minimal grants, minimal local fees and taxes, and the insufficient shares on the central taxes (for more details see Mikloš, Nižòanský, Žárska, /9/). Another reality is the vague and, which is more important, uncontrollable possibility to provide several kinds of grants (particularly purposeful) from the state funds and the state budget, often misused for money transfers for mayors politically in favour with government coalition orientation. So it is possible, that without mayor political switch it impossible, for instance, to finish water aqueduct in a village. We could find also others, more ridiculous stories to illustrate a problem³.

The other example of clientelistic creativity is the way, by which *SNS* employed its clout at the Ministry of Defence (its minister is *SNS* representing J. Sitek) in the army to favour the bank close to *SNS*. The army decided to pay the salaries by means of bank transfer into the accounts of employees, while it recommended the services of *Prvá komunálna banka (PKB)* for that sake. The chairman of *PKB* Board of Directors is the chairman of *SNS* Ján Slota, who is also one of the *PKB* owners (at the same time he is a mayor of the city of *Žilina* - the residence of *PKB*). Of course employees are allowed to select another bank, but the deal is, that all package goes primarily to *PKB* account, from which it is being distributed to individual employees accounts. Who has its account in other bank than *PKB*, his payment is delayed for several days. (*Pravda*, 20.2.97)

The Income Tax Act Amendment was approved by parliament in 1995, enabling the participating in the direct sales privatisation subjects to deduct a part of their purchased price, used for reinvestment in the companies they have privatised, from their taxable income. This discriminative act favours those, who privatised in direct sales - they are mostly entrepreneurs close to the coalition) on the expense of all others, who cannot deduct their investment from the taxable base.

³ the author of this study lectured on the seminar for mayors, where the mayor of small Eastern-Slovakian town said, that *HZDS* offered to solve its acute financial scarcity in the condition of establishing the organisation of *HZDS* in that town. The mayor said, that it established it, and her husband is a chairman, they have 13 members and they have no more financial difficulties. A curiosity in this story is a fact, that the town was entirely Hungarian, and the citizens of Hungarian nationality do not vote for *HZDS*.

The Export Promoting Fund was endorsed at the end of 1996. All importers and exporters have to contribute with 0.1% of their export or import, while the utilisation of that finances is determined by the Fund Board of Directors, which consists of the bureaucrats and delegates of the largest companies (in many cases they are also their owners). It is evident, that also in that example emerges a real thread of directly or indirectly benefiting the firms, represented in the Fund bodies (large companies) at the expense of small-sized and middle-sized ones.

At the beginning of 1997, SR Ministry of Finance issued a promulgation, which liberate the high-technology equipment from import duty. However, the definition of a subject is vague, a promulgation deals about „equipment, which parameters reach the high technical - economic of the finalised products“. The obscurity of definition is compensated by the procedure, that the application for duty abolition has to include the expression from the Central Body, signed by minister, that the imported product is a high technology and in accordance with the conception of development of particular industrial branch. The volume of import deprived from duty has to exceed 50 mil. SKK (1,66 mil. USD). What could be deducted from all of that? Primarily, it is another channel, through which the clientelism and corruption might, and most probably, will, continue to thrive. Than, it is another example of small firms discrimination (because of the minimal 50 mil. SKK size limit), and another evidence of fact, that in stead of liberal industrial and structural policy government decides on overcome sectoral policy which patronise sectors, perspective in eyes of bureaucrats.

Another extension of discrimination is the state orders and orders of state firms. As an example, the government passed a decision, that state institutions should put their advertisements only in government-close private daily *Slovenská republika*. State monopolies, as *Slovenské elektrárne* or *Slovenské telekomunikácie* through the advertisement agency close to the government (*Donar*) organise expensive and unreasonable advertisement campaigns with the only reason to transfer funds from this monopolise into the pockets of private and political subjects.

II.3. Legislative action not in accordance with the market economy

In the following chapter we briefly evaluate the fundamentals of two Acts from 1995, which fundamentally do not conform with the market conditions and with the market economies experience. He we only conclude, that within the last two years the government and the parliament majority were able to approve more dozens acts and promulgations by the Constitution Court marked as not in accordance with the constitution of SR. For example only in the area, which is a subject of our analysis, and from the acts and promulgations we mentioned, it is e.g. the Mečiar's decision to nullify some privatisation decisions, approved by Moravčík's government, some paragraphs of Privatisation Act Amendment from September, 1995, some parts of the Strategic Companies Act from September, 1995, the transfer of privatisation competencies from government to the NPF from November 1994 and some paragraphs of the government promulgations concerning the obligations. At the same times it seems that this list is incomplete, because, as an example, *SD* announced the intended allegation of Foreign Trade Promotion Act in front of the Prime Court, and it seam, that such fortune awaits the new Revitalisation Act too.

