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Recommendation for a

COUNCIL RECOMMENDATION

on the 2017 National Reform Programme of Slovakia

and delivering a Council opinion on the 2017 Stability Programme of Slovakia

Recommendation for a

COUNCIL RECOMMENDATION

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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 16 November 2016, the Commission adopted the Annual Growth Survey,[4] marking the start of the 2017 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report,[5] in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. That Recommendation was endorsed by the European Council on 9-10 March 2017 and adopted by the Council on 21 March[6].

[1] OJ L 209, 2.8.1997, p. 1.
[2] COM(2017) 524 final.
[3] P8_ TA(2017)0038, P8_ TA(2017)0039, and P8_ TA(2017)0040.
[4] COM(2016) 725 final.
[5] COM(2016) 728 final.
[6] 2017/C92/01.

(2) As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovakia should ensure the full and timely implementation of the Recommendation for the euro area which is reflected in recommendations 1 to 2 below.

(3) The 2017 country report for Slovakia[7] was published on 22 February 2017. It assessed Slovakia's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the recommendations adopted in previous years and Slovakia's progress towards its national Europe 2020 targets.

(4) On 26 April 2017, Slovakia submitted its 2017 National Reform Programme and its 2017 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(5) The relevant country-specific recommendations have been taken into account in the Member States' programmes for the European Structural and Investment Funds (ESI Funds) covering the 2014-2020 period. As foreseen in the legislation governing the ESI Funds,[8] where it is necessary to support the implementation of relevant country-specific recommendations, the Commission may request a Member State to review and amend its relevant ESI Funds programmes. The Commission has provided further guidelines on the application of those rules.[9]

(6) Slovakia is currently in the preventive arm of the Stability and Growth Pact. In its 2017 Stability Programme, the government plans to improve the headline deficit to 1.3% of GDP in 2017, and gradually further to 0% of GDP in 2019 and 2020. The medium-term budgetary objective — a structural deficit of 0.5% of GDP — is expected to be reached in 2018. According to the Stability Programme, the general government debt-to-GDP ratio is expected to gradually decline to 46 % by 2020. The macroeconomic scenario underpinning these budgetary projections is plausible.

(7) On 12 July 2016, the Council recommended Slovakia to achieve an annual fiscal adjustment of 0.5% of GDP towards the medium-term budgetary objective in 2017. Based on the Commission spring 2017 forecast, there is a risk of some deviation from that requirement in 2017.

(8) In 2018, in the light of its fiscal situation, Slovakia is expected to further adjust towards its medium-term budgetary objective of a structural deficit of 0.5% of GDP. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure[10] which does not exceed 2.9%. It would

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[7] SWD(2017) 90 final/2.

[8] Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013, p. 320.

[9] COM(2014) 494 final.

[10] Net government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases

correspond to a structural adjustment of 0.5% of GDP. Under unchanged policies, there is a risk of significant deviation from that requirement over the period 2017-18 taken together. Overall, the Council is of the opinion that Slovakia needs to stand ready to take further measures to ensure compliance in 2017 and that further measures will be needed in 2018 to comply with the provisions of the Stability and Growth Pact. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. As recalled in the Commission Communication accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovakia's public finances. In that context, the Commission intends to make use of the applicable margin of appreciation in the light of the cyclical situation of Slovakia.

(9) Slovakia's public finances still face risks in the long term. Healthcare expenditure continues to pose a risk to the long-term sustainability of public finances as increasing the cost-effectiveness of healthcare in Slovakia remains a challenge. Some steps have been taken to rationalise hospital care and lower costs, but concrete results are not yet visible. The 2016 spending review has identified potential savings. Nevertheless, progress on the ground in delivering a comprehensive healthcare and health spending reform has been to date protracted with the introduction of the diagnosis-related groups system for payments and the launching of e-health systems making only slow progress. Meanwhile, the deficit of the public pension system is projected to double in the long term, and the retirement age in Slovakia is among the lowest in the EU. Recent adjustments in the pension system have largely been ad hoc and short-term.

(10) Tax evasion and tax avoidance have fallen, and efforts are being made to raise voluntary compliance. Improvements in tax collection have significantly reduced what was, in the past, a high VAT gap. Limiting VAT fraud appears to have also had a positive impact on the collection of corporate income tax. The financial administration adopts a focus on improving VAT compliance, especially through auditing. At the same time, non-audit activities to strengthen voluntary tax compliance are being explored.

