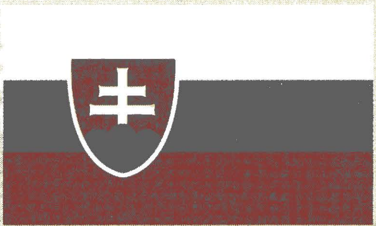
European Union
Agriculture and rural development

# Agricultural Situation and Prospects in the Central and Eastern European Countries


# Slovak Republic



Working Document
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European Commission
Directorate for Agriculture (DG VI)

# Slovak Republic

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## Working Document

DG VI has prepared this report in close collaboration with Gejza Blaas and Marian Bozik from the Research Institute for Agriculture and Food Economics (RIAFE), Bratislava, and with the help of Zdenek Lukas, Vienna Institute for International Economic Studies (WIIW). Assistance was given by DGIA, DG II, EUROSTAT and TAIEX. Help with data collection was provided by Sona Okelova during her stage at DG VI.

The manuscript has been written by Bernhard Panknin. The author accepts full responsibility for any errors which could still remain in the text. The closing date for data collection was June 1998.

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A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (http://europa.eu.int).

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# Introduction

In 1995 DG VI published a series of ten country reports and a summary report on the agricultural situation and prospects in the associated countries of Central and Eastern Europe (CEECs). The reports provided an analysis of the transition agriculture and the agro-food sector in these countries were going through in the first half of the nineties and an assessment of the outlook for the main agricultural commodity markets till the year 2000.

With three more years of information the current publications, which cover Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, provide an update of the 1995 reports and take the outlook horizon till 2003. The underlying working hypothesis for the reports is that the first CEECs will join the Union and will start to be integrated in to the single market and the Common Agricultural Policy after 2003.

The accession process was officially launched on 30 March 1998 with the submission to the applicant countries of the Accession Partnerships, which for each country set out the principles, priorities, intermediate objectives and conditions leading up to accession. A main priority is adoption of the "acquis", the body of Community legislation, including for agriculture the sensitive areas of veterinary and phytosanitary legislation.

As was the case in 1995 the individual country reports have been prepared by the services of the Commission in close collaboration with national experts of the countries concerned and with the help of scientific advisers.

The country reports and the summary report attempt to provide an objective analysis of the current situation in agriculture and the agro-food sector and an assessment of where the candidate countries can be expected to be in their agricultural development at the time of the next enlargement.

# About the data...

The data used in the country reports are derived from a CEEC dataset established by DG VI in cooperation with other services of the European Commission and with external experts. Data originate from various sources, mainly the Slovak Statistical Office and the Research Institute of Agricultural and Food Economics in Bratislava (VÚEPP), FAO, OECD, and the European Commission (DG II, Eurostat).

For agriculture in general the FAO data were used, but for certain countries and/or for certain products, and in particular for the most recent years, the figures were adjusted or replaced by data from other sources, after discussion with country specialists. For the commodity supply balance sheets a simpler approach than by the FAO was used, taking into account trade in agricultural commodities up to the first processing stage, but not in further processed products.

The main objective was to obtain a dataset which was as coherent as possible, offering good comparability of data.

Despite all efforts to create a coherent, reliable and up to date dataset, all figures presented in the country reports should be interpreted with care. Significant changes in data collection and processing methods have sometimes led to major breaks in historical series as the countries concerned have moved from centrally planned to market economies. One general impression is that these problems may have led to overestimate the decline in economic activity in general and of agricultural production in particular in the first years of transition, data from 1989 and before being somewhat inflated and data after 1989 underrecording the increase in private sector activity. More recently many CEECs have undertaken serious efforts to start to harmonise data collection and processing methods with EU practices.

With three more years of data and experience the original 1995 dataset has been improved and further adapted to DG VI's analytical needs.

# Executive Summary

## General economy

In spite of earlier fears, Slovakia's economic situation has improved rapidly in the years after the separation of Czech Republic and Slovak Republic in 1993. In the following years the Slovak Republic has made good progress as far as macroeconomic stabilisation and economic growth are concerned. GDP growth was between 5% to nearly 7%, inflation was curbed to 6.5% in 1997, and unemployment is around the EU-average.

Although economic growth remained among the highest in the region and the external trade deficit was lowered from its very high 1996 level, the macroeconomic situation worsened in 1997. The government deficit deteriorated significantly, external deficits improved mainly as a result of temporary protective measures and remained unsustainably high, and inflation and unemployment increased again, reversing some of the progress that was made in previous years. The fundamental economic policy problem in Slovakia is that monetary and fiscal policies are not co-ordinated, and that economic restructuring is too slow. To compensate for the poor fiscal policy, the National Bank of Slovakia has implemented a restrictive monetary policy since 1996. The resulting high interest rates are harming enterprises and banks. A more fundamental solution to resolve the external and budget deficits would consist of a significant reduction of government expenditure, combined with transparent restructuring measures to increase the export competitiveness of Slovak enterprises.

## Agriculture in the general economy

The strong recovery of the general economy led to an overall decrease in the importance of agriculture in the general economy. The contribution of agriculture to GDP was 5.9% in 1993 and fell back to 4.4% in 1997. The low importance also reflects the industry- and service-oriented character of Slovakia's economy. The strong performance of the general economy could absorb labour force from agriculture, which became redundant during restructuring.

Despite its relatively low share in the overall economic performance of the country, agriculture plays a comparatively significant part in the maintenance of economic and social equilibrium. At continuously low per capita income, the share of expenditure on foodstuffs in total consumer expenditure is high (37%), which makes the prices of foodstuffs even more sensitive in terms of family budgets. The prices of agricultural products supplied by domestic producers to processors have been relatively low so far. That made it possible to keep the development of consumer prices below the general level of inflation and helped to mitigate economic hardships for consumers during the transition process.

The bottleneck of economic recovery in the Slovak agro-food sector is the low competitiveness of the food-industry and the absence of efficient marketing structures in the downstream-sector. The farms sector made much better progress in restructuring and adaptation to market economy than the food-industry. Both structure and capacity of farms could immediately translate into an increase in production if they received more remunerative prices from the downstream sector.

## Land use

In Slovakia, 2.4 Mio ha of land, which is 49.5% of the total territory, is used for agricultural production. During transition land use remained rather unchanged for most basic land use categories. There was only a small shift from arable land to permanent grassland. The allocation of the 1.4 Mio ha arable land passed through stronger changes since beginning of transition. The sharp decline in the cattle herd reduced the demand for green fodder and the green fodder area was partly re-allocated to cereal production or more extensive production on permanent grassland. Driven by profitability and input support oilseeds area doubled. After an initial depression area allocation to cereals and sugarbeet showed a moderate upward trend again since 1993.

## Agricultural production and consumption

Transition had a strong impact on the agricultural output. The disparity of prices of agricultural products and production inputs to agriculture depressed profits. Production was compelled to adjustment by the slow-down of financial flows and poorer availability of investment and operating capital due to declining support for agriculture. Domestic food demand decreased (for instance for dairy products by one third) and the producers had to face competition from imports.

In the first three years of reform the gross agricultural output was on an abrupt decline and in 1993 it only reached 71% of the average for 1986-1990. Since then a mild growth has been observed to 85% in 1997. The livestock sector was more affected by the decline than the crop sector. The poorer economic structure of the livestock sector, its higher support during the pre-transitional period and structural surpluses, which were for livestock products more difficult to export than for crops contributed to the divergent performance of both sectors. Livestock production mostly takes place on big co-operative farms, which are rather inflexible and very often keep the economic habits of the socialist period. A high share of crop production is in the hands of corporate companies, which adapted much better to the new market economy environment. On top of that domestic consumption of meats and milk products contracted significantly stronger than for crop products. Due to its less capital-intensive and more flexible production the crops sector recovered faster and in 1997 exceeded its pre-transition level. The livestock output could recover to only 70% of its pre-transition level.

Cereals could hold their predominance as the main arable crop during the transition period, despite fundamental changes in demand and sharply increasing pressure on profitability by increasing input costs. Production declined from 4.3 Mio t in 1989 to its deepest level of 3.3 Mio t in 1993. Since then, driven by improving yields, production recovered to 3.7 Mio t in 1997. But in 1997 yields still lagged some 20% behind its level of 5.2 t/ha in 1989. The main factors for expansion of oilseeds were the good profitability and competitiveness of Slovak exports to the Czech Republic as the main trade partner. Increase of production to 270,000 t was achieved by expansion of area, as yields are stagnant since 1992 at around 1.9 t/ha. Sugar production expanded since 1993 and reached with 218,000 t in 1997 a historical high. Slovakia, which was traditionally a sugar-net importer, since 1996 has satisfied demand with domestic production .

During transition the number of farm animals declined in two phases. The first phase from 1989 to 1992 was a phase of rapid decline. In a second phase since 1993 reduction took place at a lower pace. The cattle herd was the most affected and fell to 52% of the pre-transition level. The pig herd declined to 70% and the poultry herd to 89% of the 1989 herd size. Total meat production slumped from about 480,000 t in 1989 to 350,000t. The beef sector was amongst the hardest hit production branches and the output of 58,000 t in 1997 only reached 45% of the pre-transition level. Pork production declined but remained in equilibrium with demand as consumption declined also. Poultry production recovered rapidly since 1992 and nearly reached the pre-transition level in 1997. Total meat consumption is still substantially under the pre-transition level. 1989 total consumption amounted to 74.1 kg/capita. After a plunge in the first years of transition consumption recovered again to 64.0 kg/capita in 1997.

Milk production decreased sharply during the period from 1989 to 1997. Reduction in sectoral support, dwindling consumption and increasing input costs were the motor of decrease. Milk yields are very low due to the lack of specialised milk breeds and the low quality of foodstuff and feeding techniques. Despite a severe decline in production the structural surplus for milk products was maintained as consumption plunged also.

Supported by stabilisation of domestic demand, increasing market support policy and partly reflecting world market influences, producer prices have increased for most commodities since 1994. The upward trend for crop products is substantially stronger than for livestock products, for which recent the price increase remained under the general inflation for most commodities. Converted to ECU the increase of producer prices appears to be overvalued due to the appreciation of the Slovak Koruna since 1994 and thus has to be interpreted with caution.

## Agro-food trade

The present level of border protection in the Slovak Republic is based on GATT commitments, in which Slovakia agreed on a relatively low level of protection for agriculture. This also influenced the arrangements of subsequent trade agreements as with the EU and CEFTA. However, the sectors, which at present suffer the greatest backlog in restructuring such as beef, pork and dairy, enjoy rather high border protection.

Driven by a persistent deterioration of the trade balance in the period of 1994 to 1998 a change in politics took place and Slovakia embarked on a more protective trade administration in the framework of its commitments. The main policy issue that adversely affected the smooth functioning of foreign trade relates to the re-introduction of an import surcharge by the Slovak Republic in mid-1997.

Slovakia is traditionally a net importer of agricultural products. Agro-food imports have about twice the value of Slovak exports. Both imports and exports of agro-food commodities increased since 1994. The value of imports rose from 20 bio SKK in 1994 to 28 bio SKK in 1997 and the exports went up from 12.7 bio SKK to 14.8 bio SKK. Whereas the overall value of agro-food trade is rising, its relative share on all trade of the economy is decline, which is in line with the decline in relative importance of agriculture in economy. The gap between imports and exports widened from 7 bio SKK in 1994 to 13.2 bio SKK in 1997. The share of agro-food exports on the overall trade was relatively stable at 5% since 1993.

The most important trade partner both for imports and exports remained the Czech Republic. The second most important trade partner is the EU, which is like the Czech Republic a net exporter of agro-food products to Slovakia. Imports from the EU countries increased constantly from 1994 to 1997 and their share in total imports amounted to 37% in 1997. Slovak exports to the EU have stabilised at approximately 20% of total Slovak exports over the past 4 years. Within the CEFTA trade (excluding the CR) Slovakia has a net exporter position. The CEFTA share, excluding the Czech Republic, was 11% of exports and 7% of Slovakia's imports.

Agro-food trade is scattered amongst all commodity groups. The lions share of agro-food imports embraced commodities which can not be produced in Slovakia. They totalled to 11.9 bio SKK or 43% in 1997. The second predominant group comprised commodities, which can compete with domestic primary production as dairy products, meat, cereals, sugar and bakery products. They accounted for 37% in 1997. Commodities such as coffee, alcoholic beverages, cocoa and cigarettes had an import share of 20%. Slovak exports are based on live animals, dairy products, confectionery and bakery products and beverages. Cereal exports are rather volatile. From 1994 to 1995 cereals product exports tripled to 4.8 bio SKK and fell back again to 1.6 bio SKK in 1996 and 1997.

## Farm structures

Czechoslovakia embarked on rapid reforms of the agro-food sector and Slovakia continued on this path after the split up in 1993. Privatisation and restructuring of the farm sector had a high priority in the policy framework of Slovakia. As a result of privatisation collective farms and nearly all state farms disappeared and private co-operatives and large private farms emerged, organised as corporate farms[1]. In 1996 co-operatives managed about 60% of the UAA and corporate farms 20%. As a result of restructuring, following privatisation, private co-operatives started to split up to corporate farms, so the number of corporate farms is on overall rise. Slovak farm size structures, which formed as the result of transition, are amongst the largest in Europe. On average, Slovak co-operatives manage about 1,500 ha and corporate farms roughly 1190 ha. Individual private and household-plot farming remained a rather marginal activity occupying just 7% of total agricultural land with an average size of 7.7 ha.

Although the share of small farms and household plots on landuse appears to be rather negligible their contribution to agricultural output is high. More than 60% of potato production took place on this farm type. They are the main pillars of fruit and vegetable production.

The unsettled question of old debts, which are stemming from the first year of transition and burden the co-operatives, remain a severe obstruction for economic recovery. Land consolidation and the yet uncompleted land restitution of old owners is an obstacle in the imperative emergence of a land market.

## Up- and downstream sector

The privatisation of the food industry is almost complete (98 per cent of assets privatised by the end of 1997).

The food industry is Slovakia's second largest industrial sector with just over 15% of total industrial output. The sector has about 50,000 employees representing less than 10% of all industrial employment.

Capacities in the first processing stage of products such as meat, fruit and vegetables, starch and sugarbeet exceed actual production. Dairy capacity is only used by two thirds. The utilisation of capacity is better in higher processing stages (canning, industrial bakeries).

The overall level of foreign direct investment (FDI) remains comparatively low, partly due to the deliberate preference for domestic capital in privatisation, and a lack of transparency in the general rules for investment, although foreign investors are not discriminated against totally. However, the food industry is the sector attracting most FDI in the manufacturing sector. In 1997 about 11% of all FDI went to the food industry.

A modern retailing system is still missing in Slovakia. In most areas of Slovakia small shops dominate the market. FDI from the EU to build up a retailing system is limited. Marketing of products is suffering because of the absence of wholesale market infrastructures. Monopolistic or oligopolistic structures are persistent in the agro-food chain and they are protected by close links to the state sector. A big problem is still the weak discipline of paying inter-business bills. Juridical support to companies to collect money from debtors is still not sufficient.

[1] Limited liability companies, joined stock companies.

## Support policy for the agro-food sector

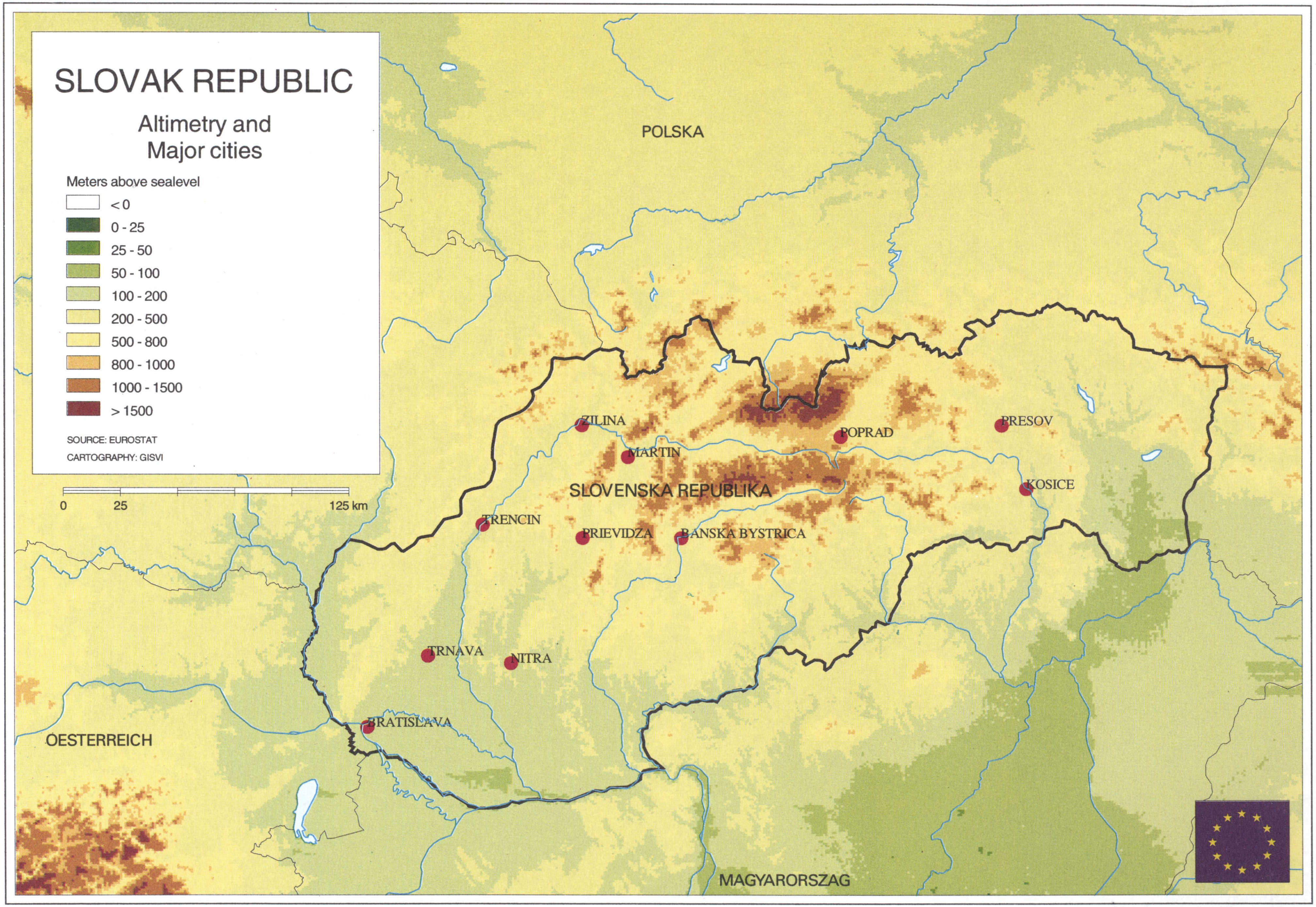
Compared to the pre-transition period support for agriculture is rather low in Slovakia. The total budgetary outlay to support agriculture is about 1.8% of GDP. The overall support to agriculture, measured as % PSE, was 19% in 1996 but went up to 25% in 1997. In general budgetary restrictions set limits to support expansion and in 1997 the overall domestic support accounted for 77% of the limit to which Slovakia has committed itself in GATT. The growth of subsidies is likely to be halted in 1998, as the agricultural budget suffered a cut of about 4%.

Nevertheless, a broad variety of policy instruments were implemented, which supported agriculture on its restructuring process. Roughly 10% of the budget goes to market support measures, which consist of intervention purchases for selected products (in particular of grains and meat) at minimum guaranteed prices and of export subsidies (mainly for dairy products, beef and sugar). 20% of the budget transfer goes as production support and is given in the form of input subsidies, which are to mitigate the impact of increased input prices. Structural policy measures for agriculture target to keep farmers in less favoured areas in business. Direct payments to farmers operating in LFAs are the lions share of agricultural support in Slovakia and account for a quarter of the budget outlay.

## Rural development policy

Approximately 48% of population live in the rural regions of Slovakia, 40% in intermediate regions and 12% in urban regions. Rural development policy is in the early stages of its implementation and still acts in the wake of regional policy, which itself is still not very advanced. Nevertheless, the existing problems of rural areas in Slovakia and the lively international discussion of the rural development topics, in particular in the EU, has strengthened the awareness of the need for an appropriate policy framework of rural development.

The first steps of emancipation towards an integrated rural development policy were taken by the setting up of the Rural Development Agency in 1995. In 1998 the Slovak Ministry for Agriculture drafted a "conception of rural development in the Slovak Republic" which formulates in an advanced way the objectives and implementation principles of rural development in the future. As a long-term objective it targets on the establishment of a rural development policy in a shape to which the EU is heading. However, there are still a lot of technical, administrative and financial problems to solve. Significant limitation of rural development is imposed by a lack of financial resources, particularly at local levels.



SLOVAK REPUBLIC
Altimetry and
Major cities
Meters above sealevel
< 0
0 - 25
25 - 50
50 - 100
100 - 200
200 - 500
500 - 800
800 - 1000
1000 - 1500
> 1500
SOURCE: EUROSTAT
CARTOGRAPHY: GISVI
0
25
125 km
POLSKA
OESTERREICH
MAGYARORSZAG
SLOVENSKA REPUBLIKA
ZILINA
MARTIN
POPRAD
PRESOV
KOSICE
TRENCIN
PRIEVIDZA
BANSKA BYSTRICA
TRNAVA
NITRA
BRATISLAVA

## Medium-term outlook until 2003

There was a recent tendency in Slovakia to rely primarily on administrative rather than market-oriented measures to address the further imperative restructuring of the agro-food sector. The basic underlying assumption of the medium-term outlook is that no major additional distortive administrative measures will be implemented.

The persistence of a large current-account deficit, growing pressure on the government's fiscal position and limited inflows of foreign investment might lead to a devaluation of the Slovak Koruna at the beginning of the forecast period. Further deregulation of prices (energy, heating) and liberalisation of the rent limitation system (on costs for housing) will fuel inflation. Covering those costs will put additional pressure on the income of most Slovakian consumers.

Domestic demand will therefore not act as a motor for agro-food production. Only at the end of the forecast period can a slight push from consumption be expected when income is seen to improve slightly. The continuing budget deficit will leave little scope to reinforce support for agriculture. The devaluation of the Koruna will improve the competitiveness of Slovak agricultural exports and will limit inflows of agro-food imports. This will improve the economic situation of domestic producers in the medium-term and translate at the end of the forecast period in moderately increasing outputs. The investment rate in the food industry is expected to go up at the end of the forecast period and production of processed food commodities also is set to rise at the ending of the period. The unfavourable availability of credits for the agro-food sector, which is one of the major reasons for limited expansion, is expected to improve over the next years.

In the farm sector co-operatives will remain the dominant farm type but restructuring by splitting off into smaller entities and changing legal entity to corporations or limited liability companies will persist. The gap of efficiency amongst the farms will widen and the more prosperous farms will attain better efficiencies in labour input. However, persisting high unemployment will limit absorption capacities in rural areas with low diversification.

Profits of arable production improved since 1993. Since 1995 sectoral net income for arable crops has been positive. In the arable crop sector therefore further expansion of area and yields are expected. The animal sector accounted losses so far. The break-even point for profits of animal production is expected for 1998 (precondition e.g. no reduction in subsidies). But the overall production is still expected to contract slightly until the year 2000 (except for poultry, for which expansion already takes place). From 2000 onwards a moderate expansion will be recorded for pigmeat, beef and milk production.

# 1. General economic situation

## General performance of the economy 1989 - 1997

At the beginning of the transition period in 1989 the Czechoslovak government embarked on radical market-oriented reforms. The Slovak economy was somewhat harder hit by the reforms and by the disintegration of the COMECON markets than the Czech one. 1993, in the first year of independence, the Slovak economy was still contracting at a rate of 4% after steep falls in the previous years. But the process of transformation to a market economy continued.

In spite of earlier fears, Slovakia's economic situation has improved rapidly in the years after the separation and 1994 showed a remarkable turnaround. Led by strong export growth GDP rebounded by 5.0%. In the following years the Slovak Republic has made good progress as far as macroeconomic stabilisation and economic growth are concerned. GDP went up by 6.8% in 1995 and 6.9% in 1996. In 1997, Slovakia recorded its fourth consecutive year of strong economic growth (table 1).

Although inflation remains relatively low compared to other countries in the region, the continued high economic growth and strong domestic demand have arrested its gradual decline. Inflation decreased from a peak of 26.9% in September 1993 to only 5.2% in September 1996. It then increased gradually to 6.5% in April 1997, after which it declined again somewhat to 5.7% in September, as a result of the more restrictive monetary policy. However, adjustments of some remaining administered prices and indirect tax increases pushed inflation up again to 7.3% in the first quarter of 1998, the highest level since the last quarter of 1995.

## Trade impact

Slovakia is an open economy with imports of goods accounting for more than 53% of GDP in 1997. An open trade policy and the reorientation of trade flows initiated the recovery in 1993. In 1994 and 1995 the economic growth was mainly driven by foreign demand. In 1996 due to slower economic growth in the EU and the continual real appreciation of the

**Table 1: General economic indicators**

| | | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|
| Population | 1000 | 5300.0 | 5324.6 | 5347.4 | 5363.6 | 5373.8 | 5388.0 |
| GDP (current prices ) | bio Koruna | 332.3 | 369.1 | 441.3 | 515.1 | 581.3 | 653.9 |
| GDP (current prices) | bio ECU | 9.0 | 10.2 | 11.6 | 13.3 | 14.9 | 17.2 |
| GDP (constant prices) | % change | -6.5 | -3.7 | 5.0 | 7.0 | 6.9 | 6.5 |
| PPS per head | % of EU | | 36.6 | 37.6 | 38.9 | 41.0 | 41.8 |
| Consumer prices | % change | 10.0 | 23.2 | 13.4 | 9.9 | 5.8 | 6.1 |
| Unemployment rate | % | 10.9 | 12.7 | 14.6 | 13.6 | 12.6 | 12.5 |
| Unemployment rate (ILO) * | % | | 12.2 | 13.7 | 13.1 | 11.1 | 11.6 |
| Budget balance ** | in % GDP | | -6.2 | -5.2 | -1.6 | -4.4 | -5.7 |
| Trade balance | mio ECU | | -796.4 | 68.2 | -146.7 | -1798.3 | -1296.6 |
| Current account | mio ECU | | -514 | 559 | 299 | -1497 | -1157 |
| Long term lending rate | (% / year) | | 14.4 | 14.6 | 15.6 | 13.2 | 15.4 |
| Exchange rate | SKK/ECU | 36.7 | 36.0 | 38.1 | 38.9 | 39.1 | 38.1 |

*Calculation retro-actively modified by SBS in 1997. **Debt principal repayments included.

Source: DG II, SBS via NBS, WIIW

Slovak Koruna, foreign demand weakened and overall economic developments were based mainly on domestic demand. In 1997 the situation reversed slightly. While domestic demand became less dynamic in 1997, the contribution of external trade to economic growth improved despite the relatively unfavourable exchange rate for Slovak exports. However, domestic demand remained the predominant source of growth. With a real growth rate of more than 6% (in SKK), total exports were clearly recovering from their disappointing performance in 1996, when a negative real growth rate was recorded. Consequently, the trade deficit declined from more than 11% of GDP in 1996 to about 7.5% of GDP in 1997[2]. Demand for imports in 1997 was restricted by the effects of the tight monetary policy and by the introduction of a new import surcharge (table 2).

The introduction of an import deposit scheme in May 1997 which was replaced in July by a 7% import surcharge appear as a major trade problem. A few other trade problems that have arisen relate to Slovakia's continued introduction of obligatory certification and pre-market testing procedures. These have created non-tariff barriers to various products exported to Slovakia.

**Table 2: Balance of total trade of Slovakia**

| bio ECU | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Imports | | 5.6 | 6.7 | 8.8 | 9.1 |
| Exports | | 5.6 | 6.6 | 7.0 | 7.8 |
| Balance | | 0.1 | -0.1 | -1.8 | -1.3 |

Source: Eurostat

Nevertheless, given the low inflow of foreign direct investment in Slovakia, the current account deficit is still too high to be sustainable. The high current account deficit has to be financed almost fully by foreign credits, which pushes up external debt[3]. Foreign debts were increasing at a substantially higher pace than Slovak exports. At the end of 1997, the debt-export ratio stood at 90%, an increase of more than 40 percentage points in less than two years.