II.3.1 The Pricing Act

When Slovakia was still part of the CSFR, 95 per cent of prices there were broadly liberalised as of January 1, 1991. The prices of additional goods and services have been liberalised ever since and currently 97-98 per cent of all prices are estimated to be free. At present, price controls apply to electricity, heating, water and gas for households, rent as well as passenger bus and railway transport. Although controlled items are small in numeric terms, they constitute a significant component of the consumer basket and their deregulation is a politically sensitive issue accordingly.

In such background the Pricing Act, approved by Slovak parliament in November, 1995, came into effect on April 1. The law in question is extremely problematic, controversial and likely to cause considerable complications in future.

The law introduces the notions of “justifiable costs” and “reasonable profit” and makes it obligatory for all businesses to keep special records of their costs and profit as well as to make them available to inspection authorities to check whether costs are justifiable and profits reasonable.

Under the law, the prices are to be reviewed by the Finance Ministry, local governments, tax authorities, and the Slovak Commercial Inspection. Officers of these bodies appointed to perform price checks will be authorised to enter the premises of investigated businesses, examine their documentation and require that businesses furnish data and meet other requirements necessary to perform such checks. On finding violations of the Pricing Act, inspectors may impose a fine of up to SKK 1 million (about US\$ 33,000) or up to SKK 2 million (US\$ 66,000) if the violation is repeated or, alternatively, may initiate a procedure to revoke the business licence.

What are the problematic features of the law?

1. Procedures to identify “justifiable costs” and “reasonable profit” as well as the details and structure of pricing records will be stipulated in a regulation to be released by the Finance Ministry.
2. The law does not distinguish between liberalised and controlled prices, introducing the possibility of controlling already liberalised prices. In particular, there is a provision according to which a buyer and seller must not agree an unreasonable purchasing or selling price in a situation of a temporary imbalance in the supply of, and demand for, a particular item on the market (§ 12, Sect. 1a). Obviously, it will be ministerial and other examining officials who will decide on whether, where and when there is temporary imbalance on the market.

It is the reality, that by now (March 1997) the Act is fortunately not being utilised practically, but the motif of approving such Act is unknown too. As a matter of principle, one can assume the existence of two such motifs. One might be the genuine, although naive, attempt on the part of ministerial officials to deal with market imbalances and prevent unreasonable price rises. The problem, however, is that this objective will certainly not be served by the methods envisaged by the law because inadequate price flexibility in Slovakia’s economy is not due to price liberalisation but as a result of an insufficiently developed competitive environment. This is where solutions need to be sought for the market imbalance problem and not in price controls.

The other motif for introducing the above legislation may have been the effort by the governing coalition to put in place a versatile instrument to ensure control over all businesses, that is including private and privatised enterprises. The current governing coalition and, in

particular, Prime Minister Mečiar are known to long for power. At the same time, it is obvious that government influence over the economy diminishes as it becomes privately owned. The above law could just be a means of ensuring that enterprises remain both private and docile.

In 1996, the World Bank mission in its memorandum critically reacted to the concerning Act by the worlds: "The Pricing Act is a real potential thread for competition, and even for domestic companies as well as foreign investors" (World Bank, /19/, page 18)

II.3.2 State Strategic Interests Guaranty in the Privatisation Act

The act concerning strategic companies is an example of another controversial issue. With a full name of „State Strategic Interests Guaranty in the Privatisation of Strategically Important State Companies and Joined Stock Corporations Act“, it was enacted in September 1995 and has a power over 74 companies and joined stock corporations with a 150 bil. SKK total value of assets. Up to 90% of all non-financial organisations profits generated those enterprises in 1995.

The act considers two groups of strategic companies: the first one includes 27 state companies and two joined stock corporations, which property or shares cannot be a subject of privatisation. In the second group there are 45 state companies and joined stock corporations, which can be privatised, but with a special regime of state ownership interests guaranty by means of so-called „golden share“ - the share with a special rights, and by means of stockholders rights transfer from NPF to the founding ministries. More of that, the act enables NPF to order to transfer also other joined stock corporation shares in the possession of NPF and upon which government decides, to the accounts of founding ministries.

The golden share was abolished by Constitution Court after some time and we can say, that the strategic interests act both is and is not being applied. For the present it is being applied in connection of the first group of enterprises, which are forbidden to privatise, and it is not being applied when concerning the second group. As an example the situation in *Slovnaft, a.s.* occurred (at the time when golden shares were valid), when not only the largest private stakeholder, but also the representative of NPF voted against including the golden share into *Slovnaft* statutes - both with arguments, that neither in act, nor anywhere else „the questions which jeopardise, or could jeopardise the state strategic interests“ are defined clearly enough (according those questions a special rights ensuing from golden share would been applied). In case of *Nafta Gbely, a.s.* the opposite situation happened, when the plenary assembly included the golden shares into their statutes despite of a fact, that the assembly took place after the Constitutional Court published the illegality of a golden share.

