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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9425/22 - COM(2022) 627 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Slovakia and delivering a Council opinion on the 2022 Stability Programme of Slovakia

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 627 final.

COUNCIL RECOMMENDATION

of …

on the 2022 National Reform Programme of Slovakia and delivering a Council opinion on the 2022 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,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 stablishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also 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 needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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3 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).

4 Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[5] was triggered for the first time by Council Implementing Decision (EU) 2022/382[6], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare. Exceptional support is made available to Slovakia under the Cohesion's Action for Refugees in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.

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[5] Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p. 12).

[6] Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council Recommendation of 18 June 2021[7] delivering a Council opinion on the 2021 Stability Programme of Slovakia, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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7 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Slovakia (OJ C 304, 29.7.2021, p. 121).

8 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

9 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 29 April 2021, Slovakia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Slovakia[10]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Slovakia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 29 April 2022, Slovakia submitted its 2022 National Reform Programme and, on 28 April 2022, its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Slovakia's biannual reporting on the progress made in implementing its recovery and resilience plan.

[10] ST 10156/2021 + COR 1.

(11) The Commission published the 2022 country report for Slovakia on 23 May 2022. It assessed Slovakia's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Slovakia's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Slovakia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Slovakia, as its general government deficit in 2021 exceeded the Treaty reference value of 3 % of gross domestic product (GDP), while its general government debt exceeded the 60 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled while the debt criterion was complied with. In line with the communication of 2 March 2022, the Commission considered, within its assessment of all relevant factors, that compliance with the debt-reduction benchmark would involve an overly demanding frontloaded fiscal effort that could jeopardise growth. Therefore, in the view of the Commission, compliance with the debt-reduction benchmark is not warranted under the current exceptional economic conditions. As announced, the Commission did not propose to open new excessive-deficit procedures in spring 2022 and will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.

(13) In its Recommendation of 20 July 2020[11], the Council recommended Slovakia to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Slovakia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Slovakia's general government deficit increased from 5,5 % of GDP in 2020 to 6,2 %. The fiscal policy response by Slovakia supported the economic recovery in 2021, while temporary emergency measures increased from 2,3 % of GDP in 2020 to 3,3 % in 2021. The measures taken by Slovakia in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of increases in the 13th pension, changes in the retirement age for parents, a reduction in the motor vehicles tax and the cancellation of the bank levy. According to data validated by Eurostat, general government debt increased from 59,7 % of GDP in 2020 to 63,1 % of GDP in 2021.

[11] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Slovakia and delivering a Council opinion on the 2020 Stability Programme of Slovakia (OJ C 282, 26.8.2020, p. 164).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic in 2022 and favourable in 2023. The government projects real GDP to grow by 2,1 % in 2022 and 5,3 % in 2023. By comparison, the Commission's 2022 spring forecast projects a higher real GDP growth of 2,3 % in 2022 and a lower real GDP growth of 3,6 % in 2023, mainly due to an estimated higher impact of inflation on private consumption and a slower rebound of exports. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 5,1 % of GDP in 2022, and to 2,4 % in 2023. The decrease in 2022 mainly reflects the unwinding of most emergency measures and a strong growth of nominal GDP. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 61,6 % in 2022, and to decline to 58,0 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 3,6 % of GDP and 2,6 % respectively. This is lower than the deficit projected in the 2022 Stability Programme for 2022 and higher for 2023, mainly due to the more optimistic labour-market development forecast for 2022. The Commission's 2022 spring forecast projects a similar general government debt-to-GDP ratio of 61,7 % in 2022 and 58,3 % in 2023. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 2,0 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Slovakia's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 3,3 % of GDP in 2021 to 1,0 % in 2022. The government deficit is impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast is projected at 0,1 % of GDP in 2022 and 0,2 % in 2023[12].

(16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Slovakia maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Slovakia to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

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12 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Slovakia's 2022 Stability Programme, the fiscal stance is projected to be contractionary at +0,3 % of GDP, while the Council recommended a supportive fiscal stance[13]. Slovakia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,7 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,4 percentage points in 2022[14]. Therefore, Slovakia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contractionary contribution of 1,6 percentage points to the overall fiscal stance. This includes the additional impact of the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP). Due to a lagged indexation with inflation, major government expenditures like social benefits other than in kind or compensation of employees have a growth rate lower than inflation in 2022 and contribute to the contractionary stance.

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13 A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

14 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,2 percentage points of GDP.

(18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at -0,8 % of GDP on a no-policy-change assumption[15]. Slovakia is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 1,0 percentage points of GDP compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,1 percentage points in 2023[16]. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0,2 percentage points to the overall fiscal stance. This includes additional costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP).

(19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 2,3 % in 2024 and to 2,0 % by 2025. Therefore, the general government deficit is planned to go below 3 % of GDP by 2023 and remain below 3 % of GDP over the Programme horizon. Those projections assume limiting the growth of public expenditure - including compensation of employees and social transfers in kind - at a pace lower than that of revenue and below the robust nominal GDP growth. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with an increase to 58,2 % in 2024 and a decline to 57,3 % in 2025. According to the Commission’s analysis, debt sustainability risks appear high over the medium term.