Slovakia has signed five regional trade agreements, which account for over 80% of the exports and roughly 70% of the imports. The five agreements are the Czech-Slovak Customs Union, the Central

**Table 3: Main trade partners in the overall trade of Slovakia**

| | Unit | 1992 | | 1993 | | 1994 | | 1995 | | 1996 | | 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Imports** | | | | | | | | | | | | | |
| 1st partner | %IMP | RUS | 35 | CZ | 36 | CZ | 30 | CZ | 28 | CZ | 25 | CZ | 23 |
| 2nd partner | %IMP | DE | 21 | RUS | 20 | RUS | 18 | RUS | 17 | RUS | 18 | RUS | 16 |
| 3rd partner | %IMP | AT | 10 | DE | 11 | DE | 13 | DE | 14 | DE | 15 | DE | 15 |
| 4th partner | %IMP | IT | 6 | AT | 6 | AT | 6 | AT | 5 | AT | 5 | IT | 6 |
| 5th partner | %IMP | PL | 3 | IT | 3 | IT | 4 | IT | 5 | IT | 6 | AT | 5 |
| others | %IMP | | 25 | | 24 | | 29 | | 32 | | 33 | | 36 |
| **Exports** | | | | | | | | | | | | | |
| 1st partner | % EXP | DE | 24 | CZ | 42 | CZ | 37 | CZ | 35 | CZ | 31 | CZ | 27 |
| 2nd partner | % EXP | RUS | 17 | DE | 15 | DE | 17 | DE | 18 | DE | 21 | DE | 22 |
| 3rd partner | % EXP | AT | 7 | AT | 5 | AT | 5 | AT | 5 | AT | 6 | AT | 7 |
| 4th partner | % EXP | HU | 7 | RUS | 5 | IT | 4 | IT | 5 | IT | 5 | IT | 6 |
| 5th partner | % EXP | IT | 6 | HU | 5 | RUS | 4 | PL | 4 | PL | 5 | PL | 6 |
| others | % EXP | | 39 | | 28 | | 32 | | 33 | | 32 | | 33 |

Source: Comext Eurostat

[2] A number of one-off factors that pushed up imports in 1996 (imports of military equipment from Russia as debt repayment, higher anticipatory imports before increases of tax and import duties) were notably absent in 1997.

[3] The 1998 downgrading of Slovakia's credit rating to a speculative grade by Moody's, and the negative outlook that was given by Standard & Poor's will further increase the cost of foreign financing.

European Free Trade Agreement, free trade agreements with the countries of the EFTA and the EU Association Agreement. Free trade agreements have also been signed with Turkey, Israel, Lithuania, Latvia, Estonia and Bulgaria.

The Czech Republic emerged as the main trade partner since the split in the two countries, although its relative share is declining to one quarter of all trade. Slovakia remained a net exporter to the Czech Republic. Trade has been reoriented towards western markets, and in particular to the EU, with the EU now the fastest growing and the biggest trade partner, accounting for around 35% of Slovak imports and more than 40% of exports. Germany alone takes up about half of the EU trade with Slovakia, but also Italy and Austria improved their share in both exports and imports. Russia maintained its position as the second most important importer, Russian imports embrace mainly gas and petrol. Russia accounts for only 6% of all exports (table 3 on page 15).

## Public finance and monetary policy

The conduct of monetary policy by the National Bank of Slovakia has, until now played a vital role in the stabilisation process. Inflation is low, albeit some concealed inflation since energy for private consumption continues to be subsidised and some consumer prices are controlled still. In an effort to curb the rapidly deteriorating external balance and to safeguard the country's inflation record the NBS has gradually tightened monetary policy since 1996. Interest rates were raised, reserve requirements were increased and the fluctuation margin around the central currency rate was widened.

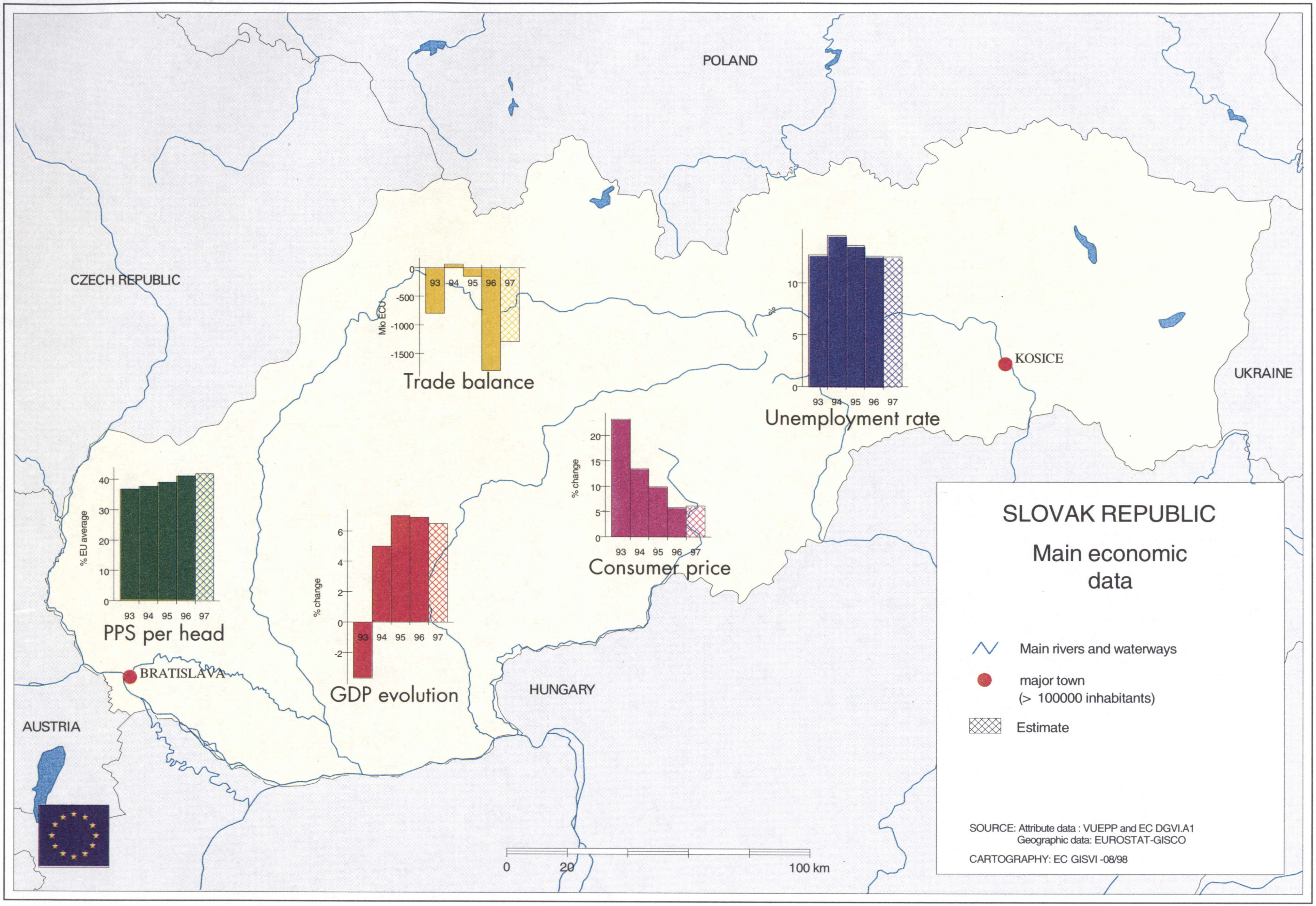
The more restrictive stance of monetary policy was not however supported by a tighter fiscal policy orientation. The state deficit, which had decreased from 1993 to 1995, increased again from 8.3 bio SKK in 1995 to 25.5 bio SKK in 1996. For 1997 the deficit was even higher at about 38 bio SKK as a result of disappointing corporate profit tax collection, and of higher expenditures for highway construction, public sector wages, interest payments, social security benefits and due to increasing debt service. The overall government sector in Slovakia comprises mainly the state government accounting for 56% of spending and four social security funds accounting for 35% of expenditure.

Slovakia's foreign debt had risen from ECU 2.7 bio in 1993 to around ECU 9.0 bio in March 1998. Foreign currency reserves, built up in 1994 and 1995 in a period of positive current account, could be kept stable despite the deterioration of the current account in 1996 and 1997 to an estimated 3.1 bio ECU in June 1998.

The Slovak government took a number of corrective measures in July 1997, such as the introduction of the import surcharge and some expenditure cuts which reduced the deficit by about 2% of GDP. The budget for 1998 foresees a fiscal state deficit of only 0.7% of GDP. Compared to about 4.5% in 1997, the general government deficit is still expected to be close to 3% of GDP. This includes extra-budgetary investment in infrastructure and housing. Interest payments on government debts are increasing (debt service 46.3 bio SKK in 1998) because of the overall increase i debts and rising interest rates. So the underlying problem of Slovakian budget policy is the dramatic growth in total public debt and the servicing of these debts.

Because of the very expansive stance of fiscal policy, monetary policy had to be even more restrictive, after the successfully defended attack on the currency in May 1997. Consequently, the government faced increasing difficulties to finance its growing deficit on the domestic financial markets.

Full current account convertibility was established at end of 1995. At the end of 1996 the National Bank of Slovakia (NBS) announced further liberalisation of capital movements, especially with respect to cross-border loans and real estate transactions.



POLAND
CZECH REPUBLIC
UKRAINE
AUSTRIA
HUNGARY
KOSICE
BRATISLAVA
Trade balance
Mio ECU
0
-500
-1000
-1500
93 94 95 96 97
Unemployment rate
%
10
5
0
93 94 95 96 97
PPS per head
% EU average
40
30
20
10
0
93 94 95 96 97
GDP evolution
% change
6
4
2
0
-2
93 94 95 96 97
Consumer price
% change
20
15
10
5
0
93 94 95 96 97
SLOVAK REPUBLIC
Main economic data
Main rivers and waterways
major town
(> 100000 inhabitants)
Estimate
SOURCE: Attribute data : VUEPP and EC DGVI.A1
Geographic data: EUROSTAT-GISCO
CARTOGRAPHY: EC GISVI -08/98
0
20
100 km

Exchange obligations for companies and exchange limitations for individuals were abolished in April 1998.

After the 10% devaluation in June 1993 the exchange rate has remained stable in nominal terms. The Slovak currency has been pegged to a USD-DM basket (USD 40%, DM 60%), with a fluctuation band, which has been widened to +/-7% of 1 January 1997. The widening of the band is intended to discourage speculative inflows of foreign capital.

Interest rates were completely liberalised in 1992. In the second quarter 1997, the NBS sharply reduced liquidity in the interbank money market to sustain the exchange rate against a number of speculative attacks. This led to volatile and high interest rates until spring 1998.

The high real interest rates, which followed from exchange rate pressures and the inappropriate policy mix, created additional difficulties for the already weak bank sector, especially on those institutions that depend on the interbank market for their financing. As a consequence, IRB, the third largest bank, encountered serious liquidity problems, and had to be put under forced administration by the National Bank of Slovakia in December 1997.

## Privatisation

A sell-off of state assets has been pursued through two privatisation waves. The privatisation process started in 1990 during the CSFR period by so called "small-scale privatisation" and was completed in 1992 with about 10,000 shops, businesses and enterprises being auctioned off. As a second phase of the first privatisation wave "large-scale" privatisation was launched in 1992 and was completed by mid 1993. There were about 750 enterprises involved with the book value of about 166 billion SKK. In this process the shares of 503 companies amounting to 80 billion SKK were distributed through voucher-based 'mass privatisation". The balance of assets was sold by standard methods using direct sales and public tenders. A restitution fund was established by the National Property Fund (NPF) in 1993 to provide financial compensation to those whose claims could not be met by the return of property. The fund usually receives 3% of shares in privatised companies.

In September 1994, the second wave of privatisation started with the distribution of vouchers but was then put on hold until June 1995 when the government announced a new privatisation policy. The Voucher privatisation scheme was replaced with a scheme based on direct sales to strategic investors, including sales by instalments to managers and employees (MEBO; Management Employee Buy Out Scheme). The 3.5 million citizens, who bought coupon books, expecting the voucher privatisation method to proceed, were given interest-bearing state-backed bonds. Before maturity, these bonds can be used to buy company shares from the portfolio of the National Property Fund or to pay pension and health insurance and for down payments on apartments. Companies can also use the bonds to pay off debts to the NPF. In case the bonds are not use by their holders they will mature at end of 2000.

Within the new privatisation policy a law relating to state interests in companies came into force in 1995. It lists 29 companies, which will not be privatised, mainly in infrastructure, telecommunications armaments and agriculture. The law secures a majority share of the state in further 45 companies of the mentioned sectors. Finally, in announcing the change in the method of privatisation, additional legislation was passed to tighten the regulatory framework for Investment Privatisation Funds and to limit their role in enterprise governance. By May 1996, 605 enterprises were privatised, 85% by direct sales including MEBOs and 15% by public tenders.

The terms of sale are typically very favourable for the buyers. The average purchase price of shares was less than 40% of the book value in 1996. Still, only a fraction of the sales price reaches the NPFs account as the investment expenditures specified in the privatisation agreement can be used to offset payments. The style of privatisation continues to be criticised for lack of transparency and economic adjustment. Cronyism led to purchases of companies far below the book value to managers loyal to the government. The pace of privatisation remained high reaching its peak in real terms of book-value of the transferred companies in 1996. In 1996, 217 fully state owned companies and 118 joint-stock companies in which the state had a majority share were privatised. In 1997 privatisation slowed down with only 26 transfer decisions in the first half of the year. At the end of 1997 assets with a book value of more than ECU 1 bio remain to be privatised.

The private sector is estimated to have accounted for 77% of GDP in 1997, up from 39% in 1993. The share of private industrial output increased to 70% while about 75% of the employment is in private enterprises. State ownership remains significant in the large scale and capital intensive sectors.

## Restructuring policy

The main restructuring tools have been indirect: privatisation, access to credit and subsidies (although quite limited), liberal rules of market entry and import competition. Restructuring has essentially been left to the new private owners. The fairly decentralised restructuring process has produced some positive results. Labour productivity of industrial output has risen continuously since 1992 and now exceeds its pre-transition level. Productivity growth was initially driven by rapid downsizing of workforce. In recent years rising production with stable employment levels contributed to productivity gains. Many companies have been successful in finding new markets in western economies.

Despite these advances, profitability is low in many enterprises and appears to have worsened in 1996. Profits in non-financial enterprises with more than 25 employees contracted by more than 20% between 1995 and 1996[4]. Only 45% of these firms were posting profits at all. On the other hand, profits grew strongly in small enterprises.

In a worrying development that could weaken market discipline, a law on the "Revitalisation of Enterprises" came into force mid 1997. Under this act, selected enterprises are granted debt and tax reductions, and can be exempted from bankruptcy while they are restructuring. A committee made up of government officials and bank executives will identify eligible companies, which then receive state aid in the form of tax deferrals and tax forgiveness, conditional on criteria related to employment, social and regional development, as well as exports. The role of the state in enterprise restructuring was further increased by the approval of the enterprise revitalisation act.. Because of the prospect of debt relief, this new act has clearly given incentives to enterprises to build up additional payment arrears.

As in previous years, foreign involvement in enterprise restructuring remained limited in 1997. Foreign direct investment declined even further from the already low level.

The shadow economy was estimated[5] to have amounted to 12% of GDP in 1996, compared to more than 15% in 1993. Compared to other CEECs the share of unofficial economy appears to be apparently low.

## Bankruptcy legislation

Enterprises themselves are entangled in the problem of the insolvency of clients - inter-enterprise arrears. This complicates the initiation of bankruptcy procedures because of the possible knock-on effects, when enterprises become insolvent because their

[4] In the period from 1995 to 1997 the competitiveness of Slovak industry deteriorated because real wages grew faster than labour productivity in industry.

[5] EBRD, Transition report 1997.

debtors have gone bankrupt. Until 1997 Slovakia made little progress in the implementation of an effective bankruptcy law, but in 1998 a revision of the law introduced more efficient procedures.

The previous law, put in force 1993, included conciliation procedures and exemptions that made the process less than fully transparent, and tended to delay the process. Here again companies with close links to the government profited most from the intransparent exemption practises. Furthermore, the courts were overburdened and inexperienced. With approximately 40% of enterprises technically insolvent and 35% of the banking assets being non-performing, the debt problem in the banking/enterprise sector posed and still poses the biggest challenge to the Slovak economy over the medium term (table 4).

The number of companies declared bankrupt between 1993 and 1997 has been small. Enterprise restructuring and market efficiency has been inhibited by the absence of exits by inefficient companies. A related problem is the large amount of bad debts between the companies. The inter-enterprise arrears amounted to 18% of GDP at the end of 1996, however this figure is down from 27% in 1993.

**Table 4: Non-performing loans in Slovakia (in % of all loans)**

| 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| 3% | 12% | 30% | 42% | 32% |

Source: ERB

## Price policy

The majority of consumer prices were already decontrolled during the CSFR period in 1991. The only remaining significant controls pertained to utility charges, rents and public services. In addition price increases on the energy sector were limited leading to cross-subsidisation from industry to households. In April 1996, a law took effect allowing the Ministry of Finance to regulate prices of certain goods and services in the domestic market. However, dismantling of these price regulations would considerably boost consumer prices.

Inflation jumped in 1991 when prices were liberalised under the federal government. In the following year it was brought down to 10% by the restrictive monetary and fiscal policies of the federal government coupled with the wage moderation. However, the introduction of value-added tax (VAT) from January 1993 caused the inflation rate to rise to 23,2% in that year. In 1994 inflation decreased to a still higher than expected 13.4%.

## Taxation policy

A comprehensive tax reform was implemented in 1993, introducing a VAT in two tiers, streamlining corporate and individual income taxes, and transferring funding for social security from general taxation to an insurance-based system. Revisions in 1994 reduced the corporate tax rate to 40%, and the maximum personal income tax to 42%. Since January 1998 the government raised the VAT rate in the lower band to 7% and included more items in the upper band (taxed at 23%) as part of the 1998 budget. Tax revenues accounted for 26% of GDP, while social insurance payments accounted for 17% of GDP in 1996. Direct taxes accounted for 45% of total tax revenue.

## Labour market and wages

Initially, the fast economic growth had a beneficial impact on unemployment. The unemployment rate declined from a peak of 15.2% in January 1995 to 12.8% in December 1996. However, in 1997 the number of unemployed has been constantly higher than in the corresponding period of 1996. The official unemployment rate probably overestimated actual unemployment somewhat, why the Statistical Office of Slovakia switched to the internationally comparable ILO unemployment rate since end of 1997. Unemployment in Slovakia is now clearly a structural phenomenon with a high share of it being long-term unemployment The large majority of the unemployed have been out of a job for more than a year, and have a low education level. Because of low geographical labour mobility and a lack of housing in regions with fast economic growth, regional differences in unemployment rates are very high. The regions having the highest share of unemployment are located in the southern and eastern parts of the country, whereas the urban regions of Bratislava and Kosice face an unemployment rate between 4-5%.

Wage policy is determined via collective bargaining on a tripartite basis between the government, employers and trade unions. In 1996 and 1997, industrial real wages grew much faster than labour productivity. Control of wages was abolished in late 1994, but in mid 1997 - as part of a wider economic package - the government put forward regulation to curtail wage increases that exceed productivity gains. The measure applies in principle to all enterprises but it is expected to be enforced primarily for loss-making firms. The minimum monthly wage was set at SKK2.700 in 1996 and is going to be increased to SKK 3000 (ECU 79) from 1998 onwards (table 5).

Wages roughly doubled in the period from 1989 until 1997. During the same time period cost of living more than tripled[6]. The average monthly wage for agricultural employees was 7,153 SKK[7] in 1997. This was 20% below the total average in all economic sectors. The average wages in the Slovak Republic are the lowest compared with other CEFTA countries[8].

## Banking sector

A two tier banking system has been established in Slovakia with an independent National Bank and currently 31 commercial banks which are licensed to operate in Slovakia. 8 of these banks are fully domestically owned, 16 having foreign capital participation and 7 being branch offices of foreign banks. There are also 12 representative offices of

**Table 5: Development of average monthly wages in selected sectors**

| | Average monthly wage in 1989 (SKK) | Parity of wages | Average monthly wage in 1993 (SKK) | Parity of wages | Average monthly wage in 1995 (SKK) | Parity of wages | Average monthly wage in 1996 (SKK) | Parity of wages | Average monthly wage in 1997 (SKK) |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture *** | **3410** | **106.8** | **4481** | **85.1** | **5766** | **80.7** | **6503** | **79.1** | **7153** |
| Agricultural cooperatives * | 3483 | 109 | 4548 | 86.4 | 5748 | 80.5 | 6514 | 79.2 | 7165 |
| State farms and companies * | 3212 | 100.6 | 4437 | 84.3 | 5589 | 78.2 | 5939 | 72.2 | 6533 |
| Food industry ** | 3024 | 94.7 | 5131 | 97.5 | 7004 | 98.0 | 8096 | 98.5 | 8845 |
| Forestry ** | 3117 | 97.6 | 5049 | 95.9 | 6252 | 87.5 | 7005 | 85.2 | 7706 |
| **TOTAL all economic sectors **** | **3194** | **100** | **5264** | **100** | **7144** | **100** | **8221** | **100** | **9221** |

*Selected Economic Indicators and Employees in Agriculture of Slovakia, by counties.

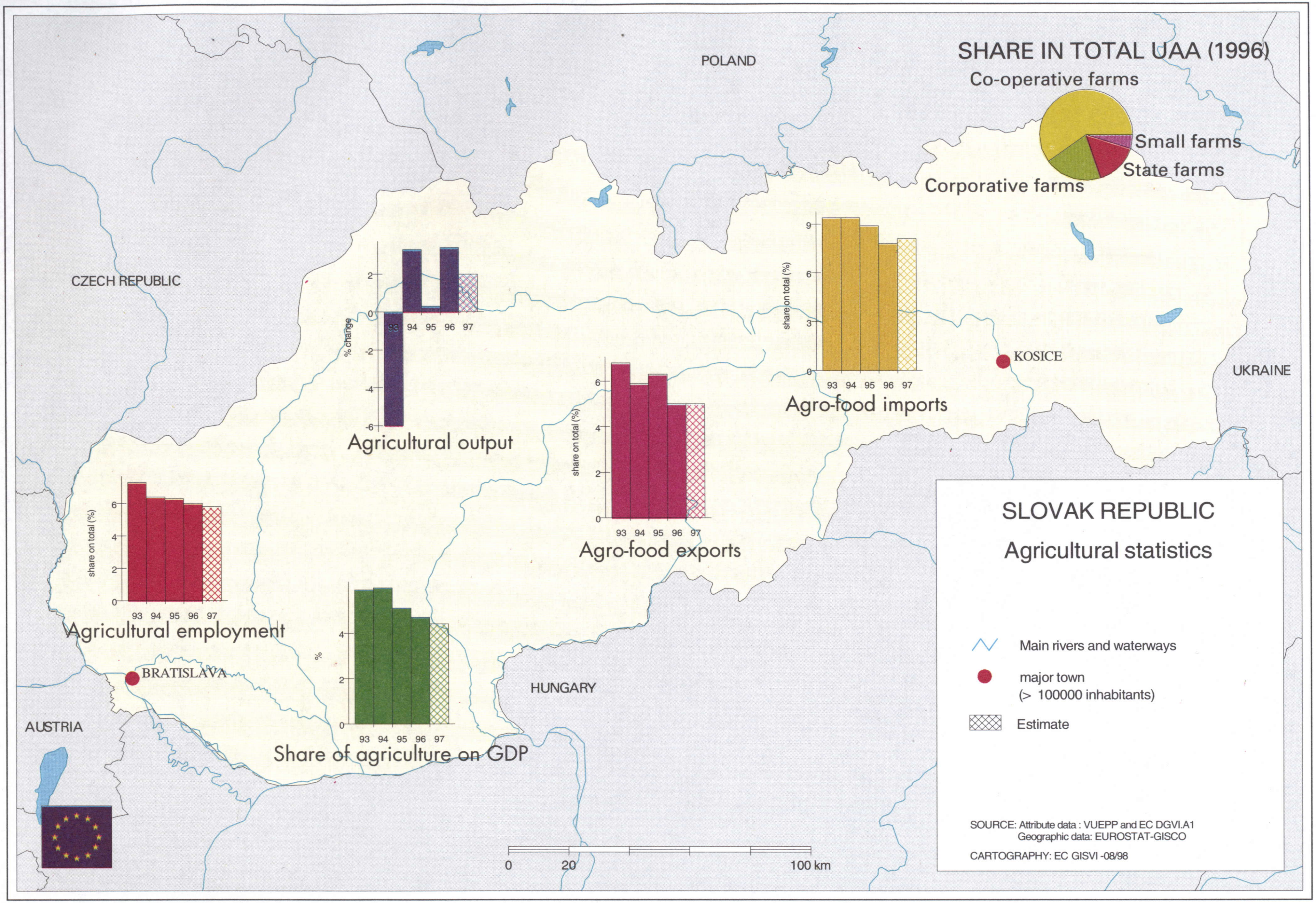
**Employees and Average Monthly Wages, SBS, 1993, 1994, 1995, 1996, Statistical Yearbook 1990.

Source: VUEPP

6 Consumer price index 1997: 337.9 (1989 = 100).

7 About 187 ECU.

8 9200 SKK per month, which is about 240 ECU.


SHARE IN TOTAL UAA (1996)
Co-operative farms
Small farms
State farms
Corporative farms
POLAND
CZECH REPUBLIC
UKRAINE
AUSTRIA
HUNGARY
BRATISLAVA
KOSICE
% change
Agricultural output
share on total (%)
Agro-food exports
Agro-food imports
Agricultural employment
%
Share of agriculture on GDP
93 94 95 96 97
0 20 100 km
SLOVAK REPUBLIC
Agricultural statistics
Main rivers and waterways
major town
(> 100000 inhabitants)
Estimate
SOURCE: Attribute data : VUEPP and EC DGVI.A1
Geographic data: EUROSTAT-GISCO
CARTOGRAPHY: EC GISVI -08/98

foreign banks, which play an informational role for their clients, but which are not licensed to carry out financial services.

The Slovak banking market is still dominated by three banks, which together account for 49% of total bank assets: the Vseobecna Uverova Banka (VUB), the Investicna a rozvojova banka (IRB) and Slovenska Sporitel'na (SLSP). The VUB and IRB were partially privatised in the first wave of voucher privatisation in 1992-1993, but the NPF still owns 48% of VUB, 35% of IRB and 91% of SLSP. After recapitalisation of IRB by the state-owned Slovak Insurance Company, IRB is now again a state-owned bank. The Czech located Ceskoslovenska obchodna banka (CSOB) is still playing a central role in financing Slovak trade via its Slovak branch. In 1995 it provided around 55% of the entire banking sector's foreign exchange credits.

However, a major structural reform challenge over the medium term is the reform of the banking and financial sector. The major problems are the unsettled question of loans dated before 1993, the high rate of bad loans, low foreign investment, tight monetary policy.

## Foreign direct investment

Enterprise restructuring has taken place virtually without foreign involvement. The style of privatisation has not created many opportunities for foreign acquisitions. Total foreign direct investment in 1997 was less than 2% of GDP and cumulative FDI from 1989 to 1997 only 275 ECU per capita[9]. Major obstacles seem to be the lack of transparency and fairness in privatisation and discouraging capital market regulations.

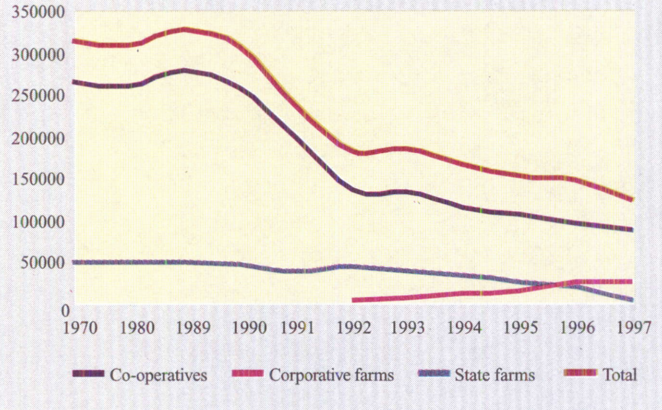
[9] Total cumulative FDI 1989 To 1997: 1.4 bio ECU (including banking sector).

# 2. Agricultural and rural society

## 2.1 Agriculture in the Slovakian economy

In the pre-reform period (1986-1990), the share of agriculture on the gross domestic product stood at around 7 per cent. In the years to follow it started to decline, and in 1996 it was at 4.7% and at only 4.4% in 1997 In 1990, the share of agriculture in overall employment reached 10.7%. Since transition this indicator has been on a permanent decline, falling to 5.8% in 1997 (table 6).

**Graph 1: Share of agriculture in employment**




Source: VUEPP/RIAFE

Before transition the farm sector was over-staffed. The necessary reduction of number of people employed in agriculture was accompanied by measures in socially-motivated employment of people in collective farms, which allowed for a drastic reduction of about one third of staff during the early stage of transition in 1991 and 1992. The cancellation of services and activities that were not directly connected with agricultural production added to the strong plunge. The positive performance of the general economy could absorb labour from agriculture, which became redundant during restructuring. Since 1993 the pace of reduction in agricultural employment slowed down and in 1997 5.8% of all employees still worked in agriculture (graph 1).