Another illustration of not respecting the act (thought bad, but it is the act) is the transfer of stakeholders rights to the resort ministries, which should take place not later than on 14.10.1995, but in many cases no transfer occurred. On the contrary, in some instances the shares of certain companies labelled as „strategic“ (with a special privatisation procedure) were privatised fully (e.g. *a.s. VSŽ Košice, Považské cementárne a.s. Ladce, Nafta a.s. Gbely*) or partially (*Duslo Ša34a a.s.*)

To conclude, by the present, the part of a mentioned act is obeyed, which deals about 29 companies and joined-stock corporations exempt from privatisation at all. Those companies are in energetics, telecommunications, railroads, arms production, forests, rivers and two of them are pharmaceutical firms. In February, 1997 the group of non-privatisable enterprises was enlarged by four largest financial institutions (*Investičná a rozvojová banka a.s.*,

Všeobecná úverová banka a.s., Slovenská poisťovňa a.s and the Slovenská sporiteľňa a.s.), which shares are up to now in the possession of NPF (*IRB*30%, *VÚB*48%, *SP*50,5% and *SLSP*91%) and it should not be privatised until 2003. The enlargement was passed by opposition together with coalition *ZRS*, despite of sharp resentment of other coalition partners *HZDS* and *SNS*. At the first glance it is paradoxical, because it was the opposition who repeatedly criticised the evaluated in this chapter act. In co-operation with *ZRS*, they wanted to include financial institution into the group to prevent their advised sale to the domestic subject close to government, at the same time large debtors of those institutions. A behaviour of *ZRS* was motivated especially with the endeavours to increase its diminishing popularity among workers and it could be also understood as a retaliation for its crowding-out from some financial institution by *HZDS*.

III. Economic system parameters

We are going to analyse the liberalisation rate of the Slovak economic system focusing on a methodology exercised by The Heritage Foundation and The Wall Street Journal in their common year-to-year publication titled The Index of Economic Freedom.

The following table (**Chyba! Neznámy argument prepínača.**) indicates the last three years ranking of the SR and most part of the other post-communist countries

Table Chyba! Neznámy argument prepínača.: The Economic Freedom Index of several, mainly post-communist countries

1997 Rank	Country	1995 Index	1996 Index	1997 Index
1.	Hong - Kong	1.25	1.25	1.25
2.	Singapore	1.25	1.30	1.30
12.	Czech Republic	2.10	2.00	2.05
25.	Estonia	2.25	2.35	2.35
64.	Hungary	2.80	2.90	2.90
69.	Latvia	-	3.05	2.95
77.	Slovakia	2.75	2.95	3.05
80.	Lithuania	-	3.50	3.10
83.	Slovenia	-	3.35	3.10
85.	Poland	3.25	3.05	3.15
98.	Rumania	3.55	3.70	3.40
108.	Bulgaria	3.50	3.50	3.60
117.	Russia	3.50	3.50	3.65
128.	Belarus	3.65	3.55	3.85
135.	Ukraine	3.90	4.00	4.05
150.	North Korea	5.00	5.00	5.00

Source: The Index of Economic Freedom, adopted from TRANSITION, The Newsletter about Reforming Economies; The World Bank, Volume 7, December 1996, p. 23

The index of economic freedom ranks from 1 to 5. The index of economic freedom is an arithmetical average of 10 grades assessing an extent of reached economic freedom in 10 economic reams. “1“ means the highest practicable extent of economic freedom and, on the contrary, “5“ means the absolute economic illiberality. Authors range individual countries regarding an extent of the practised economic freedom to groups as follows:

Table Chyba! Neznámy argument prepínača.

index	zone
1.00 - 1.99	liberal
2.00 - 2.99	largely liberal
3.00 - 3.99	largely illiberal
4.00 - 5.00	illiberal

Indeed, to overestimate such pecking orders is not useful, notwithstanding the **Chyba! Neznámy argument prepínača.** indicates that the Slovak Republic, in last three years, has reached the highest index deterioration (by 0.3) of all compared countries and, according to the height of deterioration, is followed by Belarus (0.2) and Russia (0.15) and Ukraine (0.15). It is also noteworthy that only the Slovak Republic together with Ukraine has been reaching the index deterioration continuously during the last three years and again only Slovakia and Ukraine has fallen from the largely liberal to the largely illiberal zone in that time period. Since, as economists and also politologists and sociologists realize, there are much more important prevailing trends and tendencies comparing to a certain point, the facts mentioned above are relevant. Moreover, the economic freedom index data and all other analysed facts and connections demonstrate that the development tendency of the Slovak economy is deficient and risky.

