

87451

**CONFIDENTIAL**
EDS2001-0054February 5, 2001
06:00:54 PM

Statement by Mohd. Yaacob Abdul Aziz
Date of Meeting: February 6, 2001

Slovak Republic: Country Assistance Strategy

We welcome the opportunity to discuss the Slovak Republic CAS. We agree with the focus of the CAS to help Slovakia complete its reforms toward sustainable growth in supporting good governance, financial and corporate transformations, social security and human development. The resolutions of these issues are critical if the government's development goals are to be achieved.

The CAS sets out some basic strategies for achieving rapid economic development and tackling the social sector's inequality within the Slovak Republic. Continued implementation of the government's key macroeconomic programs which began in 1999 is vital to unemployment and poverty reduction and growth process. Although the government is well into implementation of its structural reform agenda and stabilization package, very little has been said about its linkages to poverty reduction. The social indicators in Annex B5 need to be updated and to include targets along the lines of the macro-indicators in Annex B6.

The triggers for Slovak Republic moving from the base case to a high case lending program as depicted on Table 3, should be linked to some clearly defined degree of reforms with measurable performance targets rather than just with a set of policy statements.

The privatization/divestment targets of the utility sector like power should be clearly spelled out in the document with appropriate measures in place to ensure that basic utilities will remain accessible to the poor segment of the community.

The structural reform agenda for FY 2002-03 under the high case triggers (to be assessed by late 2001) appears demanding, given the short time frame of two years. It needs to be assessed flexibly. A significant amount of resources will have to be devoted to capacity building at public sector level if the reform targets are to be attained. The CAS does not sufficiently address Slovak's potential and readiness for decentralisation which requires strengthening of local governance, ranging from local government reforms to partnerships with NGO's and community based organisations. These institutional changes would be vital to strengthen local project implementation

capacity.

On long term debt sustainability, given the economic vulnerability of Slovak Republic, constant monitoring of debt by the Fund and the Bank is vital. Accession negotiation with the EU will instill the required discipline in macro-economic policy management, while continued reforms in the environment for private investments are crucial to attracting foreign direct investments, in an effort to close the external sector resource gap over the 2001-2003 period and beyond.

As there are serious threats to the sustainability of social sector outcomes, monitoring of social sector related expenditures should be more prominent in the document to ensure that there is equality in the distribution of resources. We are concerned with the lack of attention given to education and health sectors. We urge the authorities to urgently implement anti-corruption measures which are crucial to Slovak's future development, effectiveness and social progress.

Transparency and accountability are critical on public expenditures. We are pleased with CAS assessment that Slovakia's commitment to reform the budget structure and management of public expenditures has remained steady. We welcome the government's recent decision to incorporate the State Road Fund into the overall budget. Such initiative should increase public accountability and improve allocation of resources.

Overall, we agree that the CAS has appropriately and selectively identified the necessary assistance program, along the Bank's comparative advantage, especially in public and private sector reforms that will lead to greater effectiveness to achieve growth sustainability and social progress. The Base case lending with the amount of US\$415 million hopefully will graduate to the High case of US\$765 million with persistent commitment and endeavour by the Slovak authorities for the benefit of the people of Slovakia. We wish them every success.