Slovakia considers itself an industrialised economy. The policy objective for agriculture is to target self-sufficiency and not to maximise production for exports. Despite its relatively low share in the overall economic performance of the country, agriculture plays a comparatively significant part in the maintenance of economic and social equilibrium. At continuously low per capita income, the share of expenditure on foodstuffs in total consumer expenditure is high (37%), which makes the prices of foodstuffs even more sensitive in terms of family budgets. The prices of agricultural products supplied by domestic

**Table 6: Importance of agriculture**

| | | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|
| GDP | % change | -2.5 | -14.6 | -6.5 | -3.7 | 5.0 | 7.0 | 6.9 | 6.5 |
| Agricultural Output | % change | -7.2 | -6.9 | -11.9 | -6.0 | 3.3 | 0.3 | 3.4 | 2.0 |
| Share of agriculture on GDP * | % | | | | | 3.2 | 2.7 | 3.1 | 3.2 |
| Share of agriculture on GDP ** | % | | | | 5.9 | 6.0 | 5.1 | 4.7 | 4.4 |
| Share of agriculture on employment | % | 10.7 | 8.7 | 8.1 | 7.3 | 6.4 | 6.3 | 6.0 | 5.8 |
| Share of agro-food exports on total exports | % | | | | 6.8 | 5.9 | 6.3 | 5.0 | 5.0 |
| Share of agro-food imports on total imports | % | | | | 9.4 | 9.4 | 8.9 | 7.8 | 8.1 |

*Excluding forestry, share of agriculture expressed in gross value added from agricultural account.

**Data from Slovak Statistical Office, excluding forestry and intrasectorial intermediate consumption in agriculture.

Source: SBS, VUEPP, DG VI calculations

producers to processors[10] have been relatively low so far. That made it possible to keep the development of consumer prices below the general level of inflation and helped to mitigate economic hardships for consumers during the transition process.

The share of agri-food imports and exports on the overall foreign trade of Slovakia was comparatively stable over the past years and ranges between 5 to 10 per cent.

### Input and Output

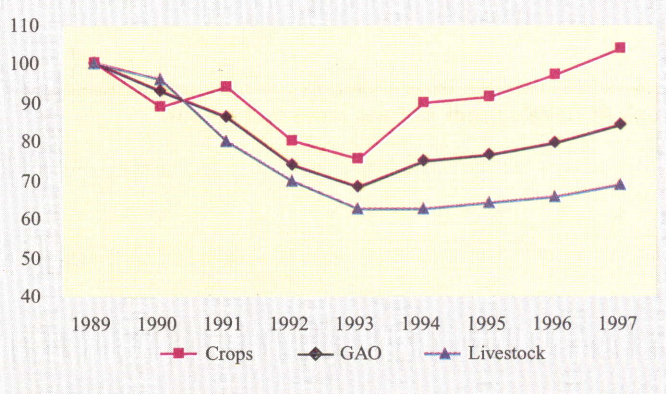
Transition had a strong impact on the agricultural output. The disparity of prices of agricultural products and production inputs to agriculture depressed profits. Production was compelled to adjustment by the slow-down of financial flows and poorer availability of investment and operating capital due to declining support for agriculture. Liberalisation steps taken as part of the general economic reform from 1991 onwards forced agriculture to adapt its activities to market economy. Lowered demand called for a change in output structure as well as a more streamlined utilisation of resources, which became more difficult to get for agricultural producers. In the first three years of reform the gross agricultural output was on an abrupt decline and in 1993 it only reached 71% of the average for 1986-1990. Since then a mild growth has been observed to 85% in 1997 (graph 2).

As in most transitional economies of the Central and Eastern European Countries the livestock sector was more affected by the decline than the crop sector. The poorer economic structure of the livestock sector, its higher support during the pre-transitional period and structural surpluses, which were for livestock products more difficult to export than for crops contributed to the divergent performance of both sectors. On top of that domestic consumption of meats and milk products contracted significantly more than for crop products. Due to its less capital-intensive production the crops sector recovered more rapidly and since 1996 has exceeded its pre-transition level.

After an abrupt drop following the price and income shock in 1991 and 1992, domestic food consumption since 1995 stabilised at a level, which for the majority of products is lower than in 1986-1990. In addition consumption modified its structure by shifting from livestock to crop production as the predominant output sector. The shift is a result of adaptive changes which took place over the past years and in which market factors (demand, prices) as well as the effort of producers to reduce demand for capital and labour in production played a part. The share of livestock products on the Gross Agricultural Output contract from 56% in 1989 to 46% 1997 and the share of crop production gained in that time from 44% to 54%.

The disparity in the performance of input and output prices had a very negative impact on profitability. Input prices doubled in the first two years of transition from 1989 to 1990, whereas output prices virtually remained unchanged. Until 1997 the prices for the agricultural products increased only smoothly to 160% of the 1989 level. At the same

**Graph 2: Gross Agricultural Output**

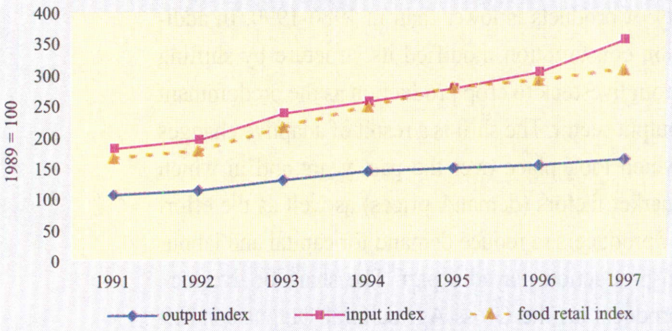



Source: VUEPP/RIAFE, data SBS

[10] Farm prices of most products fluctuate within the range of 68 to 75% of effective support prices under CAP and Slovak market prices for some bulk products are even below the level of world prices (e.g. wheat).

time input prices had skyrocketed to 350%. Slovakian producers were severely affected by the widening of the cost - revenue scissors (graph 3).

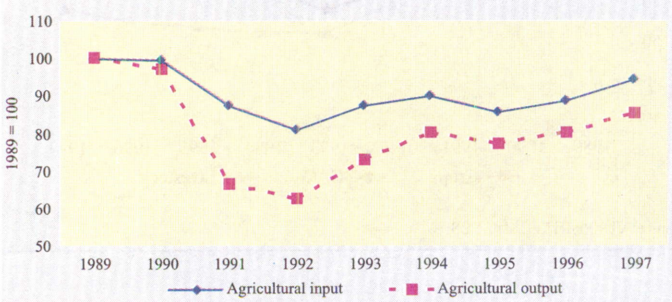
**Graph 3: Development of food retail price and farm-input and output prices**




Source: VUEPP

The decline in overall input value was less marked than the decline in overall output value. The disparity in the development of input and output volume had its main reasons in the rapid increase of input prices and the high share of fixed costs. The disparity of prices of agricultural products and production inputs widened rapidly in 1991 and 1992 and provoked heavy losses in the whole sector. Since 1993 the gap narrowed slightly again and since 1994 input and output volume increase more or less in parallel (graph 4).

**Graph 4: Development of farm input and output**




Source: VUEPP

### Economic results

The sectoral income of agriculture turned negative at beginning of transition. In particular in 1991 and 1992 heavy losses were recorded. This contributed to the high indebtedness of the sector nowadays. Until 1995 the situation improved and 1996 was the first year with a sectoral profit. The gains in efficiency accelerated over the years. In 1997 the increase of about 4 bio SKK in final production was achieved with an additional intermediate consumption of only 0.5 bio SKK. But without subsidisation agriculture would still be unprofitable in Slovakia.

In economic terms the crop and livestock sector performed differently. The more flexible and less capital intensive crop sector reached the break even point of loss/profits already in 1994, whereas the livestock sector still posted losses in 1997.

## 2.2 Land Use

With a total area of 49,035 square kilometres Slovakia is a bit bigger than Denmark. Half of the area of Slovakia or 2.45 Mio ha is agricultural land of which arable land makes up 1.45 Mio ha. Forests cover over 40% of the country (1.99 Mio ha), most of which is hilly or mountainous. 963,000 ha are grassland.

The grassland is mainly located in the northern, mountainous parts of the country. Intensive agriculture, partly including the growing of vegetables and of other intensive crops, in particular that of vine, is developed in Podunajská and Východoslovenská Lowlands and adjacent hills. Regions under irrigation, for which area was decreasing over the past years, dropped to 54,000 ha in 1995. In the early 90s some 200,000 ha of land were under irrigation. There is 0.46 ha of agricultural land and 0.27 ha of arable land per capita. During transition land use remained rather unchanged for most basic land use categories. There was only a small shift from arable land to permanent grassland (table 7).

**Table 7: Land use in Slovakia**

| 1000 ha | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|
| Total area | 4904 | 4904 | 4904 | 4904 | 4904 | 4904 | 4904 | 4903 | 4903 |
| Forests | 1979 | 1986 | 1989 | 1990 | 1991 | 1992 | 1992 | 1992 | 1993 |
| Utilized agricultural area | 2454 | 2449 | 2449 | 2447 | 2446 | 2446 | 2446 | 2445 | 2445 |
| Arable land (harvested area) | 1503 | 1509 | 1509 | 1516 | 1500 | 1503 | 1497 | 1474 | 1459 |
| Permanent grassland | 783 | 777 | 776 | 780 | 805 | 810 | 814 | 817 | 831 |
| Vineyards | 24 | 24 | 23 | 23 | 22 | 22 | 23 | 22 | 19 |
| Kitchen gardens | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 |
| Other land | 66 | 61 | 62 | 51 | 41 | 33 | 34 | 54 | 57 |

Source: SBS, EUROSTAT

## 2.3 Agricultural production and consumption

### 2.3.1 Arable crops

In contrast to the basic land use categories the allocation of arable land passed through stronger changes during the beginning of transition. The sharp decline in the cattle herd reduced the demand for green fodder and the green fodder area was partly re-allocated to cereal production or more extensive production on permanent grassland. Increasing profitability and policy support boosted oilseed cropping. Utilisation of arable area for protein crop and sugar beet production returned in the last two years to their pre-transition level. The potato area decreased with increasing yields over the 1989 - 1997 period (table 8).

#### 2.3.1.1 Cereals

Cereals could hold their predominance as the main arable crop during the transition period, despite fundamental changes in demand and sharply increasing pressure on profitability by increasing input costs. The sharp fall in livestock production from 1989 to 1993 translated in a reduced demand for feed cereals. Pressure on household incomes set back demand for food cereals and due to falling meat consumption indirectly of feed cereals. Rapidly increasing input prices shortened the availability of fertilisers, which lead to a slump in productivity. Yields dwindled from

**Table 8: Allocation of arable land to the main crops**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Arable land | 1000 ha | 1503 | 1509 | 1509 | 1516 | 1500 | 1503 | 1497 | 1474 | 1459 |
| **Cereals** | **1000 ha** | **814** | **770** | **800** | **794** | **834** | **860** | **848** | **827** | **853** |
| | % arable | 54 | 51 | 53 | 52 | 56 | 57 | 57 | 56 | 58 |
| **Protein crops** | **1000 ha** | **32** | **33** | **42** | **65** | **65** | **55** | **50** | **43** | **33** |
| | % arable | 2 | 2 | 3 | 4 | 4 | 4 | 3 | 3 | 2 |
| **Oilseeds** | **1000 ha** | **62** | **71** | **96** | **72** | **74** | **87** | **124** | **134** | **139** |
| | % arable | 4 | 5 | 6 | 5 | 5 | 6 | 8 | 9 | 10 |
| **Potatoes** | **1000 ha** | **55** | **55** | **55** | **51** | **47** | **41** | **40** | **41** | **33** |
| | % arable | 4 | 4 | 4 | 3 | 3 | 3 | 3 | 3 | 2 |
| **Sugarbeet** | **1000 ha** | **55** | **51** | **48** | **45** | **32** | **32** | **34** | **42** | **47** |
| | % arable | 4 | 3 | 3 | 3 | 2 | 2 | 2 | 3 | 3 |
| **Green fodder** | **1000 ha** | **423** | **468** | **410** | **434** | **393** | **373** | **346** | **333** | **298** |
| | % arable | 28 | 31 | 27 | 29 | 26 | 25 | 23 | 23 | 20 |

Source: VUEPP/RIAFE, SBS, EUROSTAT

5.2 t/ha to 3.8 t/ha. The area allocated to cereals went back to 794,000 ha in 1993.

From 1994 onwards the situation started to improve slightly again. The reduction in livestock numbers slowed down, food consumption recovered moderately and profitability improved. From 1995 onwards the crop sector, which stayed dominated by cereals production, started to record a positive sector income again. Expanding cereal exports supported this development. Before transition Slovakia was a cereals net importer. From 1991 onwards Slovakia started to export amounts worth mentioning, which supported the re-expansion of production since 1994. The use of feed stuff became very sensitive to price increases. 1996 high prices immediately translated to reduced cereals input in animal feeding. Weather conditions adversely affected production in the years 1992, 1993 and 1996 (table 9).

### 2.3.1.2 Oilseeds

Area allocation to oilseeds[12] more than doubled from 1989 to 1997. Yields went back as area expansion took place in less suitable production areas and inputs stayed at a low level. Main factors for expansion were the good profitability and competitiveness of Slovak exports to the Czech Republic as the main trade partner. A monopoly processor, who cares for close ties in the producer - processor chain of oilseed production, dominates the Slovak market. Oilseed producers were eligible to soft loans and storing support based on fixed contracts with the processor. Globally Slovakia is a net exporter for oilseeds. A more detailed consideration shows that Slovakia has been a net exporter of sunflower seeds but a net importer of rapeseed (table 10).

### 2.3.1.3 Sugar

The sugar beet area contracted from 55,000 ha in 1989 to 32,000ha in 1993 as a combined result of low competitiveness in both sugarbeet cultivation and processing. In the first years of transition sugarbeet yield was on average 35 t/ha, which is rather low if compared to the EU. The same applies for sugar yield of the beets with a maximum of 12.7% in 1991.

**Table 9: Cereals supply balance** [11]

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| area | 1000 ha | 814 | 770 | 800 | 794 | 834 | 860 | 848 | 827 | 853 |
| yield | t / ha | 5.2 | 4.7 | 5.0 | 4.4 | 3.8 | 4.3 | 4.1 | 4.0 | 4.4 |
| production | 1000 t | 4232 | 3593 | 3969 | 3530 | 3153 | 3701 | 3490 | 3322 | 3741 |
| domestic use * | 1000 t | 4219 | 3677 | 3728 | 3730 | 3260 | 3406 | 3735 | 3366 | 3644 |
| fooduse | 1000 t | 1132 | 833 | 911 | 944 | 863 | 880 | 1121 | 946 | 1172 |
| feeduse ** | 1000 t | 2916 | 2673 | 2646 | 2630 | 2208 | 2104 | 2150 | 1964 | 2174 |
| seed use | 1000 t | 169 | 168 | 169 | 154 | 187 | 148 | 130 | 133 | 153 |
| other use | 1000 t | n.a. | n.a. | n.a. | n.a. | n.a. | 39 | 6 | 89 | 9 |
| consumption food | kg/capita | 214.5 | 157.3 | 172.4 | 178.0 | 162.1 | 164.5 | 208.9 | 176.0 | 217.4 |
| imports | 1000 t | 71 | 9 | 7 | 104 | 343 | 62 | 9 | 337 | 93 |
| export | 1000 t | 77 | 1 | 230 | 342 | 168 | 357 | 586 | 10 | 321 |
| ending stocks | 1000 t | 953 | 878 | 896 | 458 | 527 | 527 | 189 | 472 | 383 |
| strategic stocks destocking | 1000 t | n.a. | n.a. | n.a. | n.a. | n.a. | 0 | 484 | 0 | 42 |
| strategic stocks intake *** | 1000 t | n.a. | n.a. | n.a. | n.a. | n.a. | 235 | 328 | 235 | 137 |

*Including destocking from strategic stock. **Feed use includes till 1993 also other use. ***Estimations.

Source: VUEPP/RIAFE, SBS

[11] For the crop sector years indicated in the tables are marketing years (1 July to 30 June). Strategic stocks are stocks managed by the States Reserve Funds in collaboration with the State Fund for Market Regulation. Information on their real volume is confidential, therefore the information on stock change have to considers with precaution. See also chapter "Market support" in this report.

[12] Main oilseeds are rape seed, sunflower seed (accounting for 95 % of production) and soy beans.

## Table 10: Oilseeds supply balance

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| area | 1000 ha | 62 | 71 | 96 | 72 | 74 | 87 | 124 | 134 | 139 |
| yield | t / ha | 2.4 | 2.0 | 2.2 | 1.9 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 |
| production | 1000 t | 147 | 141 | 214 | 135 | 129 | 155 | 236 | 253 | 269 |
| domestic use | 1000 t | | 138 | 142 | 128 | 115 | 154 | 210 | 160 | 198 |
| imports | 1000 t | | 8 | 22 | 25 | 32 | 48 | 20 | 13 | 2 |
| export | 1000 t | 23 | 11 | 94 | 33 | 45 | 49 | 50 | 102 | 73 |
| self sufficieny | % | | 102.3 | 150.5 | 106.1 | 111.5 | 100.7 | 112.1 | 158.2 | 135.5 |

Source: VUEPP/RIAFE, SBS

Input subsidies contributed to an expansion of area and production from 1994 onwards. 1996 Slovakia for the first time produced more sugar than it used for domestic consumption. Production in 1997 was already higher than 1989. But beet yields and sugar content remained still at a relatively low level. The integration in the producer - processor chain follows the patterns in the Member States of the EU. The sugar industry provides sugarbeet producers with soft loans, fertiliser and seeds and takes over the harvest on long-term contracts.

There are only 6 sugar factories left since transition in Slovakia, but the sugar industry still has large over-capacities. Profitability is low and production in most of the refineries is based on written-off assets. High production costs result in sugar prices, which are about one third above world market level. Production cost in Slovakia is also higher than in the Czech Republic, who is a main provider of Slovak sugar imports. Losses of the Slovak sugar industry amounted to 500 Mio SKK in 1996 and 1997. Therefore the industry's capacity to pay more remunerative sugarbeet prices is limited and sugarbeet producer do not benefit very much from the increased production. Exports have to be subsidised to be competitive on the world market. In 1998 the industry agreed on a deliberate reduction of contracted sugarbeet area in order to curb over-production (table 11).

## Table 11: Sugar supply balance

| **sugarbeet** | | **1989** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|---|---|
| area | 1000 ha | 55 | 32 | 32 | 34 | 42 | 47 |
| yield | t / ha | 34 | 35 | 35 | 34 | 41 | 35 |
| production (000 t) | 1000 t | 1877 | 1128 | 1112 | 1176 | 1713 | 1668 |
| **sugar** | | **1989** | **1993** | **1994** | **1995** | **1996** | **1997** |
| sugar yield | % | 10.0 | 12.4 | 10.9 | 13.3 | 13.1 | 13.1 |
| sugar yield | t / ha | 3.4 | 4.3 | 3.8 | 4.6 | 5.4 | 4.6 |
| production * | 1000 t | 188 | 139 | 122 | 157 | 225 | 218 |
| domestic use | 1000 t | 248 | 170 | 202 | 164 | 191 | 189 |
| exports | 1000 t | 1 | 10 | 1 | 7 | 1 | 19 |
| imports | 1000 t | 86 | 32 | 37 | 53 | 18 | 8 |
| ending stocks | 1000 t | 96 | 101 | 69 | 126 | 183 | 196 |
| self suffiency | % | 76 | 82 | 60 | 95 | 118 | 116 |
| consumption ** | kg/capita | 22.3 | 16.5 | 20.7 | 16.6 | 20.1 | 19.3 |
| consumption *** | kg/capita | 34.8 | 34.5 | 34.6 | 32.0 | 34.0 | 33.2 |
| strategic stocks destocking | 1000 t | 19 | 18 | 50 | 39 | 20 | 7 |
| strategic stocks intake **** | 1000 t | 20 | 15 | 37 | 20 | 14 | 13 |

*Including strategic stocks change. **Retailed sugar. ***Including food industry (source SBS). ****Estimations.

Source: VUEPP/RIAFE, SBS

**Table 12: Fruit production**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Apples | 1000 t | 125 | 82 | 96 | 59 | 107 | 57 | 38 | 79 | 80 |
| Pears | 1000 t | 16 | 15 | 15 | 15 | 17 | 9 | 11 | 11 | 8 |
| Stone fruit | 1000 t | 75 | 53 | 40 | 51 | 35 | 41 | 30 | 42 | 35 |
| Walnuts | 1000 t | 6 | 7 | 6 | 7 | 9 | 8 | 6 | 7 | 5 |
| Strawberries | 1000 t | 11 | 10 | 10 | 8 | 5 | 11 | 7 | 7 | 7 |
| Soft fruit * | 1000 t | 9 | 7 | 8 | 8 | 6 | 8 | 6 | 7 | 5 |
| **All fruits area** | **1000 ha** | **10.7** | **10.4** | **10.0** | **9.3** | **7.8** | **7.2** | **6.5** | **5.8** | **7.6** |

Source: Slovak Statistical Office. *Currants, gooseberries.

### 2.3.1.4 Fruit and Vegetables

Fruit and vegetable production underwent no fundamental change during transition. The fruit sector, sufficient in normal years to satisfy demand, is exposed to stronger competition by exports both in terms of prices and terms of quality.

More than three-quarters of vegetable production is traditionally based on household-plots cultivation. In the past years reduced inputs lead to a decrease in vegetable production if compared to 1989, although the overall cultivated area for vegetable production increased. The structural deficit in vegetable production persisted. Prices are rather volatile, as there is no wholesale-market for fruit and vegetable allocation. Marketing in general works via middleman with an uncertain price determination (table 12).

The output of fruit and vegetables showed remarkable fluctuations. Beneath normal harvest fluctuation insufficient marketing, distribution and storage management are believed to be the main problems behind that (table 13).

### 2.3.1.5 Wine

The Slovakian vineyards are located in the southern region at the border with Hungary. Condition and quality of vineyards vary substantially. Scattered plots are Predominant. Production is in normal harvest years sufficient to satisfy domestic demand. Fluctuation in price can lead to a considerable trade

**Table 13: Vegetable production**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cabbage | 1000 t | 112 | 101 | 107 | 55 | 89 | 81 | 84 | 93 | 114 |
| Cauliflower | 1000 t | 23 | 18 | 18 | 20 | 23 | 20 | 19 | 20 | 23 |
| Tomatoes | 1000 t | 69 | 69 | 96 | 76 | 82 | 75 | 67 | 71 | 84 |
| Cucumbers | 1000 t | 17 | 15 | 21 | 22 | 27 | 16 | 20 | 26 | 27 |
| Gherkins | 1000 t | 9 | 10 | 19 | 19 | 29 | 23 | 23 | 25 | 24 |
| Melons | 1000 t | 42 | 26 | 31 | 31 | 28 | 27 | 29 | 36 | 35 |
| Red pepper, capsicum | 1000 t | 48 | 37 | 41 | 37 | 33 | 37 | 33 | 37 | 42 |
| Kohlrabi | 1000 t | 30 | 23 | 26 | 23 | 30 | 26 | 24 | 28 | 31 |
| Carrots | 1000 t | 75 | 66 | 62 | 53 | 75 | 59 | 72 | 82 | 68 |
| Garlic | 1000 t | 8 | 8 | 7 | 6 | 5 | 5 | 6 | 6 | 6 |
| Onions | 1000 t | 61 | 54 | 53 | 53 | 41 | 42 | 47 | 47 | 55 |
| **All vegetables area** | **1000 ha** | **31** | **30** | **33** | **31** | **33** | **34** | **37** | **38** | **41** |
| **All vegetables production** | **1000 t** | **671** | **497** | **552** | **459** | **535** | **484** | **498** | **560** | **509** |

Source: Slovak Statistical Office

**Table 14: Wine supply balance**

| | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| producing vineyards | 1000 ha | 22.4 | 22.9 | 22.1 | 20.0 |
| production | 1000 hl | 1007 | 585 | 916 | 800 |
| yield | hl / ha | 44.9 | 25.5 | 41.4 | 40.0 |
| exports * | 1000 hl | 216 | 112 | 92 | 103 |
| imports * | 1000 hl | 85 | 211 | 238 | 99 |
| domestic use | 1000 hl | 876 | 684 | 1062 | 796 |
| consumption | l / capita | 16.4 | 12.7 | 19.8 | 14.8 |

Source: VUEPP/RIAFE, SBS. *Including grape cider.

flow. Per capita wine consumption is low. In the last years a prosperous market segment specialised on the production of quality wine production emerged (table 14).

## 2.3.2 Livestock

### 2.3.2.1 Evolution of livestock

During transition the number of farm animals declined in two phases. The first phase from 1989 to 1992 was a phase of rapid decline. In a second phase since 1993 reduction took place at a lower pace. The cattle herd was the most affected and was in 1997 merely half the size it was before beginning of transition. The dairy cow herd declined to 56% of its pre-transition level. The number of pigs went down to 70% of the pre-transition level. The poultry flock was less affected than cattle and pigs and started to recover again in 1995. The decline seems to have not bottomed out yet for pigs and in particular for cattle (table 15).

### 2.3.2.2 Beef sector

Before 1989 the beef herd was one of the most subsidised agricultural sectors in the economy. Despite ongoing market support a strong decline started rapidly in 1989 and the beef sector is amongst the hardest hit by transition. Price liberalisation for beef, which translated into decreasing domestic beef consumption, plunging milk consumption and increasing input prices were the driving factors. Beef and milk production are connected and the "dual-use" breed is predominant.

**Table 15: Livestock evolution (in 1000 animals)**

| Census December | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 97/89 in % |
|---|---|---|---|---|---|---|---|---|---|---|
| Cattle | 1622 | 1563 | 1398 | 1181 | 993 | 916,2 | 929 | 892 | 848 | 52% |
| Dairy cows | 559 | 549 | 501 | 434 | 386 | 364 | 350 | 339 | 313 | 56% |
| Heifers | 101 | 89 | 69 | 66 | 58 | 40 | 49 | 53 | 43 | 42% |
| Pigs | 2708 | 2521 | 2428 | 2281 | 2179 | 2037 | 2076 | 1985 | 1900 | 70% |
| Pigs For Fattening | 944 | 915 | 882 | 871 | 772 | 722 | 739 | 696 | 664 | 70% |
| Sows - Total | 297 | 283 | 270 | 255 | 237 | 238 | 244 | 231 | 221 | 74% |
| Poultry | 16584 | 16478 | 13866 | 13372 | 12234 | 14246 | 13382 | 14147 | 14692 | 89% |
| Laying hens (mio.) | 8260 | 8134 | 8144 | 7568 | 7308 | 7578 | 7625 | 7405 | 7409 | 90% |
| Sheeps | 621 | 600 | 531 | 467 | 411 | 397 | 428 | 419 | 415 | 67% |
| Ewes for lambing | 440 | 433 | 419 | 379 | 325 | 258 | 334 | 328 | 325 | 74% |
| Goats | 9 | 10 | 17 | 20 | 25 | 25 | 25 | 26 | 26 | 289% |

Source: VUEPP/RIAFE, SBS

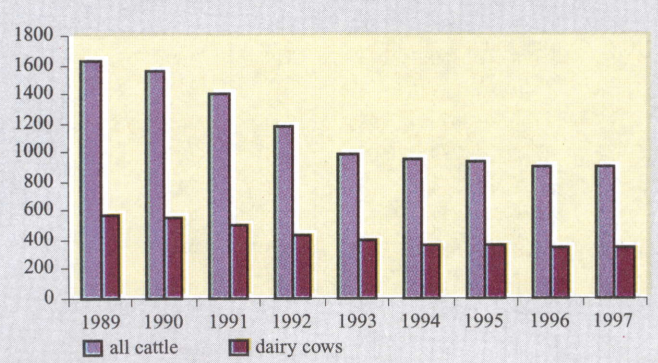
**Table 16: Beef supply balance**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| production | 1000 t | 127 | 128 | 125 | 104 | 103 | 74 | 65 | 60 | 58 |
| domestic use | 1000 t | 69 | 74 | 73 | 77 | 80 | 71 | 62 | 56 | 54 |
| exports | 1000 t | 60 | 54 | 50 | 24 | 25 | 13 | 6 | 6 | 6 |
| imports | 1000 t | 0 | 1 | 1 | 1 | 1 | 4 | 3 | 2 | 2 |
| ending stocks | 1000 t | 2 | 3 | 5 | 9 | 9 | 2 | 2 | 3 | 3 |
| self suffiency | % | | 173.5 | 171.2 | 134.6 | 129.4 | 103.4 | 104.6 | 107.0 | 108.0 |
| consumption | kg / capita | 13.0 | 13.9 | 13.8 | 14.5 | 15.0 | 13.4 | 11.6 | 10.4 | 10.0 |

Source: SBSR + RIAFE 1996 + 1997 production calculated from slaughtered heads and average live weight

Breed quality is low and contributes to low productivity in both beef and milk production. Pure beef breeds are rare, although since transition specialised farms have emerged. Cattle imports for breeding purposes can be imported at zero tariff rates. Cattle herds are large scale, if compared to the EU. The main problems of the sector are low efficiency of the cattle breeding and high operational costs of production. Beef export were a major outlet for the market surplus during the retrenchment period of the beef herd. Exports were facilitated as the domestic price was under world market price. Since 1994, with the nearing of production to consumption production, exports faded to a low level. Since 1995 supply and demand are balanced at a low level. In 1996 and 1997 both production and consumption continued to decline mildly (table 16).