Another instance reinforcing the unfavourable tendency submitted above is the investment risk rating of individual countries edited biannually by the journal Euromoney. In 1996, the investment risk rating was published in March and September. From all of 178 rated countries the Slovak Republic took the 49th place while Slovenia the 34th, the Czech Republic 35th, China 40th, and Hungary 44th place. This positioning of Slovakia is not unsatisfactory but, what is the worse, Slovakia's trend in this rating order is also negative to the contrary to the most of reforming countries largely increasing in the order; Slovakia decreases. In September 1996, only 8 out of 32 countries in transition recorded a decrease: Slovakia, Albania, Kazakhstan, Belarus, Uzbekistan, Kyrgyzstan, Turkmenistan, and North Korea. (Source: Euromoney, adopted from TRANSITION, 7/1996)

Let us make a brief analysis and a frame prediction focusing on 10 economic reams which give a view of an economic liberalisation rate referring to the index of economic freedom according to The Heritage Foundation and The Wall Street Journal. (analyses and predictions are made by the author; only criteria / evaluated reams are adopted from the excerpted sources)

III.1. Trade policy

The principal assessment criterion is a height of tariff rates and non-tariff barriers. The Slovak Republic reached in the sphere of the economic freedom index a grade 2 in 1995 and the same grade in 1996.

The Slovak Republic essentially has a very low level of tariff and non-tariff foreign trade barriers (in 1996, state revenues from tariffs, including the import charge, created only 2.95% of total imports and only 1.7% of GDP). The average tariff rate is about 5.5%. At the same time, Slovakia is a highly opened country with a high ratio of foreign trade to GDP (in 1996, the sum of import and export of products was approximately 104.7% of GDP and export represented 46.7% of GDO).

Hereby, it is necessary to point out the increasing payment balance deficit that reached SKK 64 537 million (about 11.1% of GDP) in 1996 and also increases rapidly in first months of 1997. Under pressure of this fact, there are appearing both concealed and open contemplation to solve the problem through the adoption of administrative anti-import provisions. Prospects in this sphere are not optimistic. The trade deficit growth is induced first of all by economy

restructuralisation backwardness caused mainly by minimal foreign investment influx, non-existence of bankruptcies, and the Slovak privatisation procedure. The Slovak export is largely based on little sophisticated production focusing on price-competitiveness. However, this competitiveness of Slovakia continuously goes down since the export prices are increasing because of labour costs growth (in 1996, the industrial productivity increased by 2.5 % while real wages by 8.4 %) and hidden revaluation (in consequence of higher domestic inflation at fixed exchanged rate of Slovak Koruna to convertible currencies). Besides the economy restructuralisation backwardness, the minimal foreign investments influx cause insufficient current account deficit compensation by capital account surplus what results in foreign exchange reserves decrease and expected tension to solve the problem through either devaluation or administrative anti-import provisions.

There exists a real risk that the Slovak government will prefer administrative provisions what will culminate in a restriction of the today's relatively liberal trade policy of the Slovak Republic.

III.2. Taxation

In 1995 and 1997, the taxation in the Slovak Republic received grade 4.5 which evidence a very high tax burden level in Slovakia hindering economic development and economic initiative.

Indeed, the Slovak Republic belongs among countries with the highest tax rates considering the height of direct and indirect tax rates besides the tax rates progression.

The income tax rate progressively increases from 20 % to 47 %, the corporate tax rate is 40 %, the value added tax rate is 23 % (on some selected products, mainly on food, is imposed 6 % VAT rate), and social contributions are paid in a height of 50 % of payroll costs.

According information of the Slovak Industry and Trade Chamber, the tax burden of private enterprises measured by a complex tax quota grew from 36.8 % in 1993 up to 45 % in 1996. The average level of this indicator in OECD countries is 38.7 % and what is the important, it tends to decline in the OECD. (*Slovenský profit 6/97*). What's more, the Act on foreign trade support, for instance, adopted at the beginning of 1997 which prescribes exporters and importers to pay compulsory contributions to the foreign trade fund, has additionally increased the tax burden in the Slovak Republic.

As for the future tax burden prediction, it is important and relevant that the expansion degree of the fiscal policy grows, mostly the public state expenditures for state administration and public investments (highways, dams, nuclear power station). Public consumption (mostly medical care and education expenditures) is tighten in a way that is not to be sustained for a long time and which threatens to impair the social concord. Therefore, a policy, mainly on the side of state budget expenditures, ensuring a tax burden decrease or, at least, preventing its increase in near future, is not applied.