(11) Despite improvements in the labour market resulting from robust economic recovery and strong job creation, long-term unemployment remains a problem. The long-term unemployment rate continues to be one of the highest in the EU. It particularly affects marginalised Roma, low-skilled and young people. In addition, regional disparities persist — the unemployment rate in eastern Slovakia is still twice that in Bratislava. Adult participation in lifelong learning and second-chance education remains low. Despite measures encouraging low-wage earners to work and an ongoing public employment services reform, there are still difficulties in introducing individualised support to the long-term unemployed and to vulnerable groups due among others to a high caseload. The Slovak action plan on the integration of the long-term unemployed, largely financed by the European Social Fund, seeks to remedy this via a comprehensive approach to personalised services. This will be achieved by providing specialised counselling, a new profiling system, cooperation

mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

with private employment agencies and the delivery of targeted training programmes designed by employers based on regional labour market needs. Roma participation in the Slovak labour market remains very low and progress in increasing their employment rate is slow. Low levels of education and skills and discrimination are factors contributing to their poor labour market outcomes. The low employment rate of women of childbearing age reflects the long parental leave (up to three years) rarely taken up by men, shortage of childcare facilities, especially for children under the age of three, and a low uptake of flexible working-time arrangements.

(12) The education system is insufficiently geared to increasing Slovakia's economic potential. Educational outcomes and the level of basic skills remain disappointing by international standards and have deteriorated further in 2012-15. Moreover, strong regional differences persist. Poor performance is primarily linked to a strong impact of the socioeconomic and ethnic background of students, to issues of equity, access and inclusiveness as well as the relatively low attractiveness of the teaching profession. Despite the 6 % salary increase for teachers in 2016 and further increases planned for 2017-2020, uncompetitive salary conditions and limited continuous teacher training are among the factors that make the profession still largely unattractive, especially to prospective young teachers and those residing in the more developed regions of the country. The recently adopted anti-segregation legislation, on the marginalised Roma community, has yet to be fully implemented to bring about positive change and increase their participation in inclusive mainstream education, with a special focus on early childhood education and care as well as pre-school education.

(13) Slovakia's public administration is being modernised, but corruption remains a challenge. Perceptions of corruption remain high and act as a major business impediment. Control mechanisms and the enforcement of anti-corruption rules still appear inadequate, and policy initiatives on whistleblowing and letterbox companies may not be enough to resolve the problem. In addition, public procurement practices fall short of best practices in many areas. Training measures are being developed to equip staff to run a more efficient procurement system. However, conflicts of interest, tailor-made tender specifications and excessive use of the lowest price award criteria remain a concern and result in limited quality-based competition. Weaknesses in public procurement are persistently reported as affecting the efficiency of public resources allocation.

(14) A frequently changing legislative environment makes it difficult and costly for companies to comply with legislation, and legislative, regulatory processes and insolvency arrangements are often viewed as insufficiently business-friendly. An inter-ministerial working group for doing business, led by the State Secretary of the Ministry of Economy, was recently set up and is expected to present by June 2017 proposals for measures to improve the business environment. High regulatory barriers remain in the business services sector in Slovakia. Specific guidance per profession to address this issue was made in January 2017, in a Communication from the Commission on reform recommendations for regulation in professional services, as part of a package of measures to tackle barriers in services markets.[11]

(15) Improving the effectiveness, including the independence of the justice system, remains a challenge for Slovakia, although efforts are being made to address the

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11 COM(2016) 820 final, COM(2016) 821 final, COM(2016) 822 final, COM(2016) 823 final, COM(2016) 824 final.

shortcomings. However, concerns about the efficiency and independence of the judiciary remain. In addition, public administration is still burdened by inefficiency, insufficient capacity and fragmentation. The adoption of the strategy on Human Resource Management in October 2015 and the recent adoption of the Civil Service Act are positive steps forward. The new, politically independent Civil Service Council will supervise the implementation of the principles of the Act as well as the code of ethics for civil servants. The complex, opaque regulatory framework complicates relations between interested parties in the energy market. Recent changes in setting distribution tariffs indicate continued political and business influence. Independence of the energy price regulator is expected to decrease following the adoption of legislation that grants the government an exclusive right to name the regulator's chair and grants the Ministries for the Economy and the Environment right to step into price-setting proceedings.

(16) In the context of the European Semester the Commission has carried out a comprehensive analysis of Slovakia's economic policy and published it in the 2017 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Slovakia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia, but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions.

(17) In the light of this assessment, the Council has examined the Stability Programme and its opinion[12] is reflected in particular in recommendation 1 below,

HEREBY RECOMMENDS that Slovakia take action in 2017 and 2018 to:

1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which translates into a substantial fiscal effort for 2018. When taking policy action, consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovakia's public finances. Improve the cost effectiveness of the healthcare system, including by implementing the value for money project.
2. Improve activation measures for disadvantaged groups, including by implementing the action plan for the long-term unemployed and by providing individualised services and targeted training. Enhance employment opportunities for women, especially by extending affordable, quality childcare. Improve the quality of education and increase the participation of Roma in inclusive mainstream education.
3. Improve competition and transparency in public procurement operations and step up the fight against corruption by stronger enforcement of existing legislation. Adopt and implement a comprehensive plan to lower administrative and regulatory barriers for businesses. Improve the effectiveness of the justice system, including a reduction in the length of civil and commercial cases.

Done at Brussels,

For the Council
The President

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