**Cattleherd in 1000 animals**




### 2.3.2.3 Milk sector

Milk production decreased sharply during the period from 1989 to 1997. As for beef the driving forces were reduction in sectoral support, dwindling consumption and increasing input costs. Milk yields are very low due to the lack of specialised milk breeds. A key factor for the improvement of yields is next to the introduction of special milk breeds investments to ameliorate the quality of foodstuff and feeding techniques. The spectrum of efficiency has widened substantially over the past years. Farms, whose efficiency exceeds 6 000 litres of milk per dairy cow, have grown in number, particularly in the western part of Slovak. Support for improving breeds and restructuring of herds lead to a sharp increase in yields in 1997. Exports play a major role in balancing the milk market in Slovakia. Imports embrace mainly processed products with higher quality standards (table 17).

Production of butter was cut back to domestic demand level until 1997. A substantial oversupply still exists for milk powder. As for both products domestic prices are higher than world market level exports have to be refunded. Cheese production recovered in 1997 to its pre-transition level. Price and quality competitiveness lead to increasing exports in recent years (table 18).

**Table 17: Milk supply balance**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| dairy cows | (1000cows) | 559 | 549 | 501 | 434 | 386 | 364 | 350 | 339 | 310 |
| yield | kg/cow | 3569 | 3497 | 3046 | 3066 | 3146 | 3173 | 3290 | 3316 | 3604 |
| production | 1000 t | 2055 | 1978 | 1572 | 1371 | 1251 | 1190 | 1186 | 1159 | 1150 |
| deliveries * | 1000 t | | | | | 1046 | 1013 | 994 | 930 | 940 |
| delivery rate | % | | | | | 83.6 | 85.2 | 83.8 | 80.3 | 81.8 |
| total domestic use | 1000 t | | | | | 1158 | 1071 | 1068 | 1050 | 1036 |
| exports of liquid milk | 1000 t | | | | | 10 | 11 | 11 | 11 | 11 |
| imports of liquid milk | 1000 t | | | | | 4 | 2 | 2 | 7 | 2 |
| exports of milk equivalent | 1000 t | | | | | 232 | 198 | 181 | 182 | 185 |
| imports of milk equivalent | 1000 t | | | | | 138 | 80 | 64 | 74 | 72 |
| net exports | 1000 t | | | | | 93 | 118 | 117 | 109 | 113 |
| self suffiency | % | | | | | 108.1 | 111.0 | 111.0 | 110.4 | 110.9 |

Source: SBSR + VUEPP. The supply balance is expressed in milk equivalent of 3.6% fat content.

*State Marketing Reg. Fund + VUEPP + own calculations. **Slovak Statistical Office.

**Table 18: Dairy product supply balance**

| **Butter** | | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|---|---|---|---|---|
| production | 1000 t | 37 | 39 | 30 | 21 | 15 | 16 | 16 | 16 | 15 |
| domestic use | 1000 t | | 35 | 22 | 18 | 18 | 19 | 17 | 16 | 14 |
| exports | 1000 t | | 4 | 9 | 3 | 2 | 0 | 1 | 1 | 1 |
| imports | 1000 t | | 0 | 0 | 0 | 5 | 2 | 2 | 1 | 0 |
| ending stocks | 1000 t | 1 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| self suffiency | % | | 112 | 135 | 115 | 82 | 87 | 92 | 99 | 104 |
| consumption | kg / capita | | 6.6 | 4.2 | 3.4 | 3.4 | 3.5 | 3.2 | 2.9 | 2.7 |
| **Skimmed milk powder** | | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
| production | 1000 t | 38 | 54 | 46 | 31 | 19 | 15 | 15 | 14 | 14 |
| domestic use | 1000 t | | 42 | 25 | 12 | 13 | 10 | 10 | 9 | 10 |
| exports | 1000 t | | 13 | 20 | 20 | 14 | 10 | 9 | 8 | 8 |
| imports | 1000 t | | 0 | 0 | 0 | 7 | 5 | 4 | 3 | 4 |
| ending stocks | 1000 t | 2 | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |
| self suffiency | % | | 128 | 181 | 269 | 152 | 151 | 154 | 147 | 147 |
| consumption | kg / capita | | 8.0 | 4.8 | 2.2 | 2.4 | 1.9 | 1.9 | 1.7 | 1.8 |
| **Cheese** | | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
| production | 1000 t | 48 | 45 | 30 | 31 | 32 | 35 | 36 | 39 | 41 |
| domestic use | 1000 t | | 42 | 25 | 25 | 28 | 27 | 29 | 32 | 34 |
| exports | 1000 t | | 3 | 4 | 6 | 8 | 9 | 10 | 11 | 11 |
| imports | 1000 t | | 0 | 0 | 0 | 4 | 2 | 2 | 3 | 4 |
| ending stocks | 1000 t | | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 |
| self suffiency | % | | 107 | 118 | 122 | 115 | 129 | 122 | 124 | 122 |
| consumption | kg / capita | | 8.0 | 4.8 | 4.8 | 5.2 | 5.0 | 5.5 | 5.9 | 6.2 |

Source: SBSR + RIAFE

### 2.3.2.4 Pork sector

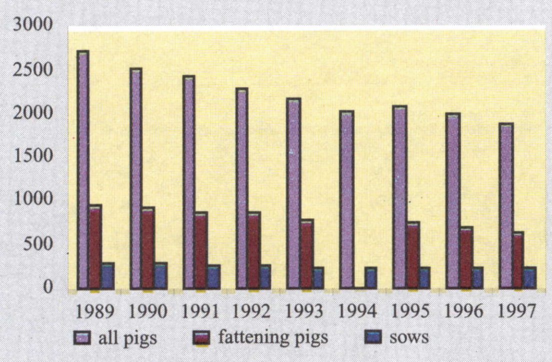
Pork production also decreased with the start of transition but the plunge was by far not as deep as for beef. The pigmeat market remained stable as consumption declined in parallel with production, so that the market stayed balanced. Production structures are rather poor and costs surprisingly high, if the relatively low foodstuff prices are considered. Pig meat is the most favourite meat in

**Table 19: Pigmeat supply balance**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| production | 1000 t | 37 | 39 | 30 | 21 | 15 | 16 | 16 | 16 | 15 |
| domestic use | 1000 t | | 35 | 22 | 18 | 18 | 19 | 17 | 16 | 14 |
| exports | 1000 t | | 4 | 9 | 3 | 2 | 0 | 1 | 1 | 1 |
| imports | 1000 t | | 0 | 0 | 0 | 5 | 2 | 2 | 1 | 0 |
| ending stocks | 1000 t | 1 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| self suffiency | % | | 112 | 135 | 115 | 82 | 87 | 92 | 99 | 104 |
| consumption | kg / capita | | 6.6 | 4.2 | 3.4 | 3.4 | 3.5 | 3.2 | 2.9 | 2.7 |

Source: SBSR + RIAFE

**Pigherd in 1000 animals**




Slovakia. The Slovakian pigmeat market is virtually not exposed to trade influence. Veterinary problems, mainly caused by the classical swine fever, are frequently a blow to producers. Domestic prices were with the exception of 1996 and 1997 around world market price, which made exports without refund difficult and imports not very profitable, even in the range of preferential quota. An other obstacle for trade to the EU is the frequent appearance of classical swine fever and preventive vaccination against the disease, which is used in Slovakia. The neglecting trade influence is one of the reasons for the slow pace of restructuring of the sector (table 19).

### 2.3.2.5 Poultry sector

Poultry production takes place either on household plots for private consumption (about one quarter of production) or in big flocks on specialised corporate poultry farms. Since 1993 flock and production are increasing supported by a shift in consumers preference towards poultry meat. Trade does not affect this market very much. As in the pig sector profitability still suffers by low efficiency. Equipment and skills in on-farm-production of compound feed needs improvement. However, efficiency has already improved. The 1997 production, which was almost at the 1989level, was achieved with a flock size of only 89% of the size it had in 1989 (table 20).

**Table 20: Poultry balance**

| | | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| production | 1000 t | 84 | 87 | 74 | 64 | 58 | 64 | 74 | 80 | 80 |
| domestic use | 1000 t | 76 | 87 | 68 | 70 | 61 | 65 | 76 | 81 | 84 |
| exports | 1000 t | 0 | 0 | 7 | 5 | 4 | 3 | 3 | 2 | 1 |
| imports | 1000 t | 0 | 0 | 5 | 4 | 4 | 5 | 5 | 4 | 3 |
| ending stocks | 1000 t | 8 | 9 | 12 | 6 | 3 | 5 | 5 | 4 | 3 |
| self suffiency | % | 110.6 | 100.7 | 108.7 | 92.2 | 95.3 | 99.6 | 97.4 | 97.8 | 95.2 |
| consumption | kg / capita | 14.3 | 16.3 | 12.9 | 13.1 | 11.5 | 12.1 | 14.1 | 15.1 | 15.6 |

Source: SBSR + RIAFE

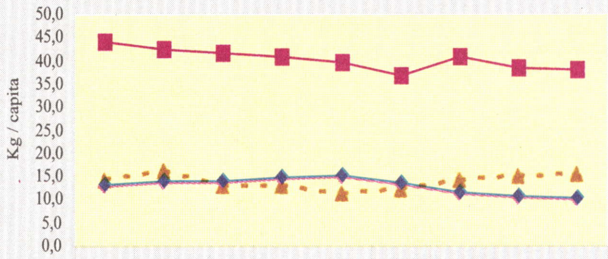
### 2.3.2.6 Meat consumption

Total meat consumption is still substantially under the pre-transition level. 1989 total consumption amounted to 74.1 kg/capita annually. Meat consumption was lowest in 1994 with 62.5 kg/capita. In 1997 it had recovered again to 64.0 kg. Poultry overtook beef in consumers' preference in 1995 (graph 5).

## 2.4 Producer prices

Supported by stabilisation of domestic demand, increasing market support and partly reflecting world market influences, producer prices have increased for most commodities since 1994. The upward trend for crop products is substantially stronger than for livestock products, for which recent price increase remained under the general inflation for most commodities. Converted to ECU the increase of producer prices appears to be overvalued due to the appreciation of the Slovak Koruna since 1994 and thus has to be interpreted with caution (table 21).

**Graph 5: Per capita meat consumption**




| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|
| pigmeat | 44.4 | 42.8 | 41.9 | 41.1 | 39.8 | 37.0 | 41.1 | 38.7 | 38.4 |
| poultry | 14.3 | 16.3 | 12.9 | 13.1 | 11.5 | 12.1 | 14.1 | 15.1 | 15.6 |
| beef | 13.0 | 13.9 | 13.8 | 14.5 | 15.0 | 13.4 | 11.6 | 10.4 | 10.0 |

Source: Supply balances on meat

Slovak pigmeat prices appear to be next to (in 1996 and 1997 extraordinary high) EU prices. For chicken and beef large gaps still shine up. Milk products reflect the high market support. Cereals and oilseeds are with 77% to 91% the closest to the EU level whereas sugarbeet is only half of the EU-price. Tomatoes, as vegetables in general, are

**Table 21: Producer prices SK-EU for selected animal products**

| | | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|
| Beef | SK | ECU/t | 1636 | 1818 | 1756 | 1843 |
| | EU | ECU/t | 3118 | 2929 | 2608 | 2662 |
| | SK/EU | % | 52.5 | 62.1 | 67.3 | 69.2 |
| Pigmeat | SK | ECU/t | 1152 | 1207 | 1199 | 1323 |
| | EU | ECU/t | 1278 | 1349 | 1619 | 1672 |
| | SK/EU | % | 90.1 | 89.5 | 74.1 | 79.1 |
| Chickenmeat | SK | ECU/t | 611 | 604 | 694 | 751 |
| | EU | ECU/t | 1344 | 1170 | 1328 | 1290 |
| | SK/EU | % | 45.5 | 51.7 | 52.3 | 58.2 |
| Milk | SK | ECU/t | 177 | 173 | 171 | 191 |
| | EU | ECU/t | 300 | 296 | 299 | 297 |
| | SK/EU | % | 59.0 | 58.5 | 57.3 | 64.2 |
| SMP | SK | ECU/t | 1215 | 1356 | 1380 | 1635 |
| | EU | ECU/t | 2109 | 2190 | 2090 | 2130 |
| | SK/EU | % | 57.6 | 61.9 | 66.0 | 76.8 |
| Butter | SK | ECU/t | 2253 | 2338 | 2326 | 2524 |
| | EU | ECU/t | 3556 | 3705 | 3616 | 3626 |
| | SK/EU | % | 63.4 | 63.1 | 64.3 | 69.6 |

Source: VUEPP/RIAFE, DGVI calculations

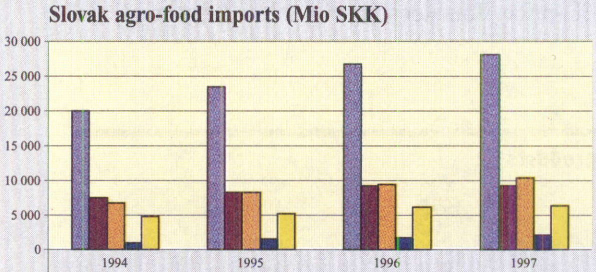
**Table 22: Producer prices SK-EU for selected arable products**

| | | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|
| Wheat | SK | ECU/t | 91 | 83 | 96 | 111 |
| | EU | ECU/t | 144 | 138 | 138 | 126 |
| | SK/EU | % | 63.5 | 60.3 | 69.7 | 88.7 |
| Maize | SK | ECU/t | 95 | 95 | 113 | 103 |
| | EU | ECU/t | 149 | 157 | 155 | 134 |
| | SK/EU | % | 63.6 | 60.6 | 72.5 | 77.0 |
| Feed-Barley | SK | ECU/t | 84 | 78 | 94 | 108 |
| | EU | ECU/t | 138 | 133 | 129 | 119 |
| | SK/EU | % | 60.5 | 58.8 | 73.4 | 91.2 |
| Rapeseed | SK | ECU/t | 158 | 171 | 171 | 178 |
| | EU | ECU/t | 215 | 189 | 208 | 204 |
| | SK/EU | % | 73.3 | 90.3 | 82.6 | 87.1 |
| Sugarbeet | SK | ECU/t | 18 | 22 | 23 | 25 |
| | EU | ECU/t | 47 | 46 | 49 | 50 |
| | SK/EU | % | 39.3 | 46.7 | 47.4 | 50.1 |
| Tomatoes | SK | ECU/t | 490 | 510 | 519 | 377 |
| | EU | ECU/t | 391 | 380 | 433 | 401 |
| | SK/EU | % | 125.4 | 134.1 | 119.9 | 94.0 |
| Apples | SK | ECU/t | 233 | 278 | 267 | 245 |
| | EU | ECU/t | 371 | 378 | 425 | 391 |
| | SK/EU | % | 62.9 | 73.7 | 62.8 | 62.7 |

Source: VUEPP/RIAFE, DGVI calculations

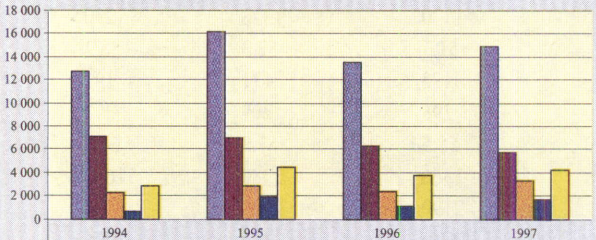
**Graph 6 and 7: Geographical breakdown of agro-food trade**

Slovak agro-food imports (Mio SKK)




| | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Total | 19,947 | 23,300 | 26,664 | 28,077 |
| Czech rep. | 7,439 | 8,280 | 9,200 | 9,226 |
| EU | 6,717 | 8,218 | 9,490 | 10,371 |
| CEFTA (excl. CR) | 993 | 1,608 | 1,786 | 2,063 |
| Other countries | 4,798 | 5,194 | 6,188 | 6,417 |

Slovak agro-food exports (Mio SKK)




| | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Total | 12,758 | 16,207 | 13,499 | 14,887 |
| Czech rep. | 7,074 | 7,005 | 6,317 | 5,730 |
| EU | 2,220 | 2,831 | 2,330 | 3,291 |
| CEFTA (excl. CR) | 689 | 1,954 | 1,090 | 1,634 |
| Other countries | 2,775 | 4,417 | 3,762 | 4,232 |

Source (both): VUEPP

rather expensive due to the high share of imports on that market (table 22).

## 2.5 Agricultural trade

Slovakia is traditionally a net importer of agricultural products. Agro-food imports have about twice the value of Slovak exports. Both imports and exports of agro-food commodities increased since 1994. The value of imports mounted from 20 bio SKK in 1994 to 28 bio SKK in 1997 and the exports went up from 12.7 bio SKK to 14.8 bio SKK. Whereas the overall value of agro-food trade is rising, its relative share on all trade of the economy is on decline, which is in line with the decline in relative importance of agriculture in economy. The gap between imports and exports widened from 7 bio SKK in 1994 to 13.2 bio SKK in 1997. The relatively stable 5% share of agro-food exports on the overall trade is compared with the 4.4% contribution of agriculture to GDP relatively high (graph 6 & 7).

Due to the customs union the most important trade partner both for imports and exports remained the Czech Republic. The Czech share in imports fluctuated between 38% to 33% over the past three years, with a slightly declining trend. However the absolute value of trade is increasing, standing at 9.2 bio SKK in 1997. Only in 1996 and 1997 did the Slovak imports from the EU exceeded the value of Czech imports. Slovakia is in its trade relation to the Czech Republic a net-importer and imports ranged between 55% to 39% of all agro-food imports, also with an declining trend. But the deficit in absolute terms is increasing.

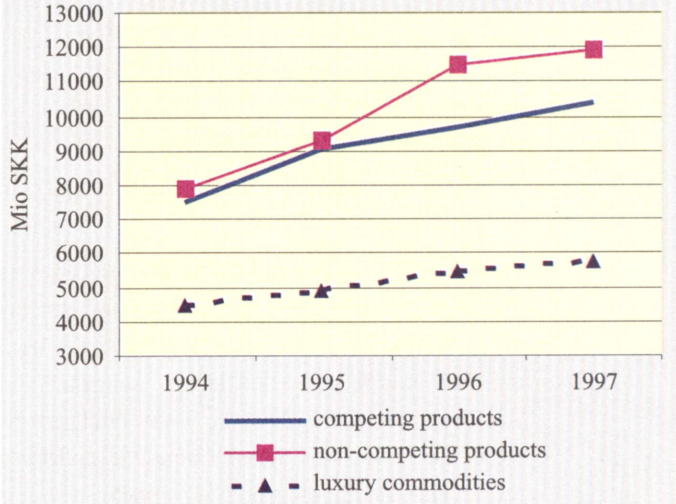
The second most important trade partner is the EU, which is, like the Czech Republic a net exporter of agro-food products to Slovakia. Imports from the EU countries increased constantly from 1994 to 1997 and their share in total imports amounted to 37% in 1997. Slovak exports to the EU have stabilised at approximately 20% of total Slovak exports over the past 4 years. In 1997 the Slovak trade deficit amounted to 7 bio SKK. The main commodities imported from the EU were feed concentrates and components, fruits, but also grains. Slovak exports to the EU comprised milk products, eggs, honey, live animals, oil seeds, feeds and vegetables.

Due to the intensive trade exchange with the Czech Republic, the share in trade with other CEFTA countries remained small. However Slovakia's CEFTA trade is growing constantly both on the export and the import side. Within the CEFTA trade (excluding the CR) Slovakia has a net exporter position. The CEFTA share, excluding the Czech Republic, was 11% of exports and 7% of Slovakia's imports.

Agro-food trade is scattered amongst all commodity groups. The lions share of agro-food imports embraced commodities, which can not be produced in Slovakia (non-competing to domestic primary production). Imports of goods such as tropical fruits, fish, spices, cocoa and gums summed to 11.9 bio SKK or 43% of all imports in 1997. The second predominant group comprised commodities, which can compete with domestic primary production such as dairy products, meat, cereals, sugar and bakery products. They accounted for 37% in 1997. Luxury materials such as coffee, alcoholic beverages, cocoa and cigarettes, which had an import share of 20% (graph 8).

The fastest growing group was the import of commodities, which can not be produced in Slovakia (non-competing with domestic primary production). After a rapid growth from 1994 to 1996 the import pressure reduced despite the fact that during the first half of 1997 no import surcharge had to be paid[13]. The strong increase in non-competing products reflects a backlog demand in such commodities.

**Graph 8: Imports grouped by competition to domestic primary production and imports of luxury commodities (in Mio SKK)**




Competing products are products, which can be also domestically produced in Slovakia (crops, livestock products). Non competing products are fish, tropical fruits, gums, spices etc..
Luxury commodities comprise coffee, tea, tobacco, spirits and alcoholic beverages.
Source: Border Statistics, calculation DG VI

Slovak exports are based on live animals, dairy products, confectionery and bakery products and beverages. Cereal exports are rather volatile. From 1994 to 1995 cereals product exports tripled to 4.8 bio SKK and fell back to 1.6 bio SKK in 1996 and 1997.

## 2.6 Farm structures

Before transition three main farm groups were active. The predominant organisation type had been the collective farms (managing 69% of the utilised agricultural area), followed by state farms (27% of UAA). Small private farmers and household-plot owners managed less than 4% of the UAA[14]. Two processes have shaped the present farm structure. The first process was the privatisation of collective

[13] From 1994 to end of 1996 imports were weighted with an extra import charge, which was set to zero for the first half on 1997 and reintroduced in July 1997. This unspecific protecting measure had only limited effect to slow down agro-food imports and gave limited benefit to domestic producers, as the bulk of agro-food imports did not compete with domestic primary production. See also the chapter on trade policy in this report.

[14] Land use statistics include between 300 to 400 thousand ha "other land". "Other" land can be occupied by various public institutions like agricultural schools, research institutes, demonstration farms, municipal ventures, but also by forestry and military areas. During recent years also the share of land held by land associations (an ancient form of land holding dating back to the period of abolishment of the serfdom) increased, as a result of the post reform legislation, which restored this type of holdings. These associations are neither private farms, nor corporate farms and are also included into the category "other land".

**Table 23: Farm structure 1996/97compared to 1989/90**

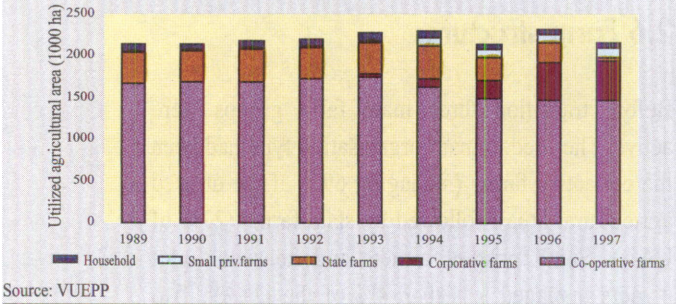
| | Co-operatives | | State farms | | Corporate farms | | Small Farms | |
|---|---|---|---|---|---|---|---|---|
| | 1989 | 1996 | 1989 | 1996 | 1989 | 1997 | 1990 | 1996 |
| Number of farms | 631 | 977 | 70 | 72 | 0 | 405 | 2437 | 7585 |
| Average size (ha) | 2667 | 1509 | 5186 | 3056 | 0 | 1191 | 0.3 | 7.7 |
| Total managed area (1000 ha) | 1683 | 1474 | 363 | 220 | 0 | 482 | 173 | 115 |
| Share in total agricultural area (%) | 69 | 60 | 26 | 15 | 0 | 20 | 4 | 5 |
| Average annual labor forces / farm | 439 | 97 | 246 | 679 | 0 | 61 | : | : |

Source: VUEPP

farms and state farms and the second process was the restructuring of co-operative farms towards corporate farms. These are large farms with the legal entity of for instance limited liability companies and joint stock companies. They were very rarely adopted in the process of transforming the collective farms, but recently their number is increasing as a result of the split of co-operatives[15] (table 23)

As a result of privatisation collective farms and nearly all state farms disappeared and co-operative and large private farms emerged, most organised as corporate farms. As a result of restructuring, following privatisation, co-operatives split up to corporate farms. Individual private and household-plot farming remained a rather marginal activity occupying just 7% of total agricultural land[16]. However, dominated by the big co-operative and corporate entities Slovak farm size structures, which formed out as the result of transition, are amongst the largest in Europe (graph 9).

**Graph 9: Evolution of farm land ownership**




Source: VUEPP

The re-assignment of property rights has been a difficult task as the land register had to be updated and re-adapted to the emerging ownership structure. Administrative problems contributed to the problem, as about 78 institutions were involved in the task of re-privatisation.

During the privatisation process, which started relatively soon after the beginning of transition and is already completed, 98 per cent of collective farms opted for transformation into a co-operative farm. The co-operative farms emerged as the dominant type of farm and managed about 60 per cent of agricultural land in 1996. In 1996 some 977 co-operatives were active. They had an average size of 1509 ha in 1996. Driven by the economic problems of the co-operative it can be expected that the restructuring process in this farm type will go on. Beneath the debt problem the little interest, which shareholder take on the economic performance of "their" co-operative, contributes to the economic under-performance of co-operatives[17].

[15] Co-operative farms are mostly high indebted by old debts stemming from the beginning of the transition period. When the former collective farms were transformed to co-operative farms they had to take over debts from operating and investment credits provided by commercial banks before 1992. This "old basket" debts account for 4.8 bio SKK. In order to avoid debt service the co-operative hands over the land and production assets without the debt obligations to new founded smaller corporate companies. One of the small corporate farms take over the debts and may be sooner or later declared bankrupt, which offers the debt-free farms the opportunity to buy the assets of the bankrupt at low price. The old debts are one of the most aggravated structural problems of the farm sector.

[16] The data on private farmers and household plots still suffers by some statistical problems. During the seventies, private farmers and smallholders were displayed in one category and monitoring of private farm property is still difficult. The most reliable information is based on the 1995 Farm Census. But even there the difficulty of demarcating subsistence farms from commercial farms persisted.

[17] Although the property related (instead of "one man one vote") share on voting rights is in principle an advantage, the highly split owner-structure leads to little interest in participation.

The increase in the pace of state farm privatisation[18] in the second half of 1996 speeded up the augmentation in the number of corporate farms. In 1997, there were 405 corporate farms registered with an average size of 1191 hectares. They managed about 20% of the total UAA.

Quite surprisingly was an increase in number of state farms during the transition period. In the seventies and eighties quite significant pieces of land had been operated by state owned companies specialised in seed and animal breeding and other services, which had not been labelled as "state farms". During the later development, especially at the beginning of the reform years, those companies often split and their land became "state farm" operated land before the beginning of privatisation.

Although the share of small farms and household plots on landuse appears to be rather negligible their contribution to agricultural output is high. More than 60% of potato production took place on this farm type. They are the main pillars of fruit and vegetable production (table 24).

But also the share of small entities in livestock and meat production is above their proportion of landuse. About 20% of beef production and one third of pig production rely on small farms and plots (table 25).

**Table 24: Share of farm types on arable production**

| | | State farms | Co-operatives and corporate farms | Small farms + household plots |
|---|---|---|---|---|
| **Potatoes** | | | | |
| 1995 | % | 9.5 | 27.9 | 62.5 |
| 1996 | % | 7.9 | 30.4 | 61.8 |
| **Vegetables** | | | | |
| 1995 | % | 7.2 | 13.9 | 78.9 |
| 1996 | % | 7.7 | 10.7 | 81.6 |
| **Fruits** | | | | |
| 1995 | % | 7.6 | 12.0 | 80.8 |
| 1996 | % | 5.9 | 13.7 | 80.4 |

Source: Calculations DG VI

The following problems hamper the development of the farm structures and have an impact, which transcends negatively to the whole sector:

- The accumulated debt problem of the co-operative farms.
- The unsettled problem of potential ownership rights on agricultural land, which is a major obstacle for the development of both a land market and the availability of agricultural land for long-term leasing.
- Poor participation of co-operative shareholders in management decisions.

**Table 25: Share of farm types on livestock and meat production**

| | | State farms | Co-operatives and corporate farms | Household plots | Small farms |
|---|---|---|---|---|---|
| **Share on animal herd** | | | | | |
| Total cattle | % | 15.8 | 64.5 | 12.9 | 6.8 |
| Pigs | % | 12.0 | 57.4 | 20.6 | 10.0 |
| Sheep lamb and goat | % | 8.8 | 35.3 | 52.3 | 3.5 |
| **Share on meat production** | | | | | |
| Total meat | % | 9.3 | 44.2 | 35.2 | 25.2 |

Source: Calculations DG VI

[18] The privatisation of state farms accelerated dramatically in the second half of 1996, as a result of all farm assets being privatised by direct sales organised by the National Property Fund. At the end of 1996 almost 75 per cent of state farm assets had been privatised, and the remainder were with few exceptions privatised in 1997.

