EUROPEAN
COMMISSION

Brussels, 2.6.2014
COM(2014) 426 final

Recommendation for a

COUNCIL RECOMMENDATION

on Slovakia's 2014 national reform programme

and delivering a Council opinion on Slovakia's 2014 stability programme

{SWD(2014) 426 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full

[1] OJ L 209, 2.8.1997, p. 1.
[2] COM(2014) 426 final.
[3] P7_TA(2014)0128 and P7_TA(2014)0129.

commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 9 July 2013, the Council adopted a recommendation on Slovakia's national reform programme for 2013 and delivered its opinion on Slovakia's updated stability programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013[4], the Commission presented its opinion on Slovakia's draft budgetary plan for 2014[5].

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey[6], marking the start of the 2014 European Semester of economic policy coordination. On the same day on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[7], in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 23 April 2014, Slovakia submitted its 2014 national reform programme and its 2014 stability programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to ensure the sustainability of the correction of the excessive deficit and to reach the medium-term objective of a structural deficit of around 0.5% of GDP by 2017. This medium-term objective is more stringent than what the Stability and Growth Pact requires. Slovakia's general government deficit was sustainably brought below 3% of GDP in 2013. The planned (recalculated) change in the structural balance for 2014 would imply that Slovakia deviates significantly from the adjustment path toward its medium-term objective. In 2015, the planned improvement of 0.3% of GDP would be in line with Stability and Growth Pact rules. In the later years, the Stability Programme would not ensure adequate adjustment towards the medium-term objective. Expenditure would grow at a pace consistent with the expenditure benchmark both in 2014 and 2015. The Stability Programme envisages that the largest part of the consolidation effort to reach the medium-term objective would take place in 2016 and 2017. Overall, the adjustment path towards the medium-term objective presents risks with respect to compliance with the requirements of the Stability and Growth Pact. The Stability Programme foresees the general government debt to remain below the 60% of GDP reference value during the whole programming period. The macroeconomic scenario underpinning the budgetary projections in the programme, which has been endorsed by an independent body (Macroeconomic Forecasting Committee), is plausible. The already quantified measures do not ensure that the fiscal targets defined by the authorities will be reached. Moreover, not all revenue measures are sufficiently specified and cost-saving reforms of the state administration remain subject to implementation risks

[4] OJ L 140, 27.5.2013, p.11.
[5] C(2013) 8011 final
[6] COM(2013) 800 final.
[7] COM(2013) 790 final.

while the public wage bill may miss the budgeted values, as in the past. On the other hand, the figures presented in the Stability Programme do not yet take into account the expected savings stemming from the activation of the domestic debt brake. According to the Commission 2014 spring forecast, which incorporates the impact of the expenditure savings due to the debt brake, the deviation from the adjustment path would be smaller in 2014 than foreseen in the programme, while a sufficient structural adjustment is projected in 2015, with the expenditure benchmark being met both in 2014 and 2015. While both the Stability and National Reform Programmes declare an intention to increase growth-enhancing spending, this does not appear to be fully supported by the underlying plans. Spending on education from the state budget increases in 2014 but declines in the following years. Based on the assessment of the Stability Programme and the Commission forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that there is a risk of deviation from the adjustment path towards the medium-term objective in 2014 whereas an appropriate correction is expected in 2015.

(9) In response to requirements of the Treaty on Stability Coordination and Governance, Slovakia introduced a balanced budget rule in November 2013. The budgetary framework is, however, weakened by the lack of expenditure ceilings. While their introduction was envisaged by the 2013 stability programme, the commitment has, so far, not been implemented. Slovakia remains a country with a medium risk with respect to the sustainability of public finances and health care expenditure is projected to be the main driver of the rising costs of ageing contributing 2% of GDP, the second highest projected increase in health care expenditure of all the EU Member States. The problems are felt mainly in in-patient care and primary care. In December 2013, the government adopted a 2014-30 Strategic Framework for Health to improve cost-effectiveness. The Strategy now requires detailed implementation plans.

(10) Slovakia has made progress in improving tax compliance and the implementation of the Action plan to combat tax fraud is in progress with around half of the measures in place. As a result the efficiency of the Slovak tax system appears to have improved in 2013, especially for VAT, although the need to consolidate efforts and strengthen the analytical and audit capacity of the tax administration remains and the unification of the collection of taxes, customs duties and social insurance contributions is behind schedule. To continue growth-friendly fiscal consolidation, Slovakia could rely more on taxes less detrimental to growth, notably recurrent property and environmental taxation. In this respect, there has been no progress in reforming recurrent property taxation and linking it to the market value of the property. The revenues from this tax remain low and unchanged since 2000. In 2013, the government implemented measures to reduce a large discrepancy in the tax wedge between employees and self-employed people, but the substantial gap in the effective tax rates of the two groups observed in 2012 persists.

(11) The Slovak labour market continues to face a number of challenges. Most unemployment, which remains at around 14%, is long-term, pointing to the structural nature of the unemployment problem in Slovakia. Slovakia made some progress towards reducing the tax wedge for low-paid workers who enter the labour market after long-term unemployment, but the effectiveness of the measures needs to be monitored and assessed. Only limited progress has been made in other areas, namely enhancing the capacity of the public employment services to provide personalised services and strengthening the link between activation measures and social

assistance. As regards youth unemployment, the public employment service has limited capacity for early intervention and for tailoring services to job-seekers profiles and for reaching out to not registered youth. There is thus need to act in these areas, in line with the objectives of a youth guarantee. More targeted measures are needed for the most disadvantaged jobseekers, including Roma, whose employment rate remains very low. The lack of adequate child care facilities in particular for children under three makes it more difficult for mothers to return to the labour market.