Another problem is that conditions for a decrease of the social and security insurance contributions level (50 % of an income) are not creating through a reform of the system which would ensure the system efficiency increase and its costs reduction. For instance, in the sphere of old-age pension security system, the Slovak government has not started yet to think about replacing the untenable (increasingly expensive and inefficient) pay as you go financing by a fund financing. (in more details, see Mikloš, 1996, /10/).

In recent years, mainly in 1995 - 1997, the so called internal state debt of the Slovak Republic, both the direct and indirect debt, rapidly grows. The direct debt increases mostly through the growth of the current account deficit, the issue of NPF bonds (principal is SKK 35 billion) with a very doubtful possibility of their repayment after the NPF bonds maturity, the fiscal deficit growth (the state budget, insurance funds, and local budgets). Items forming the indirect internal debt include, for instance, a liberalisation delay of prices of electricity, energy, water, gas, and housing. Right the internal debt growth will be the largest obstacle to lower the tax burden level in Slovakia and it will be subject to increase it. Under these facts, the prognosis of the tax burden level in the Slovak Republic cannot be based on favourable assumptions.

III.3. The state consumption and competencies

In 1995 and also 1997, the Slovak Republic received grade 3 for this realm.

The state budget expenditures ration of GDP was about 33 % in 1996; however, in reality, the mentioned ration was much higher since the state budget expenditures counted to the ratio exclude local budgets expenditures, neither state funds expenditures, nor expenditures of insurance funds. Indeed, the state funds financing exactly increases, largely in a sphere of expanding state investments.

As the privatisation process proceeds, the government competencies should be proportionally reduced. However, as a result of a number of reasons, this government competencies reduction pace is not proportional to the private sector growth rate. The main reason is unifying political and economic powers (arising plutocracy) and also the legislation, e.g. the Price Act, the Strategic Enterprises Act, and others. (see II.3.1. and II.3.2.)

Under these reasons (besides those mentioned in III.2.), to predict a future development of an extend and methods of the Slovak government interference is burdensome and it will largely depend on a political development and on a capability of a future political representation to cope with the widespread clientelism and growing plutocracy.

III.4. Monetary policy

The grades obtained are equal to 3 in both years 1995 and 1997. Since the main criterion in this sphere is an inflation rate, the author has to proclaim that this assessment is unfair because the Slovak Republic reached, in 1995 and also in 1996, the lowest inflation rate from all of countries in transition and while the inflation rate reached in the Czech Republic for both years was higher than in the Slovak Republic, the grade obtained by the Czech Republic in 1997 was 2. (international comparison, see **Chyba! Neznámy argument prepínača.**)

The Slovak Republic really reached in the sphere of inflation, owing mainly to a very qualified and responsible policy of the Slovak National Bank (the *NBS*), very good results. However, maintaining of the results is questionable.

The problem of maintaining the inflation at the reached level is given largely by monetary consequences of the above mentioned internal and external indebtedness increase and as well as of the growing discrepancy between increasing expansion of fiscal policy and restriction of monetary policy. Relating to this discrepancy, a tension between the Slovak government and the NBS grows too, which might result in the NBS independence impairment and a monetary destabilisation threat and, thus, in a high inflation rate. Although to predict the further

development is problematic, it is possible to anticipate a higher inflation rate in 1997 than that reached in 1996 (5.4%).

One of the channels reducing the independence of *NBS* monetary policy could become the newly established EXIM Bank, founded by special act from the end of 1996 and which is not the subject of *NBS* surveillance, but the surveillance of Ministry of Finance. Therefore, it is a real thread, that that bank becomes a channel for money inflow to the economy beyond control and beyond the central bank influence. The thread is more bigger, more the discrepancy between the expansive interests of Ministry of Finance and the restrictive intends of the *NBS*. Concerning the plans of EXIM Bank control under such condition the IMF mission from October 1996 expressed its disapproval in its memorandum, by „Mission is anxious by the plans for enabling the specific role of EXIM Bank, which should be created in next year, in the surveillance and monetary control. The mission is not familiar with any country where such institution would have such role and it firmly argues out of the realisation of such plans.“ (The IMF Mission Report IMF /14/)

III.5. Foreign investment

A score made by the Slovak Republic in the foreign investment area has deteriorated since in 1995 it was 2 while in 1997 the score was 3. Indeed, the foreign investment influx is one of the evident weaknesses of the Slovak Republic. Comparing the volume of foreign investment in the Slovak Republic to a volume of foreign investment recorded in the neighbour post-communist countries, the SR has the worst position of them (the lowest level of foreign investment) and, moreover, there is no expected turn for the better position. In 1995 comparing to 1994, an amount of all of foreign direct investments in all post-communist countries as a whole doubled, while in the SR, on the contrary, the capital volume in 1995 was lower than in 1994 (19,3 mil. USD foreign investment increase in 1994, while only 17,8 mil. USD increase in 1995). The described situation has an origin mainly in discrimination in privatisation, unfavourable political image of the SR in foreign parts, corruption and vagueness in the state administration, and unpredictable future political and partially economic development.