## 2.7 Up- and downstream sectors

The privatisation of the food industry is almost completed (98 per cent of assets privatised by the end of 1997). The current legislation allows up to 100% foreign ownership of Slovak companies and up to 100% repatriation in hard currency of all post-tax profits. There are tax exemptions and duty-free allowances for imports of investment goods needed for further production.

Food legislation has been revised. A food-code based on the WTO codex alimentarius, which for Slovakia describes the legal framework of food security and consumer protection, has been set up. The legal implementation of a food act is in preparation.

The overall level of foreign direct investment (FDI) remains comparatively low, partly due to the deliberate preference for domestic capital in privatisation, and a lack of transparency in the general rules for investments, although foreign investors are not totally discriminated against. However, food industry is the sector attracting most FDI in the manufacturing sector. In 1997 about 11% of all FDI went to the food industry. Non-alcoholic beverages industry, tobacco manufacturing and sugar industry were the predominant sectors of FDI. Germany, Austria, UK and France accounted for three-quarter of the inflow.

Food industry is Slovakia's second largest industrial sector with just over 15.0% of total industrial output. The sector has about 50,000 employees representing less than 10% of all industrial employment. Many companies classified in the statistics as food and drink producers carry out other business activities alongside their food and drink production[19]. The volume of agro-food exports is also increasing to the EU. This suggests an improvement in the competitiveness of Slovak products on the European markets.

Capacities in the first processing stage of products such as meat, fruit and vegetables, starch and sugarbeet exceed actual production. Dairy capacity is only used by two thirds. The utilisation of capacity is better in higher processing stages (canning, industrial bakeries). In the manufacturing of biscuits and chocolate confectionery capacities are almost fully used while utilisation stands at 70% for sugar confectionery and for beer. As it is not likely that demand in medium-term will reach the pre-transition level for many commodities, overcapacity will remain a structural problem. The under-utilisation has a negative impact on profitability as the fixed costs distribute to less output. It also has a negative impact on the level of investments, as it is rather risky to place new capacities on an market with overcapacities.

In particular the sugar industry has large overcapacities since the pre-transition period. The Slovak sugar market, as in the EU, is highly interventionist via border protection. Despite additional market support and investment aids the sector is badly indebted. On top of that sugar refineries mainly work with outdated assets. Investment efforts and productivity are rather uneven amongst the refineries. The scale of Slovak refineries (2,560 t/day) is small if compared to the EU (7,000 - 12,000 t/day). The rapidly expanding oilseed-sector is based on a monopoly company, which holds an annually crushing capacity of 140,000 t of rapeseed and 70,000 t of sunflower seed. The monopolistic structure is somewhat mitigated as farmers can export their raw material.

A modern retailing system is still missing in Slovakia. In most areas of Slovakia small shops dominate the market. FDI from the EU to build up a retailing system is limited. In comparison to the neighbouring CEECs still very few of the big retailing chains from EU countries are represented

[19] Companies registered under the food and drink sector are those where food production and sale of own food products make up more than 50% of their total business activity. A total number of 1289 companies were registered in the food and drink sector in April 1998, of which 1249 were private and 40 were in public ownership (NBS-bulletin 4/98).

**Table 26: Output of food industry**

| | | 1990 | 1994 | 1995 | 1996 | 1997 (e) |
|---|---|---|---|---|---|---|
| Meat products | 000 t | 269.8 | 110.8 | 97.6 | 106.5 | 106.5 |
| Refined sugar | 000 t | 165.7 | 121.5 | 156.7 | 226.3 | 225.0 |
| Miilk for food | Mio litres | 513.0 | 270.9 | 266.3 | 266.8 | 265.0 |
| Cheeses | 000 t | 35.3 | 34.7 | 35.4 | 39.5 | 39.0 |
| Butter | 000 t | 31.0 | 15.8 | 15.5 | 14.1 | 14.0 |
| Wheat flour | 000 t | 470.0 | 388.0 | 403.0 | 453.0 | 460.0 |
| Bread and bakery products | 000 t | 448.2 | 182.0 | 159.2 | 147.3 | 150.0 |
| Pasta | 000 t | 19.7 | 20.9 | 22.0 | 22.1 | 23.0 |
| Poultry. slaughtered | 000 t | 73.6 | 43.1 | 52.2 | 61.5 | 59.0 |
| Eggs, assorted | mil. pcs | 733.7 | 140.0 | 54.3 | 50.1 | 74.0 |
| Malt | 000 t | 217.0 | 125.0 | 210.7 | 168.9 | 200.0 |
| Beer | mil. litres | 398.8 | 452.0 | 437.5 | 448.4 | 460.0 |
| Edible veget. fats and oils | 000 t | 55.5 | 57.5 | 63.0 | 74.1 | 75.0 |
| Fruit products | 000 t | 24.3 | 10.8 | 7.5 | 5.5 | 32.0 |
| Vegetable products | 000 t | 58.4 | 30.1 | 28.6 | 28.4 | 40.0 |

Source: MA SR estimates by RIAFE

and only two of them are amongst the top 50 of the Slovakian retailers (table 26).

The following problems act as significant barriers blocking the development of the up- and downstream sectors in Slovakia:

- Monopolistic or oligopolistic structures are persistent in the agro-food chain (examples: monopoly state oilseed crushing company) and protected by close links to the state sector.

- Current legislation does not always provide clear and concise legal norms. Numerous amendments have created an environment, which is far from transparent. Most criticism is connected with the Trade Licensing Act, Insurance Act, Trade Association Act and VAT legislation.

- In the field of administration procedures are lengthy and complicated. Bearing in mind that the number of entrepreneurs and businessmen has rapidly increased, judicial and other administrative bodies have not yet adjusted to that.

- Although having improved in the last years[20], the discipline of paying inter-business bill is lagging behind. The cash-flow problem can provoke serious risks in liquidity of the enterprises. Juridical support to companies to collect money from debtors is still too weak. The threat of being sued is not sufficiently binding to ensure the functioning of a normal inter-firm payment.

- For many sectors the marketing structure is too weak. In many sectors marketing of products is suffering by the absence of wholesale market infrastructures.

[20] In 1998 a law has been introduced, which forces buyers of primary goods to pay the bill within 14 days. However, that will not help the downstream sector very much, as processed goods are not covered by the law.

## 2.8 Forestry

About 41% of the land surface of Slovakia is covered by forests and forestry is an important element in diversification of economic activity in rural areas. During the socialist era most forest were state owned. Re-privatisation during the transition period cut back the share of state owned forest to 43% (table 27).

**Table 27: Privatisation of state forest land**

| | Area (1000 ha) | Share |
|---|---|---|
| State forest, exempted from privatization | 858.4 | 43% |
| Forest returned to owners | 782.6 | 39% |
| Reclaim in progress | 157.3 | 8% |
| Not claimed on time or unknown | 189.6 | 10% |
| Total forest area | 1 987.9 | 100% |

Source: MA SR (end of 1996)

About 10% of the forests belong to municipalities and the share of private forests totals to 30% (table 28).

Prices of forest products and forest land were liberalised in Slovakia in 1992. Raw timber is the key product of forestry and the basic raw material for a broad variety of wood-based industries such as sawing mills for construction timber, furniture industry, paper mills and chemical factories.

However, many of the wood industry enterprises are not competitive and the economic account of the sector is negative. Restructuring of this sector is essential. Due to a lack of financial resources investments in the field of forestry were below required limits. Many domestic Slovakian wood processors as saw mills and wood based industries face severe problems in liquidity. Delays in payments of accounts or bad debts are widespread and make deliveries of timber to domestic processors less attractive than to export them.

On top of that prices for raw timber and processed timbers are considerably higher in the neighbouring EU countries than in Slovakia. For both forest owners and traders this makes exports to the high-price countries more profitable than to sell them on the domestic market. Main importers of Slovakian timber are Austria and Germany (table 29).

Slovakia is a net exporter for timber and timber products. Exports are reaching roughly four times the level of imports. Imports consist mainly of products, which can not be manufactured domestically. This leads to a structural under-supply of domestic medium- and high-quality of softwood and hardwood timber. At the same time the market is faced with a large surplus of low-quality timber. The entire production of the domestic wood processing industry is based on domestic timber as it would not be competitive using imported material.

To tackle the domestic supply problem Slovakia implemented the following measures:

**Table 28: Structure of forest ownership**

| | Number of owners | Area (ha) | Share % | Area per owner (ha) |
|---|---|---|---|---|
| Private (individual) | 33 762 | 103 | 5% | 3 |
| Shared ownership | 2 774 | 433 | 22% | 156 |
| Municipal | 270 | 186 | 9% | 691 |
| Church | 506 | 57 | 3% | 112 |
| Other (unknown, in privatisation) | 349 | 18% | 200 | |
| State | | 858 | 43% | |
| **Total** | | **1 988** | **100%** | |

Source: MA SR (end of 1996)

**Table 29: Timber trade balance 1996**

| | | Import | | Export | | Balance | |
|---|---|---|---|---|---|---|---|
| | | Quantity 1000 m³ | Value Mio SKK | Quantity 1000 m³ | Value Mio SKK | Quantity 1000 m³ | Value Mio SKK |
| Raw timber | | 147 | 171 | 686 | 1 069 | 538 | 898 |
| of which | softwood | 2 | 3 | 412 | 678 | 410 | 675 |
| | hardwood | 146 | 168 | 274 | 390 | 128 | 223 |

Source: MA SR

- Control of timber declared for export by the Department of licenses and registration of the Slovak Ministry of Economic.
- Introduction of volume ceilings for exports by category of timber quality.

Both of the measures were implemented to steer the process of restructuring of domestic wood industry in order to avoid a major breakdown of the sector and to mitigate the restructuring impacts to an appropriate level.

# 3. Agricultural and rural policies

## 3.1 Overview

Liberalisation of agricultural prices and trade, privatisation of land use, the establishment of new private legal entities were already introduced at the beginning of the transition period. This basic orientation of the agricultural sector towards an open market economy was maintained when the Slovak Republic was founded in 1993. To avoid a further major decline in production and shortcomings in domestic food supply some general objectives for the Slovak agricultural policy[21] were fixed in a long-term program:

- to maintain the country's food security, i.e. to keep the domestic supply at 90% of current domestic demand for basic commodities, namely that for cereals, meat and milk;
- to maintain a just level of income for farmers in relation to other sectors and to maintain an even regional development;
- to preserve the ecological and landscaping functions of agriculture;
- to lend support to agricultural activity carried on in less favoured areas with a view to developing rural areas.

In the period from 1993 to 1998 those rather general objectives translated into several support policy measures, which were not always fully consistent. Currently applicable policy measures may be subdivided into the following basic segments (table 30):

Two main sources of financial support to farmers can be identified. The first source is the contribution of state budget to the sector. Subsidies, market support,

**Table 30: Policy measures on agriculture**

| | |
|---|---|
| Border protection policy | • Tariff-based protection of domestic market in line with the obligations vis-à-vis GATT, including preferential duties and concession quotas as a part of the European Agreement, CEFTA and other FTA obligations. |
| Market support policy | • Market regulation by intervention purchases of selected products (in particular of grains and meat) at minimum guaranteed prices.<br>• Market regulation by granting export subsidies (mainly for dairy products, beef and sugar). |
| Production support policy | • Input subsidies to mitigate the impact of high prices of foodstuff, seedlings, agro-chemicals and other material.<br>• Milk quality premia.<br>• Support for animal and plant breeding, irrigation. |
| Structural policy for agriculture | • Direct payments to farmers operating in less favoured areas.<br>• Investment grants and soft loans.<br>• Direct budgetary transfers to establish and run general agricultural services. |
| Rural development policy | • Establishment of an Agency for Rural Development.<br>• Funding several programmes. .<br>• Planning of a conception for a coherent program to promote rural development. |
| Agri-environmental policy | • Several legislative measures for water and soil protection and nature conservation.<br>• Funding and tax concessions to support nature protective agricultural practices. |
| Veterinary and phytosanitary policy | • Adaptation of administration and legislation to the needs of the market partners and in view to EU legislation.<br>• Application of hygienic and technical standards as well as of the HACCP principles on the involved food industry. |

[21] Approved as "Agricultural Policy of the Slovak Republic" by the Slovak Parliament in June 1993

tax concession and financing of general services are the main items. Financial support in form of subsidies is mainly given as direct payment to maintain production or for upgrading structural change. Market support only accounted for about 11% of budget expenditure for agriculture in 1997. The predominant expenditures are direct payments for less favoured areas, which account for about a half of subsidies and one third of total expenditure for agriculture.

Guaranteed credits and soft loans act as the second major source of support for the agricultural sector. The overall support via normal business credits, special soft loans, credit subsidies, costs for credit guarantees is difficult to assess as several sources are providing with credit facilitation. It is also difficult to distinct between investment and operational credits. On top of that the delayed inter-business payments and the huge amount of bad payments covered by state or public funds guarantees make it difficult to draw a realistic picture on the situation. As a very rough estimation at least about 8 bio SKK have been disbursed in credit business to the agro-food sector in 1997. The State Support Fund for Agriculture and Food Industries (SSFAF) from 1994 to 1997 disbursed more than 3 bio SKK in form of loan and guarantees to agriculture and food industry. The National Bank of Slovakia allocates "green bill credits" worth 1.5 bio SKK in 1996 and "bio SKK in 1997. The 1993 founded Slovak Guarantee Bank, funded by the Ministry of Agriculture, issues guarantees for cheaper commercial credits for farmers and plays an important role in the short-term financing of agriculture. Since 1998 farmers are eligible to "warehouse credits"[22] to facilitate short-term credit access.

Despite budget restrictions there was an obvious tendency to increase support above the level of inflation. Budget expenditures went up by 8% in 1996 and 21% in 1997. 1997 budget expenditure for agriculture was high in Slovakia (135 ECU / ha UAA) if compared to the Czech Republic (73 ECU / ha UAA) (table 31).

The total budgetary outlay to support agriculture is about 1.8% of GDP. The overall support to agriculture, measured as % PSE[23], was 19% in 1996 but went up to 25% in 1997However, budgetary restrictions set limits to increases and in 1997 the overall domestic support accounted for only 77% of AMS[24], to which Slovakia has committed itself in GATT. The growth of subsidies is likely to be halted in 1998, as the agricultural budget suffered a cut of about 4% (table 32).

**Table 31: Expenditure from the state budget on agriculture and the agri-food sector**

| **Mio SKK** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|
| Production support | 1389 | 1619 | 2390 | 2287 | 2873 |
| Structural support for the agro-food sector | 5105 | 4535 | 4629 | 4747 | 5508 |
| Environmental measures | 63 | 14 | 8 | 20 | 48 |
| Others | 166 | 148 | | | 340 |
| **Total subsidies** | **6723** | **6316** | **7027** | **7054** | **8769** |
| Market Support | 1109 | 653 | 652 | 656 | 1257 |
| Tax concessions (incl. Fuel tax concessions) | 330 | 130 | 130 | 981 | 1193 |
| General services | 1155 | 1459 | 1560 | 1382 | 1405 |
| **Total** | **9317** | **8558** | **9369** | **10073** | **12624** |

Source: MA SK, DG VI calculations

[22] Based on the Warehouse Receipt Act, recently approved by the parliament.

[23] PSE = Producer Subsidy Equivalent, indicator of the value of monetary transfer to agricultural producers resulting from agricultural policy. The given figures were calculated by OECD ('Agricultural policies in non-OECD member countries', 1998). The support to agriculture was much higher during the socialist period, amounting for instance to 63% of farm receipts in 1986. The average support in OECD member countries was only 47% in 1986.

[24] AMS = Aggregated Measurement of Support is calculated as the sum of subsidies, non-product specific supports and support based on volume or value of production.

**Table 32: Domestic support reduction according to GATT commitment**

| | base: 1986-1988 | 1997 | | 2000 | | 2000/base |
|---|---|---|---|---|---|---|
| | bio SK | bio SK | bio ECU | bio SK | bio ECU | % reduction |
| Total AMS | 12.7 | 11.4 | 0.299 | 10.1 | 0.223 | -20 |

Source: MA SK, DG VI calculations

**Table 33: Bound tariffs for selected products in comparison to the EU**

| | Slovak Républic | | | EU |
|---|---|---|---|---|
| | 1997 | 1998 | 2000 | 2000 |
| | % | % | % | % |
| wheat, rye, barley | 23.10 | 22.50 | 21.20 | 50.00-90.00 |
| sugar ( refined ) | 64.80 | 63.00 | 59.50 | 168.00 |
| skimmed milk powder | 43.30 | 41.20 | 37.00 | 70.00 |
| cheese | 9.50 | 9.30 | 8.50 | 87.00 |

Source: DG VI

**Table 34: Level of border protection for agricultural products in 1997**

| | MFN duty % | in quota tariffs ( t ) | quota (t) | note |
|---|---|---|---|---|
| Live cattle | 0-106.4 | 30 | 2 984 | (1) |
| Live pigs | 0-31.2 | 25 | 7 820 | (2) |
| Beef meat | 37.7-40.7 | 30 | 2 984 | (1) |
| Pigmeat | 42.2 | 30 | 7 820 | (2) |
| Sheepmeat | 28.2-138.3 | 20 | 128 | |
| Live chicken | 9.0-11.1 | | | |
| Milk powder | 43.3-54.0 | 30 | 652 | |
| Butter | 7.6-75.3 | 32 | 811 | |
| Cheese | 5.4-9.5 | | | |
| Eggs | 3.1-18.5 | | | |
| Potatoes | 0 -133.0 | 50 | 11 040 | (3) |
| Wheat | 5.2-27.8 | | | |
| Rye | 23.1 | | | |
| Barley | 23.1 | | | |
| Oats | 23.1 | | | |
| Corn | 2.0-18.5 | | | |
| Starch | 88.4 | 55.6 | 820 | |
| Rapeseed | 12.3-66.4 | 20 | 3 220 | (4) |
| Sunflower seed | 9.3-44.2 | 10 | 2 020 | |
| Sunflower oil | 26.3-26.5 | 19 | 1 140 | |
| Rapeseed oil | 27.0-28.3 | 20 | 1 176 | |
| Raw cane sugar | 64.8-74.0 | | | |
| Beetsugar | 64.8 | | | |

(1) common tariffed duty and quota for live bovine animals and meat of bovine animals
(2) common tariffed duty and quota for live swine and meat of swine
(3) tariffed duty and quota excluding "other potatoes" (CN 0701 90)
(4) tariffed duty and quota only for "other rapeseed" (CN 1205 0090)
Source: MA SK

## 3.2 Trade policy

Foreign agricultural trade of the Slovak Republic is governed by following multilateral and bilateral agreements:

- Final Act of UR GATT (Slovakia is a member of WTO/GATT since 1993),
- the agreement on establishment of the custom union between the Slovak Republic and Czech Republic (since 1.1.1993),
- Europe Agreement (or "Association Agreement") with the EU was signed 18.12.1991 as an interim agreement with the Czechoslovakia) and entered to force in 1.1.1993. The European Agreement with Slovak entered into force on 1 January 1995,
- Central European Free Trade Agreement (since March 1993),
- further arrangements on adjustment of agricultural trade within bilateral free trade agreements with specific countries.

### 3.2.1 WTO Agreement

The former Czechoslovakia acceded to the GATT in 1947. After Slovakia's foundation in 1993 it was one of six CEECs, which participated in the UR negotiations and signed the final document of the Uruguay Round. Border measures as market access, domestic support, export subsidies, applied by the Slovak Republic, are based on the commitments of the Uruguay Round.

Most Slovak tariffs are considerably lower than the EU-15 ad valorem equivalents with exception of poultry, potatoes and oilseeds, which enjoy a higher protection, and of pigmeat, which has a similar level of protection as the EU. However, the sectors enjoy-

**Table 35: Minimum access commitments, selected products**

| | 1997 | | 1998 | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| | quantity (t) | tariff rate (%) | quantity (t) | tariff rate (%) | quantity (t) | tariff rate (%) | MFN rate (%) | EU rate (%) |
| Beef | 2 984 | 30 | 3 233 | 30 | 3 730 | 30 | 34 | 108 |
| Pigmeat | 7 820 | 25-30 | 8 472 | 25-30 | 9 775 | 25-30 | 28.6-38.5 | 38 |
| Poultry | 2 896 | 24 | 3 137 | 24 | 3 620 | 24 | 43 | 25 |
| Butter | 811 | 32 | 879 | 32 | 1 014 | 32 | 68 | 136 |
| Potatoes | 11 040 | 50 | 11 960 | 50 | 13 800 | 50 | 100 | 11.50 |
| Oilseeds * | 5 240 | 10-20 | 5 508 | 10-20 | 6 045 | 10-20 | 40-60 | 0 |

* Amount of rapeseed and sunflower seed together (rapeseed -tariff rate - 20%, sunflower seed -tariff rate - 10%)

Source: VUEPP, DG VI calculations

ing rather high border protection are also the sectors in Slovakia, which at present suffer the greatest backlog in restructuring. The results of the WTO agreement also influenced Slovakia's arrangements of subsequent trade agreements as with the EU and CEFTA (table 33, 34 & 35).

The main policy issues, which have adversely affected the smooth functioning of foreign trade relates to the re-introduction of an import surcharge by Slovak Republic in mid-1997. The rates till the end of 1997 were- 7%, till the 31 March 1998 - 5% and till the September 1998 - 3% of the good value. The import surcharge is planned to be abolished in the second half of 1998[25].

In the course of 1997, technical trade barriers started to be applied on a wider scale, which took the form of veterinary and phyto-quarantine measures and requirements on certification of imported goods. For example a ban on the imports of apples, pears and plums was announced, and certification procedures for determining phyto-pathological safety of potatoes and different types of foodstuffs and vegetable became more stringent. In June 1997, the Slovak Veterinary Administration announced a ban on the imports of pigs, pork meat and feed concentrates from the Czech Republic following the outbreak of classical swine fever (table 36).

**Table 36: Export commitments of Slovakia**

| | 1997 | | 2000 | |
|---|---|---|---|---|
| | Mio SKK | 1 000 t | Mio SKK | 1 000 t |
| beef | 233.7 | 32.2 | 182.4 | 28.4 |
| pork | 41 | 5.4 | 32 | 4.7 |
| poultry. eggs. | 146.8 | 12.5 | 114.6 | 11 |
| sheep meat | 25.4 | 1.8 | 19.8 | 1.6 |
| milk powder | 342.2 | 17 | 269.4 | 15 |
| other dairy products | 310 | 8 | 241.9 | 7.1 |
| fruit. vegetables. | 87.7 | 8 | 68.5 | 7.1 |
| seeds. hops | 69.7 | 6.3 | 54.4 | 5.5 |
| vegetable oil fats | 22.1 | 4.5 | 17.3 | 3.9 |
| sugar | 65.6 | 4.5 | 51.2 | 3.9 |
| beer | 33.6 | 75.2 | 26.2 | 66.4 |
| wine | 49.2 | 9.8 | 38.4 | 8.7 |
| spirits beverages | 80.3 | 57.3 | 62.7 | 50.6 |
| starch | 63.9 | 13.4 | 49.9 | 11.8 |
| malt | 305.1 | 119.9 | 238.1 | 105.9 |
| cereal. flour products | 236.1 | 123.5 | 184.3 | 109 |

Source: VUEPP, DG VI calculations

### 3.2.2 Czech-Slovak Customs Union

The Agreement on establishment of the Custom Union between the Slovak Republic and Czech Republic has entered into force on 1 January 1993 after the split up of Czechoslovakia. According to the provisions of the agreement no tariff barriers are applied in mutual trade between the Czech Republic and the Slovak Republic. A common board, the Council of the Czech-Slovak Customs Union, with half-year rotation of presidentship between the Slo-

[25] Under the pressure of increasing trade deficit in the second half of 1996 and the first half of 1997, the Slovak Government adopted several protective measures of non-tariff nature which also affected agro-food trade. The re-introduced import surcharge (originally introduced in 1994 and abolished end of 1996) starting from July 1997 covers all agricultural and food products.

vak and the Czech side, acts as steering institution to settle problems.

The Czech Republic remained one of Slovakia's most important agro-food trade partner. Since 1993 one third of the total Slovak agro-food imports and exports were transacted within the customs union. The net position of Slovakia deteriorated during the last years. The main reason is the weaker competitiveness of Slovak products in product presentation and marketing. Although in terms of quality and in price often at the same level as Czech products, product design of Slovak products is lagging behind. In terms of trade this led to the double effect that Czech goods enjoy a high preference on the Slovak market, which speeds up Czech imports, and Slovak exports are less demanded in the Czech Republic, which on top of that is much stronger penetrated by foreign products. The absence of a wholesale market in Slovakia is a further obstacle, as it hampers reliable supply for exports.

Although the union in general works smoothly, the growing trade deficit of Slovakia causes increasing difficulties. The main issues of dispute were the payment clearing system (abolished in 1995), certification procedures, the Slovak import surcharge and restrictions of imports by introducing import quotas for products deemed as "sensitive" by Slovakia. For cereals an agreement to limit exports was reached in 1996 after Slovakia signalised the introduction of an export ban.

Imports of Czech beer, non-alcohol beverages, spirits, margarine and cigarettes grew in 1995 and 1996 and provoked subsequent political pressure by Slovak producers calling for the introduction of protective measures against the import of these commodities from the Czech Republic. This caused the Customs Union Board to agree in December of 1996 on the monitoring regime for trade in 8 sensitive items[26]. In the course of 1997 import quotas were set on the imports of beer and non-alcohol drinks. Czech producers of vegetable oils and cigarettes had voluntarily undertaken to maintain imports of raw materials from Slovakia accordingly.

In 1998 also other Czech products as jam, fruit juices, processed meat and vegetables and some milk products became subject of restriction objectives of Slovakia. For beer and non-alcoholic beverages Slovakia uses the provisions of Article 20 of the Slovak-Czech Agricultural Agreement, to implement safeguard measures on imports of these products since 1997. However, also the Czech side showed intentions to implement safeguard measures and called for including sugar, glucose and dextrines on the list of sensitive items recently.

Beer import from the Czech republic remains the most contested issue in the trade union, although the share of Czech beer on total consumption was with 11% in 1996 and 14% in 1997 rather low.

### 3.2.3 CEFTA

The Central European Free Trade Agreement was signed in December 1992 and replaced the "Visegrad Agreement" of February 1991 between Poland, Hungary and former Czechoslovakia. It came into force in March 1993 between four countries (after the split of Czechoslovakia into the Czech and Slovak Republics).

In November 1995 Slovenia became member with a transition period till the end of 1999 and Romania joined in July 1997 with a transition period till end 1998. Bulgaria has applied for membership and joined CEFTA in June 1998. Several other countries have also started negotiations to become CEFTA members such as Latvia, Lithuania, FYROM (Former Yugoslav Republic of Macedo-

[26] Beer, potatoes, margarine, yeast, cigarettes, ketchup, bakery products, mineral water.

nia) and Croatia. However, under CEFTA rules, only candidates that have an Association Agreement with the EU and are members of the WTO are eligible for membership.

CEFTA encompasses all merchandise trade. The objective of the Agreement is a gradual establishment of a free trade area for industrial products, and a gradual reduction of certain, but not all, barriers to trade in agricultural products. For industrial products all barriers will be abolished by the end of 2000. For agricultural and food products the initial agreement introduced a system of preferential quotas. Preferences were given for selected commodities on a bilateral basis, for which parties had to decrease tariffs by 10% annually, until a 50% preference was reached. It was later decided to introduce the 50% tariff reduction at once and in some cases an even higher reduction (of 70%).

In December 1995 agreement was reached on further gradual liberalisation of agro-food trade until, after further negotiations, eventually full liberalisation would be reached. However, the original deadline of 1998 was postponed and finally at the CEFTA summit meeting in Warsaw in December 1997 changes were agreed to the grouping of products in different categories with different degrees of liberalisation (sugar and certain dairy products remained outside of the listing):

- A listing: duty free and quota free commodities as from 1.1.1996 (breeding animals, horses, rabbits, durum wheat and oilseeds);
- B listing: common preferential tariffs (poultry meat 28%, wheat 15%, barley 18%, flour 15%, pastry 20%, some fruit and vegetables 5 to 10%);
- C and D listings with bilateral preferences on more sensitive commodities between CEFTA members; C and D-listings embrace mainly goods, which are not covered under A or B, some are limited by quotas.

Separate A1 and B1 listings were agreed at the Warsaw meeting as a special arrangement for Slovenia's gradual adjustment to CEFTA rules. Currently about 15% of value of all agro-food products traded among CEFTA members have a zero customs duty and about half of the trade fall under C and D-listings.