(12) The limited labour market relevance of education hampers the supply of skilled labour. The performance of pupils in compulsory education is below EU average and has decreased significantly. Public expenditure on education remains low despite recent increases in teachers' salaries; initial training of teachers is being strengthened and practical experience reinforced, but these efforts need to continue. Despite government efforts to reform vocational education and training and subsidize jobs for young people, the youth unemployment rate remains among the highest in the EU and school-to-job transition remains cumbersome. The relatively low percentage of job-oriented bachelor-level programmes and insufficient cooperation with employers reduces the labour market relevance of tertiary education. Improving the quality of higher education and of cooperation between businesses and education institutions would also help to enhance the innovation capacity of the Slovak economy. The plans in the Smart Specialisation Strategy go in the right direction, but need to be effectively implemented. The persistently low provision of good quality early childhood education and care weighs on educational achievements, in particular for Roma. So far, initiatives aimed at improving educational outcomes for Roma pupils are overly reliant on EU co-financed projects.

(13) In energy, Slovakia has made progress on preparatory work for more electricity and gas interconnections with neighbouring countries; however, measures to make the Slovak energy market function better, and in particular to improve the transparency of the tariff-setting mechanism, are still needed. A package of measures to improve energy efficiency has been proposed for EU financing in the new programming period.

(14) The ongoing reform of public administration will improve client-orientation , however, the Slovak public administration continues to underperform in terms of both quality and efficiency. Persistently high staff turnover linked to the political cycle together with weak human resource management and weak analytical capacity impairs evidence-based policy-making. Slovakia continues to score poorly in international indicators of corruption and it has made little progress in improving the efficiency and transparency of its judicial system. The quality of the business environment in Slovakia has deteriorated and support for fast-growing firms has stagnated. Slovakia recently reformed its public-procurement rules with the aim to improve transparency and efficiency, but application of these rules remains a challenge and the impact of the 2013 public procurement reform remains limited.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia’s economic policy. It has assessed the stability programme and the national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Slovakia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future

national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(16) In the light of this assessment, the Council has examined Slovakia's stability programme, and its opinion[8] is reflected in particular in recommendation (1) below.

(17) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis the Council has issued specific recommendations for the Member States whose currency is the euro. Slovakia should also ensure the full and timely implementation of these recommendations.

HEREBY RECOMMENDS that Slovakia take action within the period 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.3% of GDP relative to the Stability and Growth Pact requirements based on the Commission 2014 spring forecast. In 2015, ensure the required adjustment of 0.1% of GDP towards the medium-term objective taking into account the expected weak economic conditions. Thereafter, until the medium-term objective is achieved, pursue an annual structural adjustment of 0.5% of GDP as a benchmark. Further strengthen the fiscal framework, also by introducing binding and enforceable expenditure ceilings. Improve the long term sustainability of public finance by increasing the cost-effectiveness of the health-care sector, in particular by rationalising hospital care and management and by strengthening primary care.

2. Improve the efficiency of the tax administration by strengthening its audit, risk assessment and debt collection capacity. Link the basis for real-estate taxation to the market value of the property.

3. More effectively address long-term unemployment through activation measures, second-chance education and tailored quality training. Enhance the capacity of public employment services for case management, personalised counselling and activation of jobseekers, and strengthen the link between activation and social assistance. Effectively tackle youth unemployment by improving early intervention, in line with the objectives of a youth guarantee. Improve incentives for women's employment, by enhancing the provision of child-care facilities, in particular for children below three years of age.

4. Take measures to increase the quality of teaching in order to raise educational outcomes. Reinforce the provision of work-based learning in companies in vocational education and training. Adapt accreditation, funding and governance measures to encourage the creation of profession-oriented bachelor-level programmes. Improve the quality and relevance of the science base and implement plans to foster effective knowledge transfer and co-operation between academia, research and business. Adopt systemic measures to improve access to high quality and inclusive pre-school and school education for marginalised communities, including Roma and take steps to increase their wider participation in vocational training and higher education.

5. Step up efforts to make the energy market function better, in particular by increasing the public transparency of the regulatory framework and by exploring the determinants of the high electricity network charges, notably for industrial

[8] Under Article 5(2) of Council Regulation (EC) No 1466/97.

consumers. Building on the progress made so far, further develop interconnections with neighbouring countries, including with Ukraine, accordingly to the Memorandum of Understanding signed in April

6. Take measures, including by amending the Act on Civil Service, to increase the independence of the public service. Adopt a strategy to improve the management of human resources in public administration. Step up efforts to strengthen analytical capacity in key ministries with a view to adopting evidence-based policies, and improving the quality of policy impact assessment. Take steps to fight corruption and accelerate efforts to improve the efficiency and quality of the judicial system. Introduce measures to improve business environment including for SMEs. Step up efforts to improve the efficiency of public procurement.

Done at Brussels,

For the Council
The President