Neither considering the third wave of privatisation, the situation has not been significantly changed, although the domestic insiders were expected to try to quickly sell their enterprises, bought in direct sales at low prices, to foreign investors at real prices, i.e. with a profit. However, neither low prices cannot attract a sufficient number of investors what originates in the fact that the market vagueness and non-existence of protection of minority stockholders argues portfolio investors out of investing in the SR.

The connection between the low foreign investment influx and the privatisation method was drawn to the attention also by the IMF which in the IMF memorandum from October 1996 stated that "the vagueness of the privatisation process argues potential foreign investors out of investing in the SR up to such an extend as in other Central European economies in transition and, thus, the SR fails to take advantage of foreign know-how and capital inflow." (The IMF Mission Report, October 10 - 23, 1996, /14/)

III.6. Bank policy

The bank policy of the SR has received grade 3 in 1995 and 1997.

In the SR, a very rigorous commercial bank licensing system exists and the Slovak National Bank (the NBS) strictly controls commercial bank activities. The author of this paper believes that the strict control over bank activities is, under the specific problems resulting from the transition process, necessary; though, it would be useful to reshape the current commercial bank licensing system to one much more liberal and mainly more transparent. Instead of matter-of-fact criteria, political criteria play a relevant role in the process of commercial banks licensing.

The principal problem of Slovak commercial banks is a high share of the largest state banks in the market and at the same time their problematic stage based on non-classified credits and loans provided from the most part during the period of communism and in early 90's. For instance, differences between credit risk ratios (CRR which measures a rate of necessity to create adjusting entries to credits per 1 SKK) of Slovak commercial banks and banks with foreign capital evidence a great difference between these groups of banks. As of June 30, 1996, the CRR of domestic commercial banks was 0.378, the CRR of banks with foreign capital was 0.098, and the CRR of foreign affiliated bank branches was 0.173. A large weight of domestic banks is evident also from the total CRR - 0.311. (Source: The Recovery and Development of the Bank Sector of the SR, The Finance Ministry of the SR, Bratislava, December 1995).

The main risk of the future commercial banking development in the Slovak Republic is an effort of the largest debtors of banks to capture possession of appropriate banks. The Mečiar's government attempts to use right this method of privatisation what is not a very safe way of privatisation of banks since it will not contribute to the recovery of the Slovak banking system but, on the contrary, it threatens to collapse all the banking system in the SR. The IMF warned off such a development and in the report mentioned above stated that "The IMF mission invites the NBS decision not to enable an industrial enterprise to own one of the largest Slovak banks of which the enterprise is at the same time a main debtor". The IMF kept in mind VSŽ, the joint-stock company and the bank IRB. As it is mentioned above (II.2.1.5) the bank was captured by the debtor despite of the NBS disapproval.

Therefore, the Slovak government came to a cul-de-sac in its effort to privatise financial institutions because it is not possible to privatise them purposefully (it means to create conditions for the bank sector recovery and restructuralisation) without a participation of foreign investors.

The parliamentary opposition to prevent from privatisation of banks by their debtors tries to block the privatisation process till 2003. It is not, of course, the best solution but it must be better than to leave the largest financial institutions in hands of their debtors. Hence, considering the necessary recovery of the Slovak bank sector the prospects are problematic.

III.7. Wage and price regulation

The regulation policy of the SR has received grade 3 in 1995 and also in 1997.

There is constituted a minimal wage in the SR. Although only a few items' prices are regulated (about 3 %), but right prices of such items which have a great weight in a consumption basket (food products, rental, electricity, water, gas, energy).

The largest problem is the nonconformist Act on prices. (in more details see II.3.1.)

III.8. Possessive rights

The possessive rights policy of the SR was evaluated in 1995 by a grade 2 and in 1997 by 3.

Indeed, this sphere of the SR policies is one of the most problematic. It largely relates to the privatisation process described above and to the effort of so called “old structures“ to restrict an influence of “new structures“.

Regarding an indebtedness of possessive rights, the current privatisation process is highly problematic. Firstly, it is because laws are frequently disturbed (mainly in connection with a bribery and simulated official and latent real owners and then also with an extensive tax avoidance and illegal export of sources abroad).

The ownership rights were illegally disturbed from the side of the Slovak government, for instance, in the case of *PSIS*. A distortion of the possessive rights occurred from the side of the Slovak government against investment funds which had been properly registered in the second wave of the privatisation process and in conformation with Slovak laws had started, (within the prior-round in autumn 1994) to perform acquisition activities towards owners of investment funds. They have loosen billions after the new Meèiar’s government under the pressure of “old structures“ had abolished the running voucher privatisation despite of the fact that the privatisation continuity was ensured in its program declaration of the government. The impaired investment funds include many foreign funds, mainly Austrian.