### 3.2.4 Europe Agreement

The Europe Agreement with the Slovak Republic was ratified in 1995[27]. In the field of agriculture the Europe Agreements with the associated countries grant trade concessions, mainly in the form of tariff quotas at a preferential rate. The agreements have been modified to take into account the Uruguay Round Agreement of 1994 and the EU enlargement of 1995.

For the adjustment to the GATT agreement the in-quota preferential rates were set to 20% of the MFN tariff rate (instead of 40% of the import levy at the end of the first five year period before). For the second five-year period the EU decided to decrease the tariff rate quotas by 25% (compared to 50% in the first period).

Before the end of June 1995 the EU applied 60% reduction of the variable levy. Since July 1997 the EU grants 80% reduction of duties on import of commodities within the related concessions. For the EU enlargement to Austria, Finland and Sweden, the former preferences enjoyed by the CEECs in their trade with the EFTA-3 were included.

Reduced EU trade barriers did not lead to increased Slovak exports immediately. As most other associated CEECs the Slovak Republic had some problems in use of preferential quotas. Administrative problems on the Slovak side and an intransparent administration of the quota management by the European Commission services restrained preferential trade. Other reasons for the sub-utilisation on the Slovak side were

[27] It was preceded by an Interim Agreement negotiated wit the EU by the former Czechoslovakia on trade covering the period 1992-1995.

insufficient exporting capacity and the non-competitive cost structure of Slovak production (e.g. of pork and poultry meat). Also missing are distribution channels through which Slovak exports could penetrate EU markets. Sales support and debt financing of export operations were missing. Export restrictions Slovakia applies for certain commodities[28] to stabilise the domestic market also prevented a take off.

Fully or to a large extent used have been the quotas for dairy products and some of the import quotas managed by DG XXI (e.g. yoghurts, margarine, apple juice and honey). But certain commodities are still lagging behind or could not record utilisation at all. Underused have been the quotas for hops, meats and live animals (beef, sheep, goose meats) and for eggs. Before 1997 the quotas on pigmeat and poultry remained unused. The quotas for cereals except wheat flour were fully utilised in 1994/95, but only to a very limited extent in 1995/96 and 1996/97.

The general measures restrictive on imports, introduced in 1997 in the trade relations with all trading partners, also affected the trade with the EU. In addition in 1996 and 1997, also certain veterinary and phytosanitary measures were taken by Slovakia affecting EU imports (i.e. in relation to vegetable imports from the EU and to the swine fever epidemic in the Netherlands). In 1997 the Slovak Republic applied the special safeguard measure on import of ice cream (increased duty rate) and phytosanitary measure on potatoes (ban of imports) according to GATT. Similar measures have been applied by the EU on potato imports from Slovakia.

### 3.2.5 Other Free Trade Agreements

The Slovak Republic concluded also an agreement with the European Free Trade Association (EFTA), validating from 1992, which is characterised by asymmetrical conditions. Furthers Slovakia entered into several bilateral free trade agreements as with Bulgaria, Latvia, Estonia, Israel, Turkey and Lithuania. These agreements also contain the provisions on liberalisation of mutual trade in agricultural products. New agreements are under consideration (Morocco).

## 3.3 Market support

Prices for agricultural products (except for milk) are fully liberalised since the beginning of the 90es. However, market support policy targets to govern price determinants of supply and demand by steering supply. Price support policies tools comprise intervention buying by the State Fund of Market (SFMR), export refunds, import and export licenses. The SFMR buys fixed volumes at fixed prices, declared by the Ministry of Finance, on the basis of public tenders. Export subsidies are granted by the SFMR on the basis of contracts concluded with exporters. Export licenses are issued by the Ministry of Economy and give the power to steer exports, which might cut back supply under the level of domestic demand.

The SFMR, established by law in 1993, has an own executive body, which works under the supervision of the Ministry of Agriculture. A Council with 14 members acts as advisory body to the agricultural minister, who appoints the members. The SFMR administers funds allocated from the state budget to finance its operations. In addition, the SFMR disposes of several other revenues as the revenues from sale of intervention stocks, receipts from import levies (cut in 1995) and contribution from market participants.

In general, market price support was of lower significance (if compared with direct payments) in Slovakia since market prices were in general below or at the world market level. 1994 and 1995 interven-

[28] For exports certificates issued by the Slovak Miistry of Economy a preliminary approval of the Slovak Ministry of Agriculture (MA SR) has to be obtained. This measure was introduced in 1997 after export licenses issued in parallel by the MA SR and the Ministry of Economy led to a fiasco on the cereals market in 1995.

tion buying and export subsidies had only limited impact on domestic price levels. Moderate domestic demand and non-refunded exports determined market balances and prices. Nevertheless, for some livestock commodities such as milk, beef, pigmeat and poultry, which also enjoy also high border protection market support had a considerable impact. Stronger market support in 1996 and 1997 reinforced the influence of SFMR on the markets and extended it to products in the arable sector.

The total value of intervention was stable in 1993 and 1994 (1.3 and 1.4 bio SKK respectively) and fell to around 1 bio SKK in 1995. State purchases were mostly of crop products, especially in 1993 and 1994 (grains and also potatoes in 1993) and only of a very limited quantity of livestock products (less than 5 per cent of the total value of intervention buying). Since 1995, however, the share of livestock products in intervention purchases increased with the general expansion of intervention activities. The main products concerned were dairy products and beef. The State Fund of Market Intervention conducted intervention buying worth 3.8 bio SKK in 1996 and 3.5 bio SKK in 1997. The total turnover of market intervention (excluding export subsidies and storage aids) was 6.1 bio SKK in 1997. In terms of value about 7% of the total agricultural output were purchased to intervention in 1997 (EU: 13%). Between 1993 and 1997 the volumes of intervention buying and of export subsidies tripled (table 37).

**Table 37: SFMR subsidised exports (1000 T) and export subsidies (Mio SKK)**

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| **Malt** | | | | | |
| subsidied export (1000 t) | | 25.1 | 94.3 | | 30.5 |
| export subsidies (Mio SKK) | | 16.6 | 48.9 | | 26.0 |
| **Starch** | | | | | |
| subsidied export ( 1000 t) | 0.7 | 1.4 | | | |
| export subsidies (Mio SKK) | 1.9 | 4.0 | | | |
| **Sugar** | | | | | |
| subsidied export (1000 t) | 9.5 | 0.2 | | | 4.5 |
| export subsidies (Mio SKK ) | 6.2 | 2.6 | | | 15.5 |
| **Cattle for slaughter** | | | | | |
| subsidied export (1000 t) | 24.0 | 1.7 | | | 1.5 |
| export subsidies (Mio SKK) | 150.0 | 7.7 | | | 13.3 |
| **Pigs fot slaughter** | | | | | |
| subsidied export ( 1000 t ) | 1.4 | | | | |
| export subsidies (Mio SKK) | 7.2 | | | | |
| **Poultry** | | | | | |
| subsidied export (1000 t) | 1.4 | 0.1 | | | |
| export subsidies (Mio SKK ) | 18.5 | 2.8 | | | |
| **WMP + SMP** | | | | | |
| subsidied export (1000 t) | 7.5 | 7.1 | 7.1 | 6.3 | 8.0 |
| export subsidies (Mio SKK) | 45.3 | 63.0 | 23.3 | 12.7 | 110.0 |
| **Butter** | | | | | |
| subsidied export ( 1000 t ) | 1.9 | | | 0.4 | |
| export subsidies (Mio SKK ) | 49.0 | | | 9.3 | |
| **Cheese** | | | | | |
| subsidied export ( 1000 t ) | 6.9 | 5.1 | 7.3 | 8.0 | 7.9 |
| export subsidies (Mio SKK ) | 135.8 | 154.3 | 165.0 | 181.0 | 198.6 |
| **Canned meat** | | | | | |
| subsidied export ( 1000 t ) | | 0.8 | 0.20 | 1.10 | 1.10 |
| export subsidies (Mio SKK ) | | 15.30 | 4.9 | 49.0 | 58.0 |
| **Total** | | | | | |
| **total export subsidies (Mio SKK)** | **414** | **266** | **242** | **252** | **421** |

Source: SFMR

Export subsidies are given mainly for livestock products, as for most commodities their prices are above world market level. From 1993 to 1994 export subsidies diminished under 300 Mio SKK annually, a level which was maintained until 1996. The largest amount (over 50 percent of total outlays) were spent on dairy exports, especially of cheese and milk powder. In the dairy sector, export subsidies assist to maintain the over-capacity of the industry, which has occurred as a result of decline in domestic demand. In 1997 export refunds nearly went up by 70% to 421 Mio SKK. Milk export funding remained the top activity, but also support for beef increased.

The activities and objectives of the State Fund for Market Regulation (SFMR) are lacking transparency. There are market organisation rules for several commodities as for instance cereals, milk, pigmeat, beef (sugar is in preparation also). But except for milk, for which in the milk market organisation clear regulations of price administration are set up, intervention decision on other commodities are taken on an "ad hoc" basis. In this respect the noticeable change since 1996 in emphasis of the SFMR away from simply removing the surplus (using export subsidies) to direct intervention on domestic market with increasing budget power appears to be critical.

Ad hoc decisions on subsidised exports often reflect stronger lobby pressure rather than market balancing intentions. An other source of intransparency is the link between SFMR and the State Reserves Fund (SRF)[29]. Destocking and stock intake of the SRF stocks can have impact on Slovak markets. Slovak authorities underline that all support measures are meant to be only temporarily until the domestic market will be stabilised. The recent attempt of the SFMR to become an independent institution with an independent budget rouse is supposed to rise doubts on that.

Effective support prices showed a 25% to 30% gap, if compared to the EU support price level in 1997. Support prices in Slovakia went up strongly from the marketing year 96/97 to 97/98, narrowing the gap considerably (table 38).

**Table 38: Effective support prices for selected commodities in Slovakia compared to the EU**

| | | 95/96 | 96/97 | 97/98 |
|---|---|---|---|---|
| **Wheat** | | | | |
| SK | ECU / t | 86.2 | 89.5 | 95.3 |
| EU | ECU / t | 124.9 | 127.5 | 123.1 |
| SK / EU | % | 69.0 | 70.2 | 77.4 |
| **Milk** | | | | |
| SK | ECU / t | 177.6 | 176.5 | 197.3 |
| EU | ECU / t | 290.5 | 288.4 | 286.5 |
| SK / EU | % | 61.1 | 61.2 | 68.9 |
| **Beef** | | | | |
| SK | ECU / t | | 1879.4 | 2108.8 |
| EU | ECU / t | | 2821.7 | 2791.4 |
| SK / EU | % | | 66.6 | 75.5 |
| **Exchange-rate** | | | | |
| SKK / ECU | | 38.87 | 39.09 | 38.10 |

Source: DG VI calculations

**Table 39: Market support for wheat**

| | | 94/95 | 95/96 | 96/97 |
|---|---|---|---|---|
| effective support price | SKK/t | 3350 | 3500 | 3500 - 3630 |
| Market price (farm) | SKK/t | 3241 | 3761 | 4243 |
| Intervention purchase | 1000 t | 197 | 213 | 135 |

Source: SFMR

The grain market organisation, introduced in 1994, sets general rules of supply management for cereals. The intervention price and the maximum quantity of intervention purchases is fixed before the beginning of the marketing year, 1 July. Provided input cost do not change more than 5%, the fixed price remains unchanged during the campaign.

Intervention purchases for wheat take place on a regular basis whereas other grains are taken into stocks depending on the market situation. Market intervention policy of SFMR intends to balance markets via intervention purchase also in year with small harvests. Intervention stock, bought directly after harvests are released over the rest of the year, when supply bottlenecks might lead to increasing market prices. However, the intention of price stability could be achieved in a more market-oriented way by liberalise trade (table 39).

The dairy sector is supported by a combined system of flat administered farm gate prices and a maximum production quota. The guaranteed prices are complemented depending on the quality of the raw milk. The fixed price amounted to 7,30 SKK per litre milk of standard fat content in 1997 and has been increased to 7.75 SKK in 1998. Out-of-quota production and milk that is below standard quality are not eligible for the administered price and complementary payments, and producers negotiate prices directly with milk processing enterprises. The national production quota was fixed at 0.9 billion litres 1997, which was 15 per cent higher than current domestic use. Market support was, however, no incentive to expand production. So far the milk price was also supported by subsidised exports of milk and dairy products by the State Fund for Market Regulation (SFMR). After a steady decline between 1991 and 1995, the value of export subsidies granted for milk and dairy products increased in 1996 and reached with 309 Mio SKK about 47% of the export commitment ceiling (table 40).

[29] The SFMR co-decides on the management of the State Reserve Fund Stocks, ("strategic stocks"), embracing commodities as for instance wheat, barley and sugar. Stock volumes and stock management objectives are confidential.

The effective support price for beef in 1997 was increased to 42.1 SKK/kg, which in an up of 9% on 1996. Some 11,400 t were taken into intervention. Total expenditures for beef export subsidies have an upward trend, amounting to 71 Mio SKK in 1997 (table 41).

Although the pigmeat intervention price also was increased the pig sector enjoys only limited support. Export subsidies were granted in 1995 exclusively. The effective support price was set to increase to 37.3 SKK/kg l.w. in 1998, which is a strong increase if compared with the previous year (table 42).

From 1992 to 1994 the SFMR bought sugar and sugarbeet into intervention. Market support in form of intervention purchases for sugar mainly targeted to mitigate liquidity problems of the sugar refineries. Since sugar production expanded from 1995 onwards again the SFMR started intervention purchases, which were interrupted in 1995 and 1996, again in 1997. In 1997 the first time export subsidies for sugar were granted. No effective support price was fixed in 1995 to 1997.

**Table 40: Market support for milk and milk products**

| | | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Fixed price | SKK/l | 6.70 | 6.70 | 7.30 |
| Export subsidies (average) | SKK/kg | 22.6 | 21.9 | 24.9 |
| Butter Subsidised exports | 1000 t | | 0.4 | |
| Milk powder Subsidised exports | 1000 t | 7.1 | 6.2 | 8.0 |
| Cheese Subsidised exports | 1000 t | 6.5 | 8.0 | 7.9 |

Source: SFMR

**Table 41: Market support for beef**

| | | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Effective support price (l.w.)bulls | SKK/kg | | 38.50 | 42.10 |
| Market price (farm, l.w.) | | | | |
| bulls | SKK/kg | 38.32 | 37.59 | 38.73 |
| heifers | SKK/kg | 34.99 | 33.48 | 32.60 |
| cows | SKK/kg | 26.54 | 24.96 | 24.58 |
| Effective purchase | 1000 t | | 9.3 | 11.4 |
| Export subsidies (average) | SK/kg | | | 9.42 |
| Subsidised exports beef | 1000 t | 0.2 | 0.3 | 2.6 |

Source: SFMR

**Table 42: Market support for pork**

| | | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Effective support price | SKK/kg | 34.45 | 34.45 | 35.53 |
| Market price (farm, l.w.) | SKK/kg | 36.05 | 37.00 | 39.53 |
| Effective purchase | 1000 t | 7.6 | 10.6 | 2.2 |
| Subsidised exports pigmeat | 1000 t | | 0.4 | |

Source: SFMR

## 3.4 Production support

Initially, input subsidies were limited to support the purchase of certified seeds, planting materials, pesticides and breeding animals. Their scope has been expanded in 1995 and 1997 to additional sorts of plants (e. g. potatoes, vegetables) and to industrial fertilisers. In 1997 about 1.5 bio SKK backed the input purchases of farmers. Further on, partial reimbursement of irrigation costs (of charges for water and fuel and energy) is being provisioned at a varying level (table 43).

**Table 43: Production support**

| Mio SKK | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Support for sheep, goat and suckler cows in LFA | 150 | 129 | 129 | 129 | 144 |
| Input subsidy (seed, fertilizer, fuel) | 682 | 745 | 1 193 | 1 170 | 1 491 |
| Irrigation support | | 120 | 168 | 98 | 109 |
| Compensation for animal epedemics | 35 | 55 | 44 | 77 | 78 |
| Support for production of tobacco | | | | | 20 |
| Quality premia cow and sheep milk and meat | 452 | 489 | 777 | 742 | 955 |
| Plant breeding | 70 | 82 | 80 | 71 | 76 |
| **Total** | **1 389** | **1 619** | **2 390** | **2 287** | **2 873** |

Source: MA SK, DG VI calculations

Input subsidies are provided to private applicants by regional agencies of the Ministry of Agriculture according to a set of eligibility criteria and standards. E.g. for grains a 30% redemption of seed and fertiliser costs is provisioned. In case of pesticides, the redemption is 40%. The eligible quantities of seeds and other inputs are derived from standard growing practices and linked to an area, which had been proved by statistical records. In the beef and dairy sectors, purchase of pedigree bulls and heifers is supported by subsidies up to 40% of purchase value with price ceilings for specific quality grades. The same subsidisation applies for pork and poultry. Modernisation of dairy equipment is supported up to amount of 40,000 SKK per milk stand or 40% of the investment value. As in general, input subsidisation bears the risk of cross-subsidisation of the upstream sector. The high price level of farm inputs and estimations of experts back the impression that that is the case for inputs, which are subject of direct subsidisation in Slovakia.

## 3.5 Tax policy in agriculture

The tax system changed considerably since beginning of transition. Income taxes and property taxes were extended and vehicle tax and indirect taxes as the VAT and excise taxes on fuels and alcoholic beverages introduced.

However, there were applied numerous exemptions for the agro-food sector, amounting to 1.4 bio SKK or 11% of the total support of the sector in 1997. Reduced income and property taxes, lower rates of VAT on agricultural inputs as foodstuffs, tax holidays and a reimbursement of fuel taxes are the most important elements.

## 3.6 Structural policy in agriculture

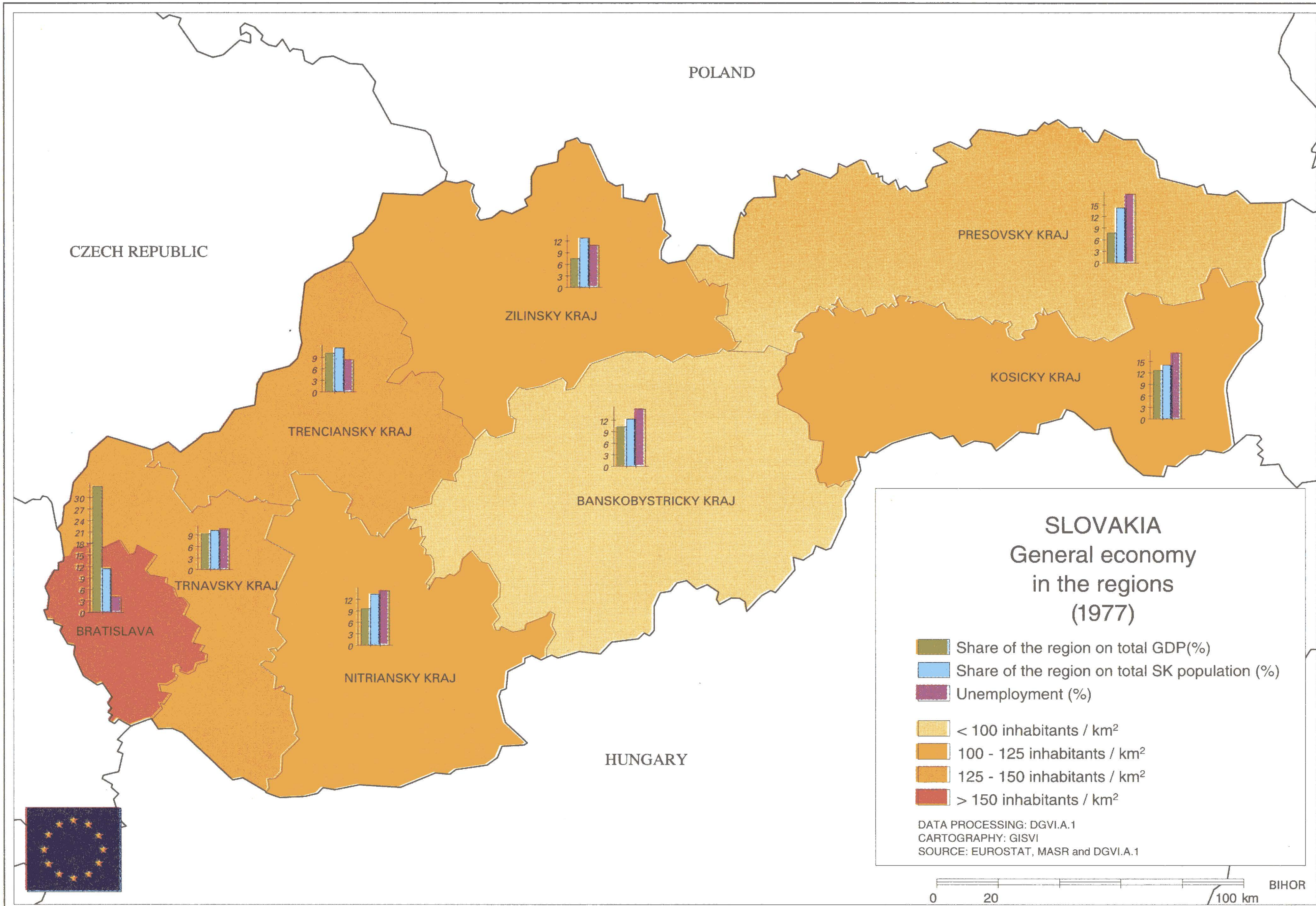
**Less Favoured Areas support**

The most important budget component are area payments, which help to stock-up farm revenue in less favoured agricultural areas. The allocation scheme of area payments is based on fix per hectare rates, which are appointed for particular land value groups, generated from the cross-country classification of agricultural land in Slovakia. Since these payments are linked with area units, they are not product specific. Nevertheless, due to shifts in product allocation according to changing climatic and soil conditions across the grid of land value categories, an assumption can be made, that the beneficiaries of this support are predominantly cattle, dairy and sheep and other more or less grassland based enterprises. Recipients of the area based income support are mandated for proper maintenance of eligible land area what is subject to checks by regional agricultural offices. The share of this type of income support on total farm income in less favoured areas is quite significant (table 44).

**Table 44: Expenditures on structural policy in agriculture**

| Mio SKK | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Less favorite area payments | 3 609 | 3 353 | 3 318 | 3 306 | 3 312 |
| Investment aids for restructuring | 1 017 | 940 | 923 | 1 110 | 1 799 |
| Afforestation of grassland | 0 | 3 | 44 | 36 | 44 |
| Agrotourism development | 12 | 12 | 17 | 22 | 36 |
| Investment aid for animal production | 72 | 137 | 154 | 152 | 175 |
| Loan default (paid loan guarantees by SSFAF) | | 89 | 81 | 46 | 49 |
| Other (remote farming, wineyards, animal breeding) | 396 | 2 | 92 | 76 | 93 |
| **Total** | **5 105** | **4 535** | **4 629** | **4 747** | **5 508** |

Source: RIAFE, SSFAF (State Support Fund for Agriculture and Food Processing Industry), DG VI calculations



SLOVAKIA
General economy
in the regions
(1977)
Share of the region on total GDP(%)
Share of the region on total SK population (%)
Unemployment (%)
< 100 inhabitants / km²
100 - 125 inhabitants / km²
125 - 150 inhabitants / km²
> 150 inhabitants / km²
DATA PROCESSING: DGVI.A.1
CARTOGRAPHY: GISVI
SOURCE: EUROSTAT, MASR and DGVI.A.1
POLAND
CZECH REPUBLIC
HUNGARY
PRESOVSKY KRAJ
KOSICKY KRAJ
ZILINSKY KRAJ
BANSKOBYSTRICKY KRAJ
TRENCIANSKY KRAJ
TRNAVSKY KRAJ
NITRIANSKY KRAJ
BRATISLAVA
0 20 100 km
BIHOR

### Support to Investment

Farmers have access to direct payments from the State budget to support investments in modern farm technologies. These direct payments increased strongly to SKK 1.8 bio in 1997.

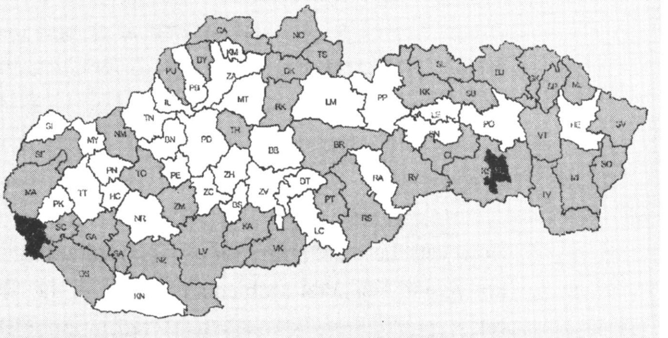
Beneath direct payments from the budget the State Support Fund for Agriculture and the Food Industry (SSFAF) provided loan finance and investment support for the farm sector. The SSFAF, which was founded with an initial fund of 800 Mio SKK in 1994, operates independently with an own budget of 1.7 bio SKK in 1997. The role of the fund is to support investment in agriculture and the food industry and to stimulate the development of the land market. The SSFAF obtains funds from the proceeds of the sales or liquidation of state-owned companies in agriculture and the agro-food sector as well as from loan repayments and the State budget. The SSFAF operates two main schemes: loans at low interest rates and financial guarantees (of up to 70 per cent of investments) for credits extended by commercial banks at commercial rates. In 1997 the SSFAF started providing as well distributing interest subsidies for loans extended by commercial banks.

## 3.7 Rural development policy

In rural regions of Slovakia live approximately 48% of population, in semi-urban regions 40% and in urban regions 12% of population. Rural development policy is at rather early stages of implementation and still acts in the wake of regional policy, which itself is still not very advanced[30]. Nevertheless, the existing problems of rural areas in Slovakia and the lively international discussion of the rural development topics, in particular in the EU, strengthened the awareness of the need for an appropriate policy framework for rural development in Slovakia.

The first steps of emancipation towards an integrated rural development policy were taken by setting up of the Rural Development Agency (RDA) in April 1995. The task of the Agency is to support activities for sustainable, balanced socio-economic development of rural settlements, creation of employment and additional sources of income for rural population. The RDA helps communities to prepare and perform projects in these fields and assists potential and existing enterprises in rural areas in their business.

**Rural and urban areas in the Slovak Republic**



**Rural districts (okres)**
(More than 50% of population lives in rural settlements)
**Intermediate districts (okres)**
(15 - 50% of population lives in rural settlements)
**Urban districts (okres)**
(Less than 15% of population lives in rural settlements)

Source: Ministry of Agriculture of the SR

In addition to the Rural Development Agency there are several other agencies dealing with rural development issues: the National Agency for the Development. of Small and Medium Enterprises (NADSME), the Slovak National Agency for Investment Promotion and Development (SNAZIR). In addition, there are several Regional Development Agencies set up by different municipalities.

[30] The basic conception and strategic materials for regional development are in preparation. The Slovak Government has approved end of 1997 the "Proposal of conception of state regional policy", which sets out the basic frameworks following the structure of the European regional policy.

In 1998 the Slovak Ministry of Agriculture drafted an advanced "conception of rural development in the Slovak Republic" which formulates in an advanced way the objectives and implementation principles of rural development in the future[31]. As a long-term objective it targets the establishment of a rural development policy in a shape, the EU is heading for.

The conception outlines that rural development policy should be based on an integrated approach, embracing economic, social and environmental aspects of rural areas. The areas of activity should be territorially defined and based on partnership among various agents, balancing concerned interest groups as well as stimulating vertical co-operation between different participants and administrative units. Moreover, they should be based on local initiatives and supported by proper institutional arrangements.

However, there are still a lot of technical, administrative and financial problems to solve. In the Slovak Republic there is no exclusive definition of the "rural population". As rural settlements those settlements are considered, which do not have a town-status and have a certain type and character of settlement, economic structure based on agriculture and forestry, less developed infrastructure and lower population density. Statistically[32] these are the settlements with population under 5,000. Specific information on rural areas is still lacking.

Significant limitation of rural development activities is imposed by a lack of financial resources, particularly at local levels. The Budget Law of the central government gives municipalities a share of the income- and the corporate-tax, also all revenue from real estate tax. All of it is, however, too little to increase the quality of the basic infrastructure substantially and leave space for fundamentally improve rural living conditions.

The attitudes of rural communities concerning rural development projects are mixed. There have been successfully working pilot projects with highly motivated support by the local participants, whereas other projects were welcomed with reservations. The Rural Development Agency, although strongly understaffed for its tasks, and the responsible services in the Ministry of Agriculture are committed and open-minded in their work.