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15 A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

16 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

(20) Slovakia's tax system could be reformed to boost economic efficiency, foster environmental and fiscal sustainability, and improve fairness, while also supporting broader policy objectives. The labour tax burden is particularly high for low-income earners compared to other Member States. In contrast, environmental and property taxation is not used to its full potential. Changing the tax mix could support growth and also help foster the green transition and environmental sustainability. The economy's energy intensity is significantly above the Union average, but the revenue from environmental taxes stood at 2,4 % in 2020, close to the Union average. Environmental charges relating to waste management and air pollution do not sufficiently promote efficient use of resources and reduce costs for the environment and society. Road taxes and vehicle registration fees do not reflect emission intensity well. Environmental taxes and charges are not indexed, and this reduces green revenue over time because of inflation. On property taxation, revenues from recurrent taxes on immovable property were relatively low in 2020 (0,5 % of GDP compared to the Union average of 1,2 %). Slovakia does not currently have sufficient data to enable updating and indexing the property tax base in line with market values, which could also partly mitigate the continuing strong demand for housing and related strong house price growth. In addition, further efforts in simplifying taxes and improving compliance can increase public revenues and thus support fiscal sustainability and improve fairness. Despite improvements, the value-added tax compliance gap remained high in 2019 (16,1 % compared to 10,4 % in the Union). Further improvements in tax administration, including in electronic invoicing, pre-filled tax returns and more digitalisation, could help further reduce the leaks in the tax system.

(21) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Slovakia by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the recovery and resilience plan's strong focus on inclusive education, public governance and productivity-enhancing investment in the green and digital transitions, as well as its planned contribution to decreasing regional disparities, can be considered a comprehensive and adequate response to the challenges Slovakia is facing. The challenge of accelerating the green and digital transitions is tackled with determination and a wide range of measures. Long-standing challenges in education, childcare, healthcare, and research and innovation (R&I) are also addressed with comprehensive measures for the most serious shortcomings, such as the low quality and inclusiveness of education, fragmented R&I policy coordination, insufficient public-private cooperation, and weak R&I performance. Additional measures proposed in the recovery and resilience plan to improve the justice system, public procurement and the fight against money laundering have the potential to address many of the underlying challenges, if adopted and implemented in line with Union law requirements on proper safeguards and judicial independence and with due involvement of stakeholders. Lastly, several reforms are expected to improve the long-term sustainability of public finances. Overall, the recovery and resilience plan thereby provides for ambitious reforms and investments, particularly in healthcare, the green and digital transitions, and public administration, which are moreover geared towards further improving convergence in the euro area and boosting economic growth.

(22) The implementation of the recovery and resilience plan of Slovakia is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Slovakia account for 45 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 21 % of the recovery and resilience plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Slovakia swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

(23) Slovakia submitted the Partnership Agreement provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[17] on 8 April 2022, but has not yet submitted other cohesion policy programmes provided for in that Regulation. In line with Regulation (EU) 2021/1060, Slovakia is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development. In particular, regional disparities in competitiveness and social indicators should be addressed by using a combination of the different funds available.

(24) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

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17 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(25) Since 2015, progress to reduce net greenhouse gas emissions has largely stalled. The Slovak economy has a high energy intensity, partly due to the extensive industrial sector's dependency on fossil-fuel imports. According to 2020 data, Slovakia is particularly dependent on Russia for natural gas (85 % compared to the Union average of 44 %) and crude oil (100 % compared to the Union average of 26 %). However, the dependence on Russia for hard coal is less than the Union average (35 % compared to 54 %)[18]. The share of natural gas in the energy mix is slightly above the Union average (24,9 % compared to 24,4 % for the Union) and solid fossil fuels (14 % compared to 10,8 % for the Union), while the share of oil is lower (21,9 % compared to 32,7 % for the Union). The share of nuclear energy in the energy mix stood at 24,6 % in 2020 (compared to 13,1 % for the Union). A faster uptake of renewables would help reduce Slovakia's dependence on fossil-fuel imports from Russia and ease the risk of energy poverty amid increasing energy prices. Further reforms in the area of market design and support to renewables are planned in 2022 as part of the recovery and resilience plan. Uptake of renewable energies can be further accelerated by increasing the thresholds for exemptions to building permits for small-scale renewables, streamlining administrative and permit procedures in a one-stop shop, lowering grid-connection fees and improving access to available grid capacity. Slovakia ended the moratorium for connecting new renewables to the grid in April 2021. However, a forward-looking mechanism providing transparent and reliable information on the capacity for connecting new intermittent renewables to the grid still needs to be implemented. To accommodate the increasing volume of renewable electricity, Slovakia should modernise the transmission and distribution networks, create new energy storage facilities and complete the regulatory framework for renewable hydrogen.

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18 Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Slovakia, total imports include intra-EU trade. Crude oil does not include refined oil products.

Additional investments in geothermal energy, sustainable bio-methane stations and renewable hydrogen-based solutions, which respect relevant sustainability criteria, would help address the high domestic consumption of natural gas. There is also scope to increase the energy efficiency of district heating systems and swiftly deploy renewable heat sources substituting for natural gas. The decarbonisation effort can be also improved at regional level by setting up regional sustainable energy centres.

(26) Further efforts will be needed on energy efficiency. In particular, there is a need to focus on deep and green renovations, reduce heat consumption and increase investment in renewable heat sources, including heat pumps. Slovakia could further accelerate building renovations by attracting more private investments, including for public buildings, providing technical assistance, improving the implementation capacities and "one-stop-shop" approach and investing in green skills. Moreover, high levels of skills mismatches in the economy call for strengthening adult learning policies, including in relation to the green transition. Additional effort is needed to address energy poverty and reform investment in social housing. Furthermore, several regulatory and administrative measures should be put in place to accelerate the construction permit process, simplify implementation rules, adapt renovation schemes and improve coordination between different public authorities and funding programmes. Additional measures and incentives could address the high energy