Ownership rights are closely connected to the their protection efficiency from the side of security and juridical system. The restriction of ownership rights results, in addition, from overcrowding of courts and, thus, from very long decision terms and occasional breaks of decisions made by courts from the side of state bodies.

The contemporary asymmetric position of a creditor and a debtor in the SR raises another relevant question since the creditor position is much more unfavourable to the position of a debtor. This controversy situation is another factor restricting possessive rights because it facilitates illegal debtor treatment with the creditor’s property despite of the creditor’s disapproval. Such a problem is also directly related to the bankruptcy process latching. Although the courts have got about 4000 suits for bankruptcies until 1996, only two cases were solved by now - the act is valid from 1993. (The World Bank /3/) Instead of lubricating the bankruptcy process by act amendment the government acts in the opposite way. It releases the strategic companies, the state companies and recently also the companies intended to „revitalised“ under a preferred conditions (see II.2.2), from the force of an act.

The prospects of this sphere are confused for the most part by the growing ignorance of laws and market and also basic human ethics, besides a noteworthy fact stimulating this phenomenon that the Slovak government alone and the highest state officials frequently disturbs laws and ethic norms. The best example is a huge number of anti-constitutional purport legislative regulations passed by the contemporary Slovak government coalition during the last 2 years.

III.9. Regulation and corruption

This realm of policy of the SR was evaluated in 1995 by a grade 2 and in 1997 by 3.

If we have mentioned that the grade 3 for the monetary policy was unfairly low then we have to say that the grade 3 for the sphere of regulation and corruption is unfairly high.

During the last 2 years the corruption and clientelism has become hugely extensive. The pace of winners-determination not based on market competition but on whether a direct or indirect abuse of state power has rapidly grown. This process has been developed firstly in the privatisation process but today it is extending to all other economic spheres. It results in increasing plutocracy which is not able to solve the problems arising from the abuse of state power in past in different way then is the more intensive abuse of state power in present and future. It is far from abusing only economic area, but also areas of public media, secret service, police, etc.

The corruption and clientelism are problems of each country in transition. However, in contrast to the other V4 countries, the case of the SR is different in the fact that the clientelism there is planned and organised by the highest state positions of the SR to gain and maintain uncontrolled and unlimited political and economic power.

III.10. Black market

In the sphere of the black market Slovakia received grade for the index of economic freedom „Three“ in both years, 1995 and 1997.

It is very complicated to estimate a ratio of black market to GDP. According to the methods of privatization, level of corruption, high tax burden, high obligatory insurance payments, high unemployment, low and diminishing legal awareness and low efficiency of economic criminality disclosure we could enunciate that the share of black economy is somewhere substantial. Problem remains that the probable upcoming development would not enable its improvement neither now, nor in the nearest future.

III.11. Summary

Our analysis confirms the objectivity of SR fall in the scale of economic freedom, even though for instance in a sphere of monetary policy the appraisal is inadequately severe. Nevertheless, and it is more important, according analysis of the present state and possibilities of future development it is not possible to assume positive inversion, moreover, there exists a possible thread of losing liberalization positions, attained in the years of 1909-1994.

The analysis shows that Slovak positive macroeconomic results from 1994-1996 are merely because of liberalization process in 1990-1994, as well as 1995-1997 policy results. A time delay between consequences and outcomes is common in economic processes.

The economic policy in 1995-1997 does not create conditions for long-run sustainability of positive macroeconomic indicators. Uncontrolled interconnections and concentration of political and economic power, not respecting of laws and rules, undermining of principles of laissez-faire, intensive legislation contravening equity principle and benefiting small groups at the expense of majority, determination of winners and losers from the power of government, growing corruption, centralization of public administration, uncontrollability and unpunishability of government bureaucrats and „desirable“ plutocrats - these are all phenomena, which, if they reach critical level, sooner or later have to result in diminishing competitiveness and efficiency of the economic system, in lagging of a country with such economic system behind countries, institutionally based on liberal values. Videlicet, both theory and experience show, that the very institutional provisions are the ones to determine, whether the country utilizes its potential or just „vegetates“. The Mancur Olson says „the

income per capita are determined more by institutions and policy, which the particular state decides on, and not by the natural resources or initial scarce. Poor countries, which decides on good institutions and policy could face its economic growth more rapidly, than rich ones.“ In the other part he concludes that the large profits „are achievable in a place, were the institutions, which enforce contracts indifferently and which are able to ensure ownership rights, exist. (...) Primarily it is a structure of stimuli, which defines economic performance.“ (*SME* Feb. 28, 1997)

To the question raised at the beginning, if the Singapore model of politically authoritarian and economically liberal model arises in Slovakia we may say that it is far from the true. We can talk more about semi-authoritarian regime with clientelistic economic system, with a thread of reaching plutocracy.