The following programmes are amongst the most important to be applied in rural areas:

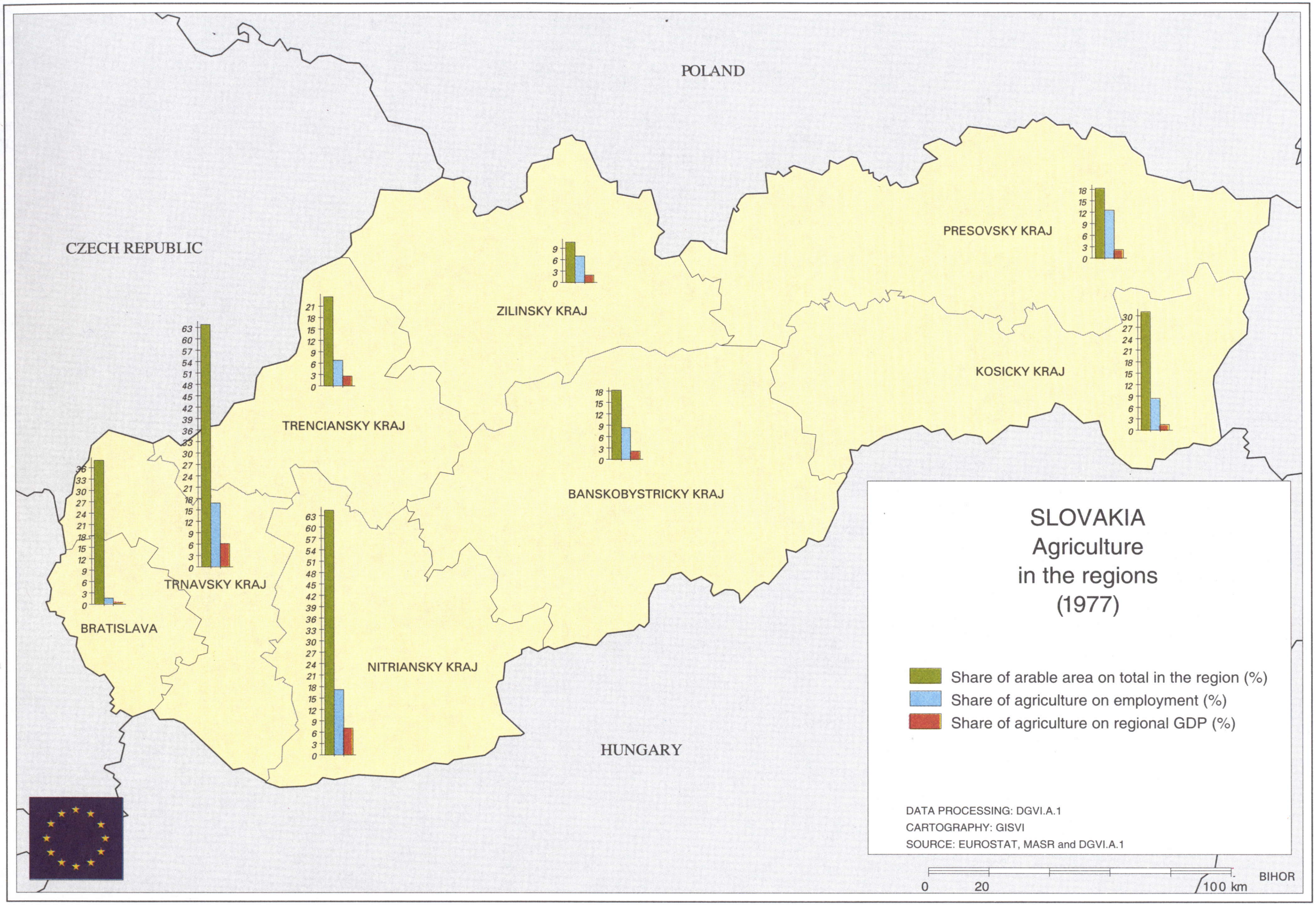
- Active and passive employment policy, funded by the National Employment Office.
- Support programs for small and medium-sized businesses.
- Support programs of industrial production on the base of domestic raw materials.
- Program for development of craft production.
- Tourism support program (including agri-tourism).
- Program of construction of technical infrastructure in settlements.
- Maintaining of agriculture in less favored areas.
- Village Restoration Program.

## 3.8 Agri-environmental policy

In Slovakia environment basically suffers by the same problems caused by agriculture as the most other CEECs. In Slovakia the most serious problem is water pollution caused by the unsustained high application of fertilisers and inappropriate treatment of animal waste during the socialist era. In particular ground water basins and limnic ecosystems, as lakes and rivers, are still heavily polluted

[31] The Slovak Government has not yet approved the conception when this report was written.

[32] For analytical purposes regions are classified following the OECD approach (rural areas: more than 50% of their population is living in rural settlements, intermediate semi-urban areas with 15-50% of population living in rural settlements and urban areas).



SLOVAKIA
Agriculture
in the regions
(1977)
Share of arable area on total in the region (%)
Share of agriculture on employment (%)
Share of agriculture on regional GDP (%)
DATA PROCESSING: DGVI.A.1
CARTOGRAPHY: GISVI
SOURCE: EUROSTAT, MASR and DGVI.A.1
0
20
100 km
BIHOR
POLAND
CZECH REPUBLIC
HUNGARY
BRATISLAVA
TRNAVSKY KRAJ
TRENCIANSKY KRAJ
NITRIANSKY KRAJ
ZILINSKY KRAJ
BANSKOBYSTRICKY KRAJ
PRESOVSKY KRAJ
KOSICKY KRAJ

**Table 45: Fertiliser consumption**

| | | 1990 | 1993 | 1995 | 1996 | 1997 (e) |
|---|---|---|---|---|---|---|
| NPK use, total | 1000 t | 582 | 95 | 102 | 111 | 117 |
| nitrogen | 1000 t | 222 | 65 | 70 | 74 | 78 |
| phosporous | 1000 t | 168 | 16 | 18 | 20 | 21 |
| potassium | 1000 t | 192 | 14 | 15 | 17 | 17 |
| NPK use per ha arable land | kg / ha | 401 | 66 | 72 | 78 | 82 |
| nitrogen | kg / ha | 153 | 45 | 49 | 52 | 55 |
| phosporous | kg / ha | 115 | 12 | 12 | 14 | 15 |
| potassium | kg / ha | 132 | 10 | 10 | 12 | 12 |
| Use of barn manure | t / ha | | 6.7 | 5.6 | 5.3 | 5.1 |

Source: VUEPP/RIAFE, data SBS

by an overload of nutrients. Despite the massive extensification in fertiliser application since beginning of transition this problem is likely to remain a long-term problem (table 45).

Negative effects of agriculture on biodiversity are partly mitigated by the very high share of Nature Reserves[33] and the counterbalancing impacts of forests. However, in the intensively cropped plains of Slovakia biodiversity is negatively affected by agriculture. Slovakia implemented several legislative measures and support programmes. Water protection zones have been demarcated[34]. Soil protection regulations are applied in areas of potential erosion threat.

Support is give for organic production, although at a very limited range. A regulation on organic agriculture is implemented since 1996 and based on the IFOAM standards. Product certification is in the duty of the authorities. Organic production is still rather small[35] and marketing of products is driven by supply. Most of the production goes to export. The adoption of the aquis communautaire on organic production is lagging behind but a revised regulation in line with EU legislation will come into effect in autumn 1998.

## 3.9 Veterinary and phytosanitary policy

In the past years Slovakia put considerable efforts to bring its veterinary and phytosanitary legislation in line with the aquis communautaire. The Slovak authorities have adopted all EU directives, with the exception of few regulations concerning seeds and propagation material and organic farming. The implementation of the phytosanitary legislation, however, is still at its very beginning and significant work still has to be done. So far only directives concerning seeds and propagation material have been implemented.

The veterinary and phytosanitary services have a high standard in the education of its staff. There are various institutes providing with technical support, scientific consulting and inspection of the food industry. Since transition the role of private organisations increased.

A detailed overview on the veterinary sector is given in the annex of the report.

[33] National Parks with 200,000 ha and 16 protected areas with altogether 700,000 ha, of which 137,000 ha agricultural land.
[34] Grading system of 3 protection zones, altogether 700,000 ha, of which 308,000 ha agricultural land.
[35] About 29,000 ha are managed by 46 registered organic farms, most of them in the Northwest of the country. In addition, 35 farms operate in the stage of conversion and by the year 2000 the total area of organic farmland will be around 50,000 ha (3% of the total arable area).

# 4. Medium-term Outlook

## 4.1 Main hypotheses

Since its foundation in 1993 Slovakia continued successfully on its way to a market-oriented economic policy. Basic objectives were completion of privatisation, adaptation of production to reducing demand and food supply security after strong increases in domestic prices. The process of transition in the overall economy is still ongoing and the agro-food sector also has not passed all stages of transition. Reinforcing investment for modernisation of agricultural production and improving the downstream sector are amongst the most important further steps still required in transition.

However, since 1994 some serious concerns appeared as the Slovak government started to rely primarily on administrative rather than market-oriented measures to address the country's worsening fiscal and external positions. Privatisation coupled with cronyism, wage regulation, reintroduction of import certification and import surcharges, debt relief for state companies, weakening of the Central Banks independence, increasing control of the private sector via state owned banks can be taken as recent examples. The administrative measures have a distortive impact on the long-term performance of the general economy towards an open market economy, which also affects the agricultural sector.

The basic underlying assumption of the following medium-term outlook is that no major additional distortive administrative measures will be implemented and the policy of economics will gradually shift back to a more market-orientation policy. The following conditions of general economy are supposed to influence the performance of the agro-food sector in the six years period between 1998 and 2003:

**Scenario for the general economy 1998-2003**

- Whereas consumer prices increased the exchange rate of the Slovak Koruna kept more or less stable since 1994. Combined with the persistence of a large current-account deficit, growing pressure on the government's fiscal position and limited inflows of foreign investment this might lead to a devaluation of the Slovak Koruna at the beginning of the forecast period.

- Public spending, a major source of GDP growth, has to be curbed in the medium-term, in order to improve the budget balance. Together with restraints on private consumption, this will slow down GDP growth in 1999 and 2000. The improved competitiveness of Slovak exports due to the devaluation of the currency, growing labour productivity, pick-up in investment, stronger inflow of foreign direct investment and recovery of private consumption will set GDP to grow again from 2001 onwards.

- Budget spending of Slovakian households on food is already high (35%). Further deregulation of prices (energy, heating) and liberalisation of the rent limitation system (on costs for housing) will fuel inflation in the years from 1998 to 2000. Covering those costs will put additional pressure on the income of most Slovakian consumers. Wages will grow slightly above inflation rate. Due to the persistent low income elasticity of food demand it is unlikely that there will be a basic increase of domestic demand for agricultural bulk products during the forecast period. The situation might improve somewhat at the end of the forecast period, when inflation is set to decline again and the economic growth of economy might recover again.

### Scenario for the agricultural sector 1998-2003

- The update of the 1993 framework on the Slovak "Concept and Principles of the Agricultural Policy", which is foreseen for 1998, prospectively will not change the overall level of financial assistance for agriculture. Self-sufficiency as a main objective of agricultural policy will persist.

- Domestic demand will not act as a motor for agro-food production. Only at the end of the forecast period a slight push from consumption can be expected.

- The continuing budget deficit will leave little scope to reinforce support to agriculture. The devaluation of the Koruna will improve the competitiveness of Slovak agricultural exports and will limit inflows of agro-food imports. This will improve the economic situation of domestic producers in the medium-term and translate at the end of the forecast period in moderately increasing outputs. Budget expenditure for market support can be reduced as exports will be facilitated and refunds will be necessary only for very few products (in the dairy sector).

- The unfavourable availability of credits for the agro-food sector, which is one of the major reasons for limited expansion, is expected to improve in the next years, provided the restructuring of the banking system continues. The investment rate in the food industry is expected to increase at the end of the forecast period and production of processed food commodities is also set to rise. However, that will have only limited impact on the demand of the overall consumption level, as domestic production is expected mainly to substitute imports of processed food. The devaluation of the Slovak Koruna and enhanced marketing is expected to improve competitiveness of Slovakian food exports from 2000 onwards. Growth of the food sector at the end of the period will allow for more remunerative prices to be paid to the farm sector.

- Profits from arable production improved since 1993. Since 1995 sectoral net income for arable crops has been positive. On the arable crop sector therefore further expansion of area and yields are expected. The animal sector accounted losses so far. The break-even point for profits of animal production is expected for 1998 (precondition e.g. no reduction in subsidies). But overall livestock production is still expected to contract slightly until the year 2000 (except for poultry, for which expansion is already taking place). From 2000 onwards a moderate expansion will be recorded for pigmeat, beef and milk production.

- In the farm sector co-operatives will remain the dominant farm type but restructuring by splitting-off into smaller entities and changing legal entity to joint stock or limited liability companies will persist. The gap of efficiency amongst the farms will widen and the more prosperous farms will attain better efficiency levels in labour input. However, persisting high unemployment will limit absorbing capacities in rural areas with low diversification.

- Utilisation of preferential quotas in trade agreements will improve in the medium-term.

### Land use scenario 1998-2003

- As over the past decade the utilised agricultural area will remain more or less unchanged. Geographical conditions in the hill regions and the low rainfall in the southern area restrict expansion. Some less fertile plots will be turned to forests.

**Table 46: Land use projection 1998–2003**

| 1000 ha | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|
| Utilized agricultural area | 2446 | 2445 | 2445 | 2441 | 2440 |
| Arable land | 1497 | 1474 | 1459 | 1449 | 1456 |
| Cereals | 848 | 827 | 853 | 873 | 878 |
| Protein crops | 50 | 43 | 33 | 25 | 25 |
| Oilseeds | 124 | 134 | 139 | 145 | 150 |
| Potatoes | 40 | 41 | 33 | 30 | 30 |
| Sugarbeets | 34 | 42 | 47 | 44 | 38 |
| Green fodder | 346 | 333 | 298 | 269 | 265 |
| Permanent grassland | 814 | 817 | 831 | 835 | 845 |
| Vineyards | 23 | 22 | 19 | 23 | 28 |
| Kitchen gardens | 78 | 78 | 78 | 78 | 78 |
| Other land | 34 | 54 | 57 | 56 | 33 |

Driven by increasing prices for cereals and oilseeds over the past years the landuse projection foresees an expansion of the arable area at the expense of pasture land and green fodder area.

- Within the arable crop area a further shift from fodder crops to cereals and oilseeds is likely to occur in order to adjust to reduced grazing livestock numbers. Oilseeds area is likely to increase as processing capacity remains underutilised and prices improve. Potato area is expected to stabilise at its present low level (table 46).

## 4.2 Commodity projections (1998-2003)

### 4.2.1 Arable crops

#### 4.2.1.1 Cereals

Due to the increasing profitability of cereal production the availability of inputs improved again. In combination with ameliorated seed quality and higher efficiency of cropping and harvesting techniques yields are supposed to return to the pre-transition level until 2003. Wheat area is expected to be less volatile and maize area will increase further because of the high support level, the favourable price level and increasing processing capacity.

**Table 47: Cereals projections**

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| area | 1000 ha | 848 | 827 | 853 | 873 | 878 |
| yield | t / ha | 4.1 | 4.0 | 4.4 | 4.5 | 4.8 |
| production | 1000 t | 3490 | 3322 | 3741 | 3897 | 4229 |
| domestic use | 1000 t | 3735 | 3366 | 3644 | 3463 | 3588 |
| food use | 1000 t | 1121 | 946 | 1172 | 1139 | 1175 |
| feed use | 1000 t | 2150 | 1964 | 2174 | 2158 | 2230 |
| exportable surplus | 1000 t | 239 | -44 | 139 | 391 | 591 |
| self sufficiency | % | 93.4 | 98.7 | 102.7 | 112.5 | 117.9 |

**Table 48: Oilseed projection**

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| area | 1000 ha | 124 | 134 | 139 | 145 | 150 |
| yield | t / ha | 1.9 | 1.9 | 1.9 | 2.1 | 2.2 |
| production | 1000 t | 236 | 253 | 269 | 305 | 330 |
| domestic use | 1000 t | 210 | 160 | 198 | 205 | 217 |
| food use | 1000 t | 186 | 157 | 185 | 190 | 205 |
| exportable surplus | 1000 t | 35 | 84 | 70 | 110 | 117 |
| self sufficieny | % | 112.1 | 158.2 | 135.5 | 148.5 | 152.1 |

Demand for feed cereals will continue to decrease slightly until 2000 when the decline in beef and pig production is expected to bottom out. Increasing livestock production of pigs and poultry will promote feed cereals use in the period from 2000 to 2003. Consumption of food cereals will return to the pre-transition level. Demand for maize is expected to increase by 50,000t per year with the opening of a new maize processing plant in 1998. Slovakia is expected to expand its cereals net exporter position to an exportable surplus of about 591,000 t in the year 2003 (table 47).

### 4.2.1.2 Oilseeds

The strong expansion of oilseed production takes place in areas which are less suited for oilseed production. Despite increasing inputs yield will not increase very much. Supported by the well-functioning of producer-processor marketing chain expansion of sunflowers and rapeseed will continue. Subsidised utilisation for bio-fuel production will support the expansion of production. But due to competition with Czech imports, based on customs union imports, and the coincidence of rapid expansion in Czech production, Slovak production expansion will slow down at the end of the projection period. Growth in food consumption of oilseeds will slow down because of increasing price competitiveness of other vegetable oils such as for instance maize oil (table 48).

### 4.2.1.3 Sugarbeet

With improving seed quality and better cropping techniques sugarbeet yields and sugar content will go up. As a response to restructuring efforts of sugarbeet processors in order to reduce over-capacity the sugarbeet area is supposed to go back to avoid a production much above domestic consumption. Input subsidisation is likely to continue and help to avoid substantial reduction in area. Import pressure from the more

**Table 49: Sugar production projection**

| **sugarbeet** | | **1995** | **1996** | **1997** | **2000** | **2003** |
|---|---|---|---|---|---|---|
| area | 1000 ha | 34 | 42 | 47 | 44 | 38 |
| yield | t / ha | 34 | 41 | 35 | 38 | 39 |
| production | 1000 t | 1176 | 1713 | 1668 | 1672 | 1482 |
| **sugar** | | **1995** | **1996** | **1997** | **2000** | **2003** |
| sugar yield | % | 13.3 | 13.1 | 13.1 | 14.0 | 15.0 |
| sugar yield | t / ha | 4.6 | 5.4 | 4.6 | 5.3 | 5.9 |
| production | 1000 t | 157 | 225 | 218 | 234 | 222 |
| domestic use | 1000 t | 164 | 191 | 189 | 232 | 210 |
| exportable surplus | 1000 t | 12 | 40 | 24 | 16 | 2 |
| consumption | kg/capita | 32.0 | 34.0 | 33.2 | 34.1 | 34.5 |

competitive Czech sugar sector will further depress the profitability of Slovakian producers and speed up restructuring. Restructuring will lead to a reduction in processing capacity. The Slovak sugar industry is pushing for tightening of the producer-processor chain. Tough competition will lead to a further reduction in capacity and this process to balance the sugar beet production and domestic demand might be completed until 2003. After restructuring the processing capacity production is expected to stabilise slightly above domestic consumption (table 49).

## 4.2.2 Livestock

### 4.2.2.1 Milk

Milk output is still expected to decline to about 1,1 Mio t in 2000 to adapt to a contracting domestic consumption. Most exports of dairy products have to be subsidised further on. Improving milk yields will lead to an increase in production although the total number of dairy cows decreases (table 50).

### 4.2.2.2 Beef

Improvements in efficiency of beef production is sluggish and the rate of intensification is low. Sub-utilisation of the production potential caused by shortcomings in breeding practice, nutrition, animal care will be removed only slowly. The decline of beef production did not bottom out yet, but this is likely to happen until 2000. Driven by breed improvement and better feeding techniques production is likely to recover to 66,000t in 2003. Beef consumption will be virtually unchanged until 2000 and then recover a little bit to about 11 kg/capita (table 51).

### 4.2.2.3 Pigmeat

A further restructuring of the pork market with a moderate increase of production can be expected. Production increase will not weaken the present balance of supply and demand, as per capita consumption will also recover somewhat. The utilisation of preferential trade quota will go up and trade influence again will stimulate restructuring (table 52).

### 4.2.2.4 Poultry

Poultry meat consumption is the only meat for which per capita consumption reaches the pre-transition level again. After a period of contraction poultry meats could improve their share on total meat consumption since 1994. Until 2003 the production capacity which is at present still under-utilised will gradually be better used. Poultry production on private household plot will be stable. It can be expected that most of the growth in meat consumption will be in favour of poultry during the period under consideration (table 53).

## Table 50: Milk projection

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| dairy cows | (1000 cows) | 350 | 339 | 310 | 280 | 265 |
| yield | kg/cow | 3389 | 3415 | 3712 | 3925 | 4191 |
| production | 1000 t | 1186 | 1159 | 1150 | 1099 | 1110 |
| deliveries | 1000 t | 900 | 903 | 925 | 934 | 988 |
| delivery rate | % | 75.9 | 78.0 | 80.4 | 85.0 | 89.0 |
| total domestic use | 1000 t | 1068 | 1050 | 1036 | 1001 | 1023 |
| exportable surplus | 1000 t | 117 | 109 | 113 | 103 | 96 |
| self suffiency | % | 111.0 | 110.4 | 110.9 | 109.8 | 108.6 |
| food consumption | kg / capita | 162.4 | 161.4 | 159.0 | 157.9 | 163.4 |

## Table 51: Beef supply balance

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| production | 1000 t | 65 | 60 | 58 | 59 | 66 |
| domestic use | 1000 t | 62 | 56 | 54 | 55 | 59 |
| exportable surplus | 1000 t | 3 | 4 | 4 | 3 | 8 |
| self suffiency | % | 104.6 | 107.0 | 108.0 | 107.3 | 111.8 |
| consumption | kg / capita | 11.6 | 10.4 | 10.0 | 10.1 | 10.9 |

## Table 52: Pigmeat supply balance

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| production | 1000 t | 203 | 209 | 204 | 214 | 227 |
| domestic use | 1000 t | 220 | 208 | 207 | 216 | 226 |
| exportable surplus | 1000 t | -18 | 1 | -3 | -1 | 2 |
| self suffiency | % | 92.0 | 100.3 | 98.5 | 99.1 | 100.4 |
| consumption | kg / capita | 41.1 | 38.7 | 38.4 | 39.8 | 41.3 |

## Table 53: Poultry supply balance

| | | 1995 | 1996 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|---|
| production | 1000 t | 74 | 80 | 80 | 89 | 94 |
| domestic use | 1000 t | 76 | 81 | 84 | 87 | 91 |
| exportable surplus | 1000 t | -4 | -4 | -8 | 4 | 4 |
| self suffiency | % | 97.4 | 97.8 | 95.2 | 102.3 | 103.3 |
| consumption | kg / capita | 14.1 | 15.1 | 15.6 | 15.9 | 16.6 |



(6)

# 5.
# Annex

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## Glossary and abbreviations

| | |
|---|---|
| CEECs | Central and Eastern European Countries |
| CEFTA | Central European Free Trade Agreement |
| cwe | Carcass weight equivalent (for supply balance sheet calculations) |
| FTA | Free Trade Area |
| GAO | Gross Agricultural Output, value of sold production plus own producer consumption |
| GAP | Gross Agricultural Product, a measure of value added in agriculture (GAP=GAO-IC) |
| IC | Intermediate Consumption, costs of inputs of materials and services used by agriculture |
| LFAs | Less Favoured Areas |
| lw | Live weight (in tables) |
| MA SR | Ministry of Agriculture of the Slovak Republic |
| NBS | National Bank of Slovakia |
| NIS | Newly Independent States (from the former Soviet Union) |
| o.w. | of which (in tables) |
| RIAFE | Research Institute of Agricultural and Food Economics in Bratislava (VÚEPP in Slovak) |
| SBS | Statistical Bureau of Slovakia |
| SFMR | State Fund for Market Regulation, the main body for intervention purchases and export subsidisation |
| SKK | Slovak Koruna or crown, the national currency of Slovakia |
| SME | Small and medium enterprises |
| SMP | Skimmed Milk Powder |
| TAIEX | Technical Assistance Information Exchange Office of the European Commission |
| UAA | Utilised Agricultural Area |

# Political situation since 1989

The Slovak Republic became an independent nation with the division of Czechoslovakia into two separate countries on 1 January 1993, the Czech Republic and the Slovak Republic. Czechoslovakia was itself a comparatively recent creation having been formed when the Austro-Hungarian empire collapsed in 1918. The division became effective with an agreement on the creation of a Monetary Union and a Customs Union.

During the "Velvet Revolution" in Czechoslovakia end of the 80s dissident groups in the Slovakian part of the country created Public Against Violence (PAV) and in the Czech part its counterpart Civic Forum. These groupings obtained a clear victory in the first free election in 44 years, which took place in June 1990. Soon after the elections the faction within PAV led by Vladimir Meciar broke away to form the Movement for a Democratic Slovakia (MDS).

The Slovak part of the country was harder hit by the economic transformation than the Czech part as a result of the structure of the industry which was more oriented towards the East[36]. This resulted in a decline in living standards and high unemployment. Thus the population was inclined to vote for a party like the MDS, advocating a slower pace of reform.

By the time the country's second post-communist elections were held in June 1992, the consensus created between Czechs and Slovaks during the "Velvet Revolution" had collapsed. The general elections confirmed the realignment of Czech and Slovak politics when the Civic Democratic Party, led by Vaclav Klaus, declared itself in favour of a rapid economic transformation and the MDS (Movement for a Democratic Slovakia), led by Vladimir Meciar, advocated slower reform. Immediately after the elections Klaus and Meciar held discussions about the future of the federation. Economic reform and Slovak independence appeared as the key questions.

Slovakia, having passed its own constitution, declared itself sovereign in July 1992. At this point Vaclav Havel, still president of Czechoslovakia, stepped down. At the end of November 1992, after a series of negotiations, the new constitutional law on the separation of Czechoslovakia was narrowly passed with the required three fifths majority by the Federal Parliament, leading to the creation of two independent countries on 1 January 1993.

According to the new Slovak constitution the Slovak National Council elects the president for a five-year term. The first Slovak president, Michal Kovac, was elected on 15 February 1993. Slovakia has a unicameral parliament being the National Council consisting of 150 deputies. Parliamentary elections are held every 4 years. The National Council is the supreme legislative authority. The highest executive body is the Slovak government, headed by the Prime Minister. The president appoints the Prime Minister.

The Slovak political scene has been quite unstable. After months of political infighting, Prime Minister Meciar and his government were swept from office on 11 March 1994 by a no-confidence vote. The new government, a coalition of five parties, headed by Jozef Moravcik was short-lived.

Last parliamentary elections won by populist party HZDS, bringing back Meciar to power after a short term of a minority coalition following a vote of non-confidence in early 1994. In June 1996 the Government Coalition neared collapse due to tensions particularly about the privatisation process

[36] The industrialisation of Slovakia took place in the Soviet era focussing on heavy industries, mainly the armament sector, and it was taken up in the division of labour within COMECON.

and oversight of the secret service. In August 1996 a sudden replacement of the key ministers of Foreign Affairs, Economy and Home Affairs took place without official explanation. In December 1996 a former HZDS Member of Parliament was expelled from the Parliament by depriving him of his mandate.

The Government Programme set out a range of objectives-completion of the economic transformation process, territorial reorganisation, reform of education and public administration. The implementation of the programme -legislation on privatisation, higher education, foundations, public prosecutors, and amendments to the penal code - has been controversial. Tensions have arisen between the coalition partners and with the opposition on the nature of the economic reform and especially the distribution of assets from privatisation. The style of the coalition government can be described as confrontational (in relation to opposition and to the President and NGOs) and interventionist.

Concerns have been raised about respect for democratic pluralism (opposition representation in key parliamentary committees and boards, legislation which could impede NGO activity), human rights, minority rights and the independence of the judiciary. Institutional tensions (e.g. the attempt by the PM to remove the President through personal harassment and discrediting) were also of concern.

The ratification of the Basic Treaty on Good Neighbourliness and Friendly Cooperation with Hungary on 15 May 1996 should contribute to improve relations with Hungary, but leaves room for improvement in its implementation. Membership of the EU and NATO remain ongoing strategic objectives, but are increasingly counterbalanced by commitment to strengthen relations with Russia.

In Agenda 2000 the European Commission concludes in July 1997 that Slovakia does not fulfil in a satisfying manner the political conditions set out by the European Council in Copenhagen, because of the instability of Slovakia's institutions, their lack of rootedness in political life and the shortcomings in the functioning of its democracy. The Luxembourg Summit end of 1997 adopted the recommendation of the Commission to set Slovakia back to the second wave candidates for accession negotiations.

According to the Commission's assessment this situation is so much more regrettable since Slovakia could satisfy the economic criteria in the medium term and is firmly committed to take on the acquis, particularly concerning the internal market even if further progress is still required to ensure the effective application of the acquis.

Since the end of the election period of Slovak president, Michal Kovac, in March 1998 several attempts failed to elect a successor. According to the constitution until the election of a new President the functions of the president passed over to the Prime Minister. Elections for parliament and the local councils will follow in September 1998.

