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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of Slovakia and delivering a Council opinion on the 2016 stability programme of Slovakia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 345 final.

COUNCIL RECOMMENDATION

of …

on the 2016 National Reform Programme of Slovakia

and delivering a Council opinion on the 2016 Stability Programme of Slovakia

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,

Having regard to the resolutions of the European Parliament,

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,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, 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. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016[3]. 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.

(2) The 2016 country report for Slovakia was published on 26 February 2016. It assessed Slovakia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Slovakia's progress towards its national Europe 2020 targets.

(3) On 29 April 2016, Slovakia submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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[2] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

[3] OJ C 96, 11.3.2016, p. 1.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[4], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) Slovakia is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans to improve the headline balance to -1,9 % of GDP in 2016 and further gradually to -1,3 % of GDP in 2017. According to the Stability Programme, the medium-term budgetary objective — a structural deficit of 0,5 % of GDP — would be reached in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to reach 52,9 % in 2016 and to continue decreasing to 47,3 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, Slovakia is at risk of some deviation from the medium-term budgetary objective in 2016, while it is expected to comply with the recommended adjustment in 2017 under unchanged policies. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Slovakia is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016. To this end, the long-delayed adoption of binding expenditure ceilings and the implementation of the 'value for money' programme to increase efficiency of public expenditure, with planned expenditure reviews in selected areas, would be of critical importance.

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[4] 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).

(6) The long-term sustainability of public finance in Slovakia remains a challenge. This is mainly due to the projected growth of ageing-related costs on healthcare and pensions. The increase in Slovakia's pension spending up to 2060 is expected to be one of the highest in the Union, driven by population ageing. The statutory retirement age in Slovakia is comparatively low, partly due to life expectancy factors. Healthcare expenditure is the main driver of ageing-related costs. Public healthcare expenditure is projected to grow substantially in the long term, albeit from a comparatively low level. Despite some improvement, health indicators remain very low in Slovakia. To raise the cost-effectiveness of the healthcare sector, the Government has been taking measures in both inpatient and outpatient care. Efforts to introduce an integrated model of care continue. The success of this reform is likely to depend on ownership by the key stakeholders, the integration of healthcare centres and hospitals, and appropriate staffing. Despite measures adopted to limit a further build-up of debt in public hospitals, several are still in a poor financial situation. Challenges remain in fully reversing the negative expenditure trends, such as restructuring hospital capacity, introducing a prospective reimbursement system and increasing competition in public procurement in the area of healthcare. Regarding outpatient care, the weak gatekeeping role of general practitioners is partly due to a suboptimal division of competences between general practitioners and specialists and favours recourse to more costly specialised care. With regard to taxation, government measures to fight tax fraud have contributed to better tax collection, in particular in the area of value added tax (VAT). However, the VAT gap remains high, indicating an ongoing compliance challenge. A strong emphasis on VAT collection in recent years has lessened attention to other important areas of taxation such as income taxation. In addition, a focus on auditing has left other roles of tax administration such as tax debt collection underdeveloped. This suggests that there is scope to improve resource allocation within the taxation system. A strategy to define compliance goals has not yet been developed.

(7) Despite improvements in the labour market resulting from the good economic recovery and recent policy measures, long-term unemployment remains a problem. The rate of long-term unemployment continues to be one of the highest in the Union (7,6 % vs. 4,3 % in the Union as a whole in the third quarter of 2015). It particularly affects marginalised Roma, the low-skilled and young people. Measures to address unemployment have been taken in the area of vocational education and training, subsidised jobs and job counselling. However, the successful implementation of most of these reforms will depend on the capacity of the public employment service. Despite reorganisation of the Central Labour Office and improved access to training, there are still difficulties in introducing individualised support to the long-term unemployed and to vulnerable groups. 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 influencing their poor labour market participation. The low employment rate of women of childbearing age reflects the long parental leave (up to three years), lack of childcare facilities, especially for children under the age of three, high childcare costs and the limited use of flexible working-time arrangements. In addition, regional disparities persist – the unemployment rate in Eastern Slovakia is still twice that in Bratislava. Regarding governance of labour market services, measures taken in recent months do not provide for a tailored approach in addressing the structural challenges of the Slovak labour market.

(8) The education system is insufficiently geared to increasing Slovakia’s economic potential. Educational outcomes are low by international standards and have deteriorated further. This is largely linked to the inadequacy of teachers’ education and the low attractiveness of the teaching profession. Despite the 4 % salary increase for teachers in 2016, low pay and insufficient practical training are among the factors making the profession unattractive to young people. Recently adopted anti-segregation legislation has yet to be implemented to bring about positive change and increase Roma participation in mainstream education, including pre-school education.

(9) Public administration is still burdened by inefficiency. Effective coordination is wanting, due to the fragmented and rigid organisation of the public administration. The adoption of the Strategy on Human Resource Management in October 2015 is a positive step forward. However, the new Act on Civil Service, which is a necessary prerequisite for its successful implementation, has not been adopted yet. The Government has taken several measures to tackle corruption, but their impact so far has been limited. In particular, Slovakia has a limited track record on initiating criminal proceedings and prosecuting corruption cases, including illicit practices in public procurement. Building permit procedures for large-scale investment and infrastructure projects have been shortened. Unconsolidated governance, lack of evidence-based design of public procurement procedures, weak professionalism, conflicts of interest, tailor-made tender specifications and excessive use of lowest price award criteria result in limited quality-based competition. Public procurement weaknesses are persistently reported as affecting the efficiency of public resources allocation. Frequent changes to legislation and burdensome administrative procedures and requirements affect businesses in Slovakia. High administrative and regulatory barriers with respect to some professional services and network industries, weaknesses in some areas such as contract enforcement and insolvency resolution and long-standing concerns regarding the quality of the judicial system harm the business environment and discourage investment. Some measures to ease doing business have been taken, such as the Centre for Better Regulation, which was set up in October 2015, and the launch of the National Business Centre in early 2016. However, the adoption of the Small Business Act (SBA) under the SMEs Development Strategy has been postponed.

(10) 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 2016 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 socio-economic 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. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(11) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[5] is reflected in particular in recommendation (1) below.

5 Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Slovakia take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of 0,25 % of GDP towards the medium-term budgetary objective in 2016 and of 0,5 % of GDP in 2017. Improve the cost-effectiveness of the healthcare system. Take measures to increase tax compliance.

2. Improve activation measures for the long-term unemployed and other disadvantaged groups, including individualised services and targeted training. Facilitate the employment of women, in particular by extending the provision of affordable, quality childcare. Improve educational outcomes by making the teaching profession more attractive and by increasing the participation of Roma children from early childhood in mainstream education.

3. Consolidate governance, reinforce the shift from price only to quality-based competition and improve the prosecution of illicit practices in public procurement. Improve the transparency, quality and effectiveness of human resources management in public administration, in particular by adopting a new civil service act, and the effectiveness of the justice system. Adopt a comprehensive plan to address administrative and regulatory barriers for businesses.

Done at Brussels,

For the Council
The President