IV. Which kind of regime develops in Slovakia seven years after the communism breakdown?

In the economic field, Slovakia evidence two opposite movements. Firstly, it is a drift towards open market economy of the western type, particularly by means of the private sector share growth, the openness in economy, the gradual process of SR association into EU, liberalisation of the b.o.p. capital account, establishing of the capital market institutions, sustaining the fiscal and monetary policy at a reasonable level.

On the other side some negative undesirable phenomena emerges in an increasing pace. Such phenomena, we described in a previous part of this paper, are in direct contradiction with system and subject characteristics of the western type open market system. It becomes clear, that those phenomena, especially flourishing clientelism and the interconnection of political and economic power ensue mostly as a result of V. Mečiar and his allies efforts to preserve their power - unlimited as much as possible. In other words, the pragmatic economic and transformation policy is being tailored according criterion of politic power, with no regards to methods used in politic or economic sphere.

Problem is, that such government behaviour leads to the irreversible erosion of subjects and characteristics typical for open economic system of the West. Institutional changes inevitable for carry through the successful transformation process are ceased or paralysed by the outweighing economic and power concerns.

Hidden behind good macroeconomic results, the dangerous processes, which could lead to russification of social and economic relations in Slovakia, increase in intensity. We mean the russification in two meanings: At first, it is the emerging of relations in Slovakia, which are today common in Russia, documented by the words of Russian liberal party *Jabloko* chairman Grigorij Javlinskij, when he said for Financial Times in 31.1.1997: „The new governing elite is neither democratic, nor communist, it is neither conservative, nor liberal, neither red, nor green. It is only avaricious, insatiate and gluttonous. It cannot solve the social and economic problems but only those, which result in their own economic power and wealth.“ In another part of an article Javlinskij publicise, that „the absence of institutional change during the market transformation leads inevitable to the economics of semi-criminal kind, hindering industrial development“.

The second meaning of russification of Slovak relations could be understood as a thread of penetration and enforcement of Russian official and unofficial, politic, economic and military interests in Slovakia, including economic and politic influence of semi-criminal and criminal elements, which is today in some extent a reality.

One of the characteristic marks of Russian reality today is the disproportional concentration of political and economic power in hands of narrow group of people, especially through increasing both nominal and real political influence of the most powerful economic subjects. Rem Viachirev, the president of *GAZPROM* (which is today private, and probably the richest company in Russia) and who in this position replaced now-prime minister Èernomyrdin, clearly expressed himself to the topic: „Everyone who gains a power (in Russia, note of I.M.), has to arrange its relation with *GAZPROM*, because without *GAZPROM* he would arrange nothing“ (Rutland /13/, citation according Duleba, /1/). Boriz Berezovskij, another prominent Russian businessman and, also the owner of whole-state Russian TV, and who is

now in position of vice-secretary in Russian Security Council, announced: „Me, together with six other large entrepreneurs, control more than a half of Russian economy. Therefore, it is obvious, that we interfere to the political questions.“

Above indicated fear from Russian relationship does not mean in any case, that relative standardised market would not prevail in Russia after some time. However we are sure, that Russian transformation model through the system of plutocracy, clientellism and semi-criminality will pursue longer path with more agony, with the very uncertain end.

It is crucially important, whether the society and its elite tries to eliminate the room for plutocracy, corruption and criminality, which naturally exists in all post-communist countries or at the opposite, they consciously stimulate widening of such room to benefit from unlimited political power and the economic gain.

And exactly that is a question - which system will be possible to establish in Slovakia. It is a question, whether Slovakia succeed to revert in 1995-1997 established trend of intentional promotion of plutocratic, clientellistic and semi-criminal system. The most apposite indicator of such success is the level of success of SR association into EU. Nevertheless, the problem has to be solved in SR, because although the EU membership is a guaranty against russification of SR relationships, to acquire membership SR has to persuade EU about its eligibility, so it has to respect political and economic criteria to prevent russification.

Note: The views on the reforms after 1994 and on the Slovak conditions russification differ. According Peter Stanik, who was an economic advisor of Mečiar and today, he is the Ministry of Finance State Secretary, „Russians were interested by Slovak way of transformations, which became to bring its fruits within the last three years“, and „Russians are interested in the transformation know-how, which became to be applied in Slovakia after 1994“. According Mr. Stanik, „Russians are motivated by the fact, that the suggestions of western advisors did not helped to this country“. Even that, he asserts, that „on the Slovak model even the World Bank showed its interests, to offer its application to other transforming countries“. (TREND, 15.1.1997, page 9A)

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