## Breakdown of agricultural trade 1995

| (Mio SKK) | Slovak exports to | | | | | | | Slovak imports from | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others | WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others |
| 01 Live animals | 724 | 164 | 186 | 4 | 482 | 1 | 51 | 434 | 228 | 255 | 4 | 158 | 2 | 15 |
| 02 Meat and edible meat offal | 301 | 118 | 124 | 1 | 165 | 0 | 11 | 387 | 181 | 212 | 5 | 104 | 20 | 46 |
| 03 Fish and molluscs | 67 | 35 | 41 | 0 | 24 | 0 | 2 | 649 | 77 | 98 | 1 | 317 | 0 | 233 |
| 04 Milk, eggs, honey and products | 1392 | 349 | 407 | 36 | 575 | 37 | 337 | 770 | 546 | 533 | 2 | 184 | 13 | 38 |
| 05 Products of animal origin | 68 | 35 | 45 | 0 | 23 | 0 | 0 | 122 | 11 | 12 | 0 | 58 | 12 | 40 |
| 06 Live trees and other plants | 105 | 87 | 89 | 2 | 13 | 0 | 1 | 315 | 35 | 54 | 1 | 212 | 4 | 44 |
| 07 Edible vegetables, roots and tubers | 1154 | 843 | 858 | 6 | 235 | 0 | 55 | 1106 | 98 | 342 | 24 | 407 | 80 | 253 |
| 08 Edible fruit and nuts | 414 | 173 | 179 | 142 | 69 | 3 | 21 | 2516 | 124 | 196 | 10 | 1 010 | 16 | 1284 |
| 09 Coffee, tea and spices | 254 | 225 | 226 | 16 | 11 | 0 | 1 | 1771 | 166 | 172 | 1 | 212 | 0 | 1386 |
| 10 Cereals | 3116 | 742 | 1 810 | 372 | 361 | 0 | 573 | 530 | 19 | 138 | 9 | 285 | 25 | 73 |
| 11 Milling products , malts and starches | 1686 | 206 | 622 | 346 | 215 | 0 | 503 | 111 | 75 | 78 | 0 | 12 | 0 | 21 |
| 12 Oilseeds and oleaginous fruit | 628 | 202 | 246 | 26 | 330 | 1 | 25 | 1019 | 524 | 660 | 2 | 193 | 50 | 114 |
| 13 Lacs, gums, resins | 4 | 2 | 2 | 0 | 2 | 0 | 0 | 215 | 16 | 18 | 0 | 174 | 4 | 19 |
| 14 Vegetable plaiting materials | 1 | 0 | 0 | 0 | 1 | | 0 | 6 | 1 | 1 | 0 | 2 | | 3 |
| 15 Animal or vegetable fats | 372 | 207 | 209 | 81 | 59 | 0 | 23 | 1037 | 671 | 641 | 7 | 304 | 1 | 84 |
| 16 Preparations of fish meat | 74 | 44 | 47 | 20 | 0 | 1 | 6 | 607 | 302 | 333 | 0 | 102 | 5 | 167 |
| 17 Sugar and sugar confectionery | 674 | 333 | 431 | 160 | 58 | 0 | 25 | 1359 | 726 | 892 | 2 | 405 | 1 | 59 |
| 18 Cocoa and cocoa preparations | 1126 | 629 | 703 | 339 | 2 | 0 | 82 | 1523 | 658 | 664 | 0 | 492 | 0 | 367 |
| 19 Preparations of cereals and milk | 670 | 482 | 497 | 148 | 4 | 1 | 20 | 1091 | 666 | 720 | 0 | 341 | 0 | 30 |
| 20 Prep. of vegetables, fruit, plants | 305 | 219 | 225 | 45 | 17 | 0 | 18 | 1084 | 226 | 438 | 4 | 432 | 11 | 199 |
| 21 Miscellaneous edible preparations | 424 | 381 | 388 | 26 | 3 | 0 | 7 | 1270 | 436 | 508 | 1 | 472 | 8 | 281 |
| 22 Beverages, spirits and vinegar | 1209 | 382 | 405 | 626 | 31 | 43 | 104 | 1708 | 1131 | 1 239 | 72 | 340 | 7 | 50 |
| 23 Residues and waste, fodder | 407 | 187 | 258 | 1 | 142 | 0 | 6 | 2211 | 285 | 285 | 4 | 1 436 | 18 | 468 |
| 24 Tobacco and tobacco substitutes | 1033 | 959 | 966 | 49 | 9 | 0 | 9 | 1457 | 1079 | 1 075 | 0 | 234 | 2 | 146 |
| **ALL AGRICULTURAL PRODUCTS** | **16208** | **7004** | **8964** | **2446** | **2831** | **87** | **1880** | **23298** | **8281** | **9564** | **149** | **7886** | **279** | **5420** |

## Breakdown of agricultural trade 1996

| | Slovak exports to | | | | | | | Slovak imports from | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Mio SKK) | WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others | WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others |
| 01 Live animals | 559 | 87 | 140 | 3 | 349 | 1 | 66 | 496 | 251 | 300 | 6 | 177 | 0 | 13 |
| 02 Meat and edible meat offal | 259 | 75 | 81 | 4 | 152 | 0 | 22 | 322 | 167 | 207 | 0 | 73 | 33 | 9 |
| 03 Fish and molluscs | 59 | 23 | 29 | 1 | 24 | 0 | 5 | 754 | 114 | 149 | 16 | 334 | 1 | 254 |
| 04 Milk, eggs, honey and products | 1505 | 410 | 550 | 46 | 474 | 53 | 382 | 851 | 582 | 618 | 0 | 213 | 11 | 9 |
| 05 Products of animal origin | 54 | 13 | 28 | 0 | 24 | 0 | 2 | 197 | 6 | 7 | 2 | 129 | 41 | 18 |
| 06 Live trees and other plants | 82 | 56 | 63 | 3 | 15 | 0 | 1 | 399 | 39 | 64 | 1 | 272 | 7 | 55 |
| 07 Edible vegetables, roots and tubers | 1067 | 791 | 824 | 12 | 198 | 0 | 33 | 769 | 116 | 272 | 1 | 350 | 55 | 91 |
| 08 Edible fruit and nuts | 470 | 182 | 189 | 158 | 118 | 0 | 5 | 3172 | 94 | 181 | 6 | 1332 | 27 | 1626 |
| 09 Coffee, tea and spices | 157 | 141 | 141 | 12 | 2 | 0 | 2 | 1475 | 190 | 228 | 0 | 217 | 1 | 1029 |
| 10 Cereals | 331 | 116 | 171 | 112 | 46 | 1 | 1 | 1293 | 28 | 206 | 54 | 878 | 34 | 121 |
| 11 Milling products , malts and starches | 1336 | 344 | 788 | 126 | 59 | 0 | 363 | 132 | 81 | 92 | 0 | 19 | 0 | 21 |
| 12 Oilseeds and oleaginous fruit | 752 | 312 | 430 | 26 | 257 | 0 | 39 | 846 | 333 | 393 | 23 | 285 | 36 | 109 |
| 13 Lacs, gums, resins | 5 | 2 | 2 | 0 | 2 | 0 | 1 | 272 | 26 | 39 | 0 | 213 | 15 | 5 |
| 14 Vegetable plaiting materials | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 5 | 1 | 2 | 0 | 1 | 0 | 2 |
| 15 Animal or vegetable fats | 826 | 268 | 289 | 474 | 50 | 0 | 13 | 1063 | 742 | 775 | 3 | 275 | 1 | 9 |
| 16 Preparations of fish meat | 148 | 48 | 49 | 82 | 0 | 0 | 17 | 743 | 350 | 443 | 1 | 108 | 10 | 181 |
| 17 Sugar and sugar confectionery | 420 | 188 | 253 | 89 | 70 | 1 | 7 | 792 | 557 | 601 | 0 | 171 | 1 | 19 |
| 18 Cocoa and cocoa preparations | 1175 | 764 | 796 | 306 | 2 | 0 | 71 | 1741 | 703 | 723 | 0 | 380 | 2 | 636 |
| 19 Preparations of cereals and milk | 868 | 508 | 518 | 313 | 15 | 1 | 21 | 1421 | 839 | 958 | 0 | 448 | 1 | 14 |
| 20 Prep. of vegetables, fruit, plants | 324 | 248 | 281 | 20 | 6 | 0 | 17 | 1509 | 252 | 728 | 4 | 568 | 6 | 203 |
| 21 Miscellaneous edible preparations | 500 | 446 | 456 | 31 | 3 | 0 | 10 | 1750 | 618 | 851 | 1 | 675 | 27 | 196 |
| 22 Beverages, spirits and vinegar | 1224 | 404 | 415 | 724 | 51 | 7 | 27 | 2225 | 1479 | 1642 | 67 | 472 | 21 | 23 |
| 23 Residues and waste, fodder | 638 | 204 | 222 | 9 | 404 | 0 | 3 | 2694 | 340 | 429 | 2 | 1930 | 43 | 290 |
| 24 Tobacco and tobacco substitutes | 739 | 688 | 689 | 38 | 7 | 0 | 5 | 1742 | 1346 | 1349 | 0 | 260 | 7 | 126 |
| **ALL AGRICULTURAL PRODUCTS** | **13499** | **6318** | **7404** | **2589** | **2328** | **64** | **1114** | **26663** | **9254** | **11257** | **187** | **9780** | **380** | **5059** |

## Breakdown of agricultural trade 1997

| (Mio SKK) | Slovak exports to: WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others | Slovak imports from: WORLD | Czech Rep. | CEFTA | NIS | EU15 | NAFTA | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 01 Live animals | 791 | 77 | 130 | 1 | 484 | 2 | 174 | 443 | 234 | 278 | 2 | 158 | 2 | 3 |
| 02 Meat and edible meat offal | 216 | 56 | 76 | 8 | 130 | 0 | 2 | 534 | 306 | 373 | 0 | 71 | 56 | 34 |
| 03 Fish and molluscs | 62 | 21 | 30 | 0 | 30 | 0 | 2 | 824 | 106 | 130 | 58 | 396 | 0 | 240 |
| 04 Milk, eggs, honey and products | 1575 | 352 | 574 | 56 | 461 | 47 | 437 | 783 | 533 | 596 | 0 | 171 | 9 | 7 |
| 05 Products of animal origin | 72 | 19 | 51 | 0 | 20 | 0 | 1 | 217 | 6 | 11 | 2 | 152 | 36 | 16 |
| 06 Live trees and other plants | 79 | 56 | 59 | 3 | 12 | 0 | 5 | 514 | 43 | 73 | 1 | 335 | 21 | 84 |
| 07 Edible vegetables, roots and tubers | 882 | 634 | 714 | 32 | 122 | 0 | 14 | 716 | 64 | 164 | 1 | 421 | 33 | 97 |
| 08 Edible fruit and nuts | 484 | 120 | 137 | 165 | 179 |  | 3 | 2955 | 48 | 113 | 10 | 1297 | 21 | 1514 |
| 09 Coffee, tea and spices | 194 | 86 | 87 | 84 | 12 | 0 | 11 | 1554 | 232 | 275 | 0 | 247 | 0 | 1032 |
| 10 Cereals | 650 | 247 | 497 | 110 | 42 | 0 | 1 | 1856 | 50 | 263 | 796 | 655 | 58 | 84 |
| 11 Milling products , malts and starches | 958 | 201 | 521 | 69 | 54 | 3 | 311 | 221 | 84 | 87 | 95 | 22 | 0 | 17 |
| 12 Oilseeds and oleaginous fruit | 1034 | 139 | 429 | 22 | 529 | 0 | 54 | 649 | 151 | 180 | 65 | 249 | 39 | 116 |
| 13 Lacs, gums, resins | 5 | 2 | 2 | 2 | 0 | 0 | 1 | 286 | 17 | 28 | 0 | 237 | 11 | 10 |
| 14 Vegetable plaiting materials | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 6 | 0 | 2 | 0 | 3 | 0 | 1 |
| 15 Animal or vegetable fats | 1049 | 251 | 293 | 644 | 81 | 0 | 31 | 1141 | 735 | 784 | 1 | 319 | 0 | 37 |
| 16 Preparations of fish meat | 148 | 46 | 55 | 75 | 1 | 0 | 17 | 784 | 350 | 476 | 1 | 137 | 5 | 165 |
| 17 Sugar and sugar confectionery | 634 | 233 | 260 | 250 | 104 | 0 | 20 | 562 | 288 | 338 | 0 | 206 | 1 | 17 |
| 18 Cocoa and cocoa preparations | 947 | 439 | 468 | 417 | 4 | 0 | 58 | 1675 | 713 | 767 | 0 | 459 | 0 | 449 |
| 19 Preparations of cereals and milk | 834 | 495 | 527 | 285 | 4 | 1 | 17 | 1645 | 887 | 1105 | 1 | 521 | 0 | 18 |
| 20 Prep. of vegetables, fruit, plants | 426 | 168 | 297 | 34 | 82 | 0 | 13 | 1627 | 470 | 753 | 4 | 624 | 16 | 230 |
| 21 Miscellaneous edible preparations | 588 | 445 | 468 | 55 | 15 | 0 | 50 | 2157 | 652 | 1060 | 2 | 732 | 86 | 277 |
| 22 Beverages, spirits and vinegar | 1096 | 487 | 509 | 511 | 56 | 2 | 18 | 1960 | 1294 | 1403 | 17 | 471 | 36 | 33 |
| 23 Residues and waste, fodder | 1107 | 156 | 189 | 47 | 865 | 0 | 6 | 2761 | 212 | 313 | 0 | 2173 | 45 | 230 |
| 24 Tobacco and tobacco substitutes | 1054 | 999 | 1000 | 44 | 6 | 0 | 4 | 2207 | 1754 | 1761 | 0 | 315 | 3 | 128 |
| **ALL AGRICULTURAL PRODUCTS** | **14886** | **5729** | **7374** | **2914** | **3293** | **55** | **1250** | **28077** | **9229** | **11333** | **1056** | **10371** | **478** | **4839** |

# The veterinary sector in the Slovak Republic

While the Slovak Republic (SR) will decide on a strategy for an agriculture marketing policy on the basis of decisions on the reform of the EU Common Agricultural Policy (CAP), the Ministry of Agriculture has attached highest priority to ensuring that the Slovak agricultural control instruments like those in the veterinary sector, are as well prepared as possible to implement the EU system as created by more than 80 basic Directives and Regulations.

In a functional analysis[37] of the veterinary sector, at least five sub-sectors are to be distinguished.

## 1. Veterinary Education and Training Sector

1.1 For the veterinary qualification, there is one veterinary university at Kosice, having celebrated its 75th anniversary recently. Out of 670 applicants per year, 130 students are accepted; the annual number of graduates is about 80. This is sufficient to cover the future needs of the veterinary profession in the SR. For veterinary students there is a possibility to specialise in general veterinary medicine or food hygiene or processing. The university has already successfully undergone the equivalence evaluation concerning the requirements of the appropriate EU Directives by the European Association of Establishments for the Veterinary Education (FAEVE) in 1996. Only more clinical training has been recommended strongly. In conclusion, there is a solid base educationally for the freedom of veterinary services following the accession to the EU.

1.2 Postgraduate training and continuous professional development (CPD) are based legally on the Veterinary Care Act. They are organised by the Veterinary University and the State Veterinary Administration (SVA), namely the Institute of Postgraduate Studies of Veterinarians of Kosice. Following an initial period of collecting experience in field practice after graduation, veterinarians can obtain a first or second degree of CPD. Eighty-three percent of the 882 employees in the state veterinary sector have postgraduate attestations; this suggests a highly qualified veterinary staff. CPD is further supported by various TAIEX seminars and Phare programmes on implementation and application of the veterinary acquis. These actions should lead into a systematic work programme in the veterinary field.

## 2. The State Veterinary Sector

2.1 Following the split of Czechoslovakia in 1993, the Slovak state veterinary sector has continued to be well organised and structured and has kept its high profile. However, since 1996 the direct chain of command from the central veterinary services (the Slovak State Veterinary Administration, SVA) to the regional and district veterinary level is interrupted, as the latter levels were placed under the regional and district administration. These administrative units act independently from one another. They are co-ordinated by the Ministry of the Interior. A national Phare project is currently under way to analyse this situation and to advise on identified and possible shortfalls.

2.2 Veterinary legislation is in the process of being reviewed in order to reflect general EU veterinary principles such as safeguard clauses, additional guarantees and regionalisation. Progress was made in 1997 and it is estimated that the revised legal act on veterinary care will pass the parliament in 1998. Discussions with the EU on equivalency in the veterinary sector, which were started in 1996, have been very useful in encouraging approximation and harmonisation of veterinary legislation.

[37] The veterinary annex was prepared by TAIEX.

2.3 The State Veterinary Administration (SVA) is an independent governmental organisation reporting to the Ministry of Agriculture. The SVA is responsible for the structure and for the execution and enforcement of veterinary legislation only at the HQ and at the borders of the SR. Under the direct chain of command of the director general (= Chief Veterinary Officer, CVO) of the SVA are 22 veterinary Border Inspection Posts (BIPs) and 11 State Veterinary Institutes. A very important and nearly unique institution in the State Veterinary Sector is the Central Commission for Struggle against Infectious Diseases. Through this Commission, the CVO directly corresponds with the Minister of Agriculture and the state secretaries of other ministries of the government of the SR. Whereas this design at the central level seems to be efficient, the situation concerning the internal veterinary control at regional (8 regions) and district (79 districts) level is quite different as already mentioned. The SVA has competence only to co-ordinate the regions and districts in a methodical and technical way. However, these local levels have their own budgets as well as their own staffing policy and take their decisions independently. In case of emergencies or of budgetary problems, this arrangement could lead severe problems. Nevertheless, the functioning of laboratories and BIPs appears satisfactory; but there are no inspection and storage facilities at the borders. Following the accession of the SR and their neighbouring ACs to the EU, only a few of the present 22 BIPs need remain, e.g. one BIP at road and one at railway to the Ukraine and a BIP at the international airport(s) or port(s) on international waterways (Danube, Dunaj).

2.4 More than 90,000 consignments of live animals and products of animal origin per year were cleared through the BIPs of the SR in the last three years; about 25% to 30% of the consignments were in transit. A quarter of the annually presented consignments was live animal transports. The busiest BIP is Svrcinovev on the border with the Czech Republic. The import control procedures are similar to those of the EU, except the physical inspection which is carried out at destination because of lack of inspection facilities and storage/carriage at the border.

2.5 A computerised communication network is still missing. The national Phare project mentioned above and the "Multi-country Veterinary Diagnosis and Control" - Phare project are to assist in setting up this network to link the regions, districts and BIPs with the SVA and to establish EU systems such as ADNS, Animo, Shift and Inforvet.

2.6 The animal health situation appears satisfactory. Concerning OIE, list A diseases, the SR has faced some outbreaks of Classical Swine Fever (CSF) in 1996 and 1997, involving ~54,000 pigs. Vaccination against CSF has been banned since 1993 according to the EU policy, but CSF virus seems to be present in the wild boar population. The only other diseases worth mentioning are Rabies (~270 cases in animals/year) and Fool broad in bees (~40 cases/year). The cattle population appears to be free of Tuberculosis, Brucellosis and Enzootic Bovine Leucosis. Infectious Rhinotrachitis and Anjaszky's disease are under control. Disease monitoring and surveillance plans as well as contingency plans have already been elaborated and are applied at central level and by every district.

2.7 The SR started quite early with the creation of national veterinary legislation on animal welfare, so that the present legal base can be stated as equivalent to that of the EU, but it must now take forward the application and enforcement of the technical standards for keeping animals as well as for the transport and slaughter of animals.

2.8 The Veterinary public health sector monitors the situation of zoonosis carefully; about 15,000 human cases of salmonella and ~560 cases of I ovoplasma infections were detected in 1996. Furthermore, the application of hygienic and technical standards as well as of the CP/HACCP principles on the involved food industry has already started. The residue monitoring and sampling plan of the SR has been approved by the EC. More than 1 Mio samples are collected and the veterinary laboratories deliver more than 2.2 Mio individual results annually. Serious human health hazards concerning residues have not been detected.

## 3. The Private Veterinary Sector

3.1 To associate all private and self-employed veterinarians, the Chamber of Veterinary Surgeons was founded in 1992 by law as a self-governing professional regulatory body. About 960 members are registered with the Chamber. Besides their clinical services to animal owners, private veterinarians are involved in state animal health schemes and paid for clinical examinations, vaccinations, testing and sampling as well as for epidemiological supervision and movement control of livestock.

3.2 The performance of a veterinary practice is subject to a licence issued by the SVA, following the hearing of the Chamber. The private veterinarians are entitled to supply veterinary pharmaceuticals and immunologicals to the farmers. The Chamber is an observer member of the Federation of Veterinarians of Europe (FVE).

## 4. Agriculture - Livestock Sector

4.1 The Central Breeding Institute holds a central register of holdings/herds in the SR. Generally, the register is accessible for veterinarians. However, there are difficulties in practice because of a lack of a communication network between the districts and the institute. Furthermore, modern geographical information systems on herd registering, electronic tracking of animal movements and passport control on cattle and horses are now under discussion and justify a review of the identification, registration and movement control system of the SR for its compliance with the EU requirements.

4.2 At present, the system will at least have to manage a domestic population of 850,000 cattle, 1.9 Mio pigs, 430,000 sheep and goats and 11,000 horses. The poultry population is estimated to be about 7 Mio in big holdings. At present, there are about 3,200 flocks on big holdings.

4.3 The creation of a National Animal Health Trust fund is contained in the draft of the new veterinary care act. At present, compensation for disease eradication measures (like slaughter) is paid to farmers only at a rate of 60% of the value of the animals. This has not encouraged farmers to notify of diseased animals.

## 5. Sector of Industry under EU Veterinary Legislation

5.1 In accordance with the EU veterinary acquis, the veterinary legislation of the SR will in future cover a vast range of industries. These industries handle, process or dispose of items of animal origin, either for human consumption or technical purposes or products for animals as feeding stuffs or pharmaceuticals. The industries will have to fulfil detailed hygienic and technical standards and to apply CP/HACCP concepts or good manufacturing/good laboratory practices for their daily operation and as part of their obligation on self-supervision.

5.2 At present, about 13 meat plants and about 19 dairy establishments have been approved according to EU standards. This is only representing a quarter of the former state-owned food companies. Therefore it is obvious that further substantial investment is needed to upgrade the industries to comply with EU veterinary legislation. The dairy sector with considerable capacity for foreign trade has probably the greatest need for urgent upgrade in order to keep its approval for export to the EU.

## 6. Conclusion

6.1 The SR has made significant progress in the creation of a national legal base consistent with the EU veterinary acquis. However, in terms of enforcement of the legislation, there needs to be a direct chain of command from the SVA down to the regional and district level in order to guarantee the uniform and homogeneous application of the veterinary acquis.

This is an essential point not only towards the eradication of diseases but also in the view of applying standards on the industries which will otherwise lead to a distortion of competition or to deficiencies in the protection of consumers or animals.

# Phare activities in the agricultural sector

## General Framework and Background[38]

Phare Assistance in Slovak Republic was started in 1992 (for the ex-Czechoslovakia) with the allocation of 1.0 MECU for the initial TA support for the food processing sector reform. An allocation of 3 MECU of assistance was provided in 1993, which complemented the limited funding for preparatory activities, made available from the 1992 General Technical Assistance Facility. An allocation of 5 MECU was provided in 1994, which covered both Agriculture and Land Registration.

Between 1992 and 1996 the Slovak Republic has received a total of 5.6 MECU from Phare. In 1995 the Phare programme consisted totally of 2.6 MECU. The provision for Agriculture was 1.6 MECU whereas the part for Land Registration amounted to 1 MECU. There was no agricultural tranche in 1996. The Phare contribution in 1997 included an agriculture component of 4 MECU, so that in total between 1990-1997, 15.6 MECU was available (table 54).

## Specific Actions

The 1993 Programme was used to establish a Policy Advisory Unit at the Ministry of Agriculture, to undertake policy review for 5 different food processing sectors, to initiate institutional and business development in agro-industries, to introduce food standards compatible with those of the EU and to implement a market price information system. Its land registration component provided long-term expertise, training and equipment for the digitalisation of maps in three pilot areas and the partial implementation of a computerised survey and geodetic control network.

The 1994 Programme was set up to complete and to reinforce the previous one. Its main objectives were: to develop private farming and competitive agro-industries, to restructure the primary and secondary production sectors and to establish a property market and privatise land by removing constraints to an effective registration and certification system of land ownership. In particular, the Land Registration was helping to modernise the district and regional offices of the Authority for Geodesy Cartography and land-register, and to develop land registration, information and sales systems.

The 1995 Phare programme aimed at supporting the pre-accession projects in the field of agriculture. The activities are currently being implemented, the contracting phase finishing by the end of July 1998.

The immediate objectives of the programme for the agricultural component focussed on four main lines:

1. Extending and completing the reviews undertaken under 1993 and 1994 programme and to implement policy measures in order to support restructuring of agricultural institutions of primary and secondary production sectors, on the basis of these reviews;

**Table 54: Phare Assistance to Agriculture and Land Registration (MECU)**

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|
| 0 | 0 | 1 | 3 | 5 | 2.6 | 0 | 4 |

[38] The chapter on Phare activities was prepared by DG I A

2. Technical and equipment assistance were provided to implement the harmonisation, in particular concerning plant protection, phytosanitary diagnosis and monitoring infrastructure (laboratories and border crossing testing facilities), quality control and food standard, animal health and quality control;

3. Further support to land registration, identification and registration of the ownership rights, consolidation of private land holding in the farm sector, modernisation of the record keeping facilities in the Land Offices and training of its staff;

4. Further technical assistance to the agriculture Programme Management Unit to transfer the necessary skills and knowledge necessary for the project management.

Phare Assistance for Land Registration was provided on the basis of an existing National land-register management structure in which the land-register authority was the central controlling authority responsible for consistency and quality.

The programme is a continuation of the Phare assistance extended to the Geodesy, Cartography and land-register Authority (GCCA) within the budgetary years 1993 and 1994.

Aiming at institution building of the land-register authority, developing the real property market and supporting the land privatisation in the pre-accession phase, this programme concentrates on the improvement of land registration and land-register operations in the new conditions resulting from the recent reform of the state administration in the Slovak Republic.

It includes two main projects:

- technical assistance and training for the strategic development of national land-register policy, including land administration, policy formulation and system design in the pre-accession phase;
- equipment supply and aerial photography concentrating on the completion of the first stage of the modernisation of the land-register, reinforcement of the methodological control of the land-register through electronic connection and update with the central database.

The 1997 Phare Sector Operational Programme's wider objective for the agricultural sector was to assist the Ministry of Agriculture during the pre-accession period, to develop strategies, policies, institutional framework and infrastructure to prepare the country for the adoption of the acquis communautaire in the field of agriculture.

The programme is currently being implemented. Institutional Support and Policy Advice will finance the continuation of Technical Assistance providing a highly qualified team of experts to advise on policy and organisational issues including the needs for qualification, training staff on CAP and study visits.

Part of the funds will be used to strengthen the institutional framework and to implement the Government forestry policy, mainly in the area of the non-state forestry sector.

Technical harmonisation of the Slovak phytosanitary and veterinary infrastructure has been designed to improve and modernise phytosanitary and veterinary diagnosis and monitoring and food quality assessment to implement the EU legislation. The greater part of the funds is foreseen for the modernisation of existing technical infrastructure (border crossing points).

Development of the Agricultural Extension Services is a continuation of the previous activities funded by Phare under the 1993 and 1994 programmes.

The Rural Development Programme is the implementation of a feasibility study funded under the 1995 Programme. Technical and Financial assistance is provided, as a pilot activity, to establish a transparent funding mechanism of rural development activities based on the principles and criteria used in the Structural Funds managed in the EU. The project aims at a balanced sustainable development of the rural areas, from an economic, social and cultural point of view.

Food sector adjustment and modernisation is a logical follow up activity of the previous projects funded out of the 1992 and 1994 programmes. It provides technical assistance: 1) to develop sound enterprise strategies for implementation of the EU food standards and regulations; 2) to propose and to assist with development of the wholesale market for food products.

As this country report was in the process of being finalised, the 1998 PHARE Programming activities were well underway.

The Phare programme is the main financial instrument of the reinforced pre-accession strategy as it was set out in the Agenda 2000. The Phare assistance focuses on the adoption of the Community acquis in particular on the priorities identified in the Accession Partnership and in the National Programme for the Adoption of the acquis.

On the basis of the Accession Partnership, the short and medium priorities for agriculture include reinforcement of phytosanitary and veterinary administrations, particularly as regards facilities at external borders, the setting up of structures needed for regional and structural policy, alignment with the agricultural acquis and attention to environmental aspects of agriculture and biodiversity.

Furthermore, they include development of the capacity to implement and enforce the CAP, in particular the fundamental management mechanisms and administrative structures to monitor the agricultural markets and implement structural and rural development measures, adoption and implementation of the veterinary and phytosanitary requirements, upgrading of certain food processing establishments, testing and diagnostic facilities as well as restructuring of the agri-food sector.

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