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Slovakia economy briefing:
Slovakia's state-owned enterprises (SOEs) and its representative enterprises

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Slovakia's state-owned enterprises (SOEs) and its representative enterprises

Overview

Governments in both mature and emerging economies are important owners of commercial enterprises and corporatized assets. These SOEs are an important part of a majority of world economies, including the most advanced ones. SOEs are most common in strategic sectors such as energy, minerals, infrastructure, other utilities and, in some countries, financial services. Ensuring that governments efficiently manage these assets is therefore crucial for the competitiveness of the broader enterprise sector, economic growth and sustainable development more generally (OECD, 2020). SOE is defined as a legal entity directly or indirectly controlled by the state in which state owns 50% or more of the voting shares (Derzanauskiene et al. (2017). SOEs in Slovak national legislation (the Commercial Code and the State Enterprise Act) are defined as enterprises in which the state exercises ownership rights. They include joint stock companies, limited liability companies and state-owned enterprises. A state enterprise is a special form of legal entity defined by a specific law of Slovak legislation (the State Enterprise Act). In Slovakia, SOEs are established as other private limited liability companies. State ownership includes central government ownership and local government ownership. However, in this briefing we will only consider the first type of SOEs – ownership by central government. Ministry of finances of the Slovak Republic divides SOEs into two basic groups based on the ownership interest: 1. Public enterprises with state ownership of 50% - 100% together with managerial control and 2. Private enterprises with state ownership of 20% - 49.99%. Twenty percent lower limit is based on the accounting consolidation rule and the second reason is the fact that only for these companies are data systematically collected in Slovakia. Derzanauskiene et al. (2017) note that over the last decade, tendency for states to engage in economic activities increased while stressing that the ultimate purpose of state ownership of enterprises should be to maximize the value for society through the efficient allocation of resources. SOEs operate currently in the majority of the EU countries. Derzanauskiene et al. (2017) list five most common rationales for state ownership: 1. To support national economic and strategic interest, 2. To ensure continued national ownership of the enterprises, 3. To supply specific public goods and services that might be unavailable for the market otherwise, 4. To perform business operations in a natural monopoly situation, and 5. To create a state monopoly or oligopoly in case market regulations prove inefficient or not feasible. The establishment and management of the SOEs should depend on the government, therefore it has to bear in mind state's interests as owner, market regulator and competitor. According to Derzanauskiene et al. (2017), because of these and being a competitor with virtually infinite resources, state may undermine and weaken the business of the private enterprises.

History of Slovak SOEs

Before 1989, the state and collective organizations held almost 100% control of all economic activities in Czechoslovakia. However, after the 1989, when the former Czechoslovak government decided for a shock instead of gradual transformation from a centrally planned economy to market economy, the transition period in the 1990s also included a privatization of these former state enterprises in various sectors of the economy. According to Vlachynsky (2017), the vast majority of Slovak SOEs were privatized during 1991 – 1995 period through different forms like auctions, direct sales and voucher system. However, we must stress the differences in using these various forms of 1990s privatization. While small and medium enterprises (especially small enterprises providing some basic services) very often involved also employees of these companies, big companies (with more than 500 employees) were very often involving the sale to those persons that had quite a strong ties with the government in charge.

There were two waves of privatization between 1990 and 2005, each taking place within different governments. The first wave took place between 1991 – 1995. Voucher system (or coupon privatization) was a privatization method in which citizens of Slovakia had the opportunity to buy cheaply, or receive for free, so-called "coupon books" (see figure 1) with a certain number of so-called coupons (vouchers), for which they could subsequently acquire ownership in any state-owned company that was released to coupon privatization by state bodies. The second wave of privatization took place while so-called "reform government" with Mikulas Dzurinda as Prime Minister ruled in the beginning of this century. Especially between 2002 – 2004, parts of the stakes were sold to foreign investors, while state kept 51% of shares in the strategic enterprises (energy and transportation sectors mostly). Regarding the outcomes of these two waves of privatization, the first wave is seen as rather controversial due to transfer of enterprises to those politically in line with the government. Later on, the big industrial companies that passed to private hands were often drained of their valuable assets with many of them collapsing afterwards. Also, small stakeholders were often squeezed out by big players. On the other hand, the second wave is seen as a much greater success due to different political environment in Slovakia. Even though much greater success and turning of some of the sold companies to respected domestic and also international players, the second wave did not evade some criticism regarding the selling prices of the companies as well as possible corruption where there were claims of low prices.

Figure 1 "Coupon book" from the 1st wave of privatization in the 1990s

Source: IN-SERVER (2020).

Current representatives of Slovakia's SOEs

Figure 2 shows the list of major Slovak SOEs. Theses SOEs function in various sectors of the Slovak economy and were established primarily by state bodies (ministries). Among the sectors with the participation of SOEs, we include transportation (railways as well as highways), energy (nuclear), military, agriculture, health.

Figure 2 The most important Slovakia's SOEs

Železničná spoločnosť Cargo. a.s.
Železničná spoločnosť Slovensko, a.s.
Národná diaľničná spoločnosť, a.s.
Slovenská pošta, a.s.
Železnice Slovenskej republiky
MH Invest, s.r.o.
Tipos, národná lotériová spoločnosť, a.s.
Slovenská konsolidačná, a.s.
Slovenská elektrizačná prenosová sústava, a.s.
Transpetrol, a.s.
Jadrová a vyraďovacia spoločnosť, a.s.
Jadrová energetická spoločnosť Slovenska, a.s.
MH Development, s.r.o.
Slovenský plynárenský priemysel, a.s.
Rozhlas a televízia Slovenska
Vojenský opravárenský podnik Nováky, a.s.
Vojenský opravárenský podnik Trenčín, a. s.
Letecké opravovne Trenčín, a. s.
Vojenské lesy a majetky, š.p.
Lesy Slovenskej republiky, š.p.
Nemocnica svätého Michala, a.s.
Letecká vojenská nemocnica, a.s.
Národný ústav srdcových a cievnych chorôb, a.s.
Nemocnica Poprad, a.s.
Stredoslovenský ústav srdcových a cievnych chorôb, a.s.
Východoslovenský onkologický ústav, a.s.
Východoslovenský ústav srdcových a cievnych chorôb, a.s.
Všeobecná zdravotná poisťovňa, a.s.
Vodohospodárska výstavba, š. p.
Slovenský vodohospodársky podnik, š. p.

Source: TREND (2018).

Table 1 lists top three SOEs in Slovakia based on various economic indicators. Regarding the table, we note that Slovenský plynárenský priemysel, a.s. (energy sector), major natural gas supplier in Slovakia, is one of the most important Slovak SOEs with assets of EUR 3.3 billion, revenues of EUR 1.3 million and profit of EUR 463 million. On the other hand, it is not one of the top employers in regard to SOEs in Slovakia as seen in table 1 where top employers (based on personal costs) are companies from transportation (Železnice and Železničná spoločnosť – railway services) and communication (Slovenská pošta – post services) sectors.

Table 1 Top 3 most important Slovakia's SOEs based on economic indicators

Assets	**EUR, billion**
Národná diaľničná spoločnosť, a.s.	8.7
Železnice Slovenskej republiky Bratislava	3.5
Slovenský plynárenský priemysel, a.s.	3.3
Revenues	**EUR, million**
Slovenský plynárenský priemysel, a.s.	1.3
Tipos, národná lotériová spoločnosť, a.s.	431
Slovenská elektrizačná a prenosová sústava, a.s.	361
Profit	**EUR, million**
Slovenský plynárenský priemysel, a.s.	463
Slovenská elektrizačná a prenosová sústava, a.s.	57
Národná diaľničná spoločnosť, a.s.	28
Personal costs	**EUR, million**
Železnice Slovenskej republiky Bratislava	233
Slovenská pošta, a.s.	165
Železničná spoločnosť Slovensko, a.s.	102

Source: TREND (2018).

Current developments in the Slovak SOEs

Regarding the rationale for state ownership, Slovakia declared recently in some new legislations (especially Act on Strategic Enterprises) and policy documents that it does not intend to undertake further wide privatization in the future (with one of the reasons being the decreasing number of the SOEs in Slovakia and most of the SOEs privatized in the first two waves of privatization). Another movement to non-privatization is also the suspension and termination of existence of Fond národného majetku (National Property Fund) which took place in 2015 and is seen as a move towards the decentralization of the state ownership. The Fund used to be the biggest ownership entity in Slovakia exercising state ownership rights in 33 SOEs at central government level. Ministry of Economy became a successor of the Fund, however, it remains unclear whether it will take steps in enhancing coordination of state ownership among different state bodies. Ministry of Finance is obliged to prepare and publish the annual report including some details on major SOEs (analysis of annual change in profits and shareholder's equity) and annex with the list of all SOEs at central government level. Since June 2016, the role of audit committees in public interest entities was substantially strengthened.

Conclusion

Even though many SOEs were privatized during the 1990s and in the first decade of the 21st century, there is still a strong influence of state in some sectors, especially in transportation and energy. We also note, that according to Derzanauskiene et al. (2017), there is no clear economic strategy or concept for Slovak SOEs. Management of these enterprises often lacks transparency due to political pressures. Important positions (general director, members of the supervisor board as defined in the State Enterprise Act) are often filled with various political supporters and not with experts in respective fields of operations of the SOEs. Also some of the SOEs provide low quality services and are not able to compete with private enterprises on the market. Even though the majority of the SOEs in Slovakia were formally registered as state companies in the 1990s, currently (by December 31st, 2020) there are only 12 state companies registered as seen in the data provided by the Statistical Office of the Slovak Republic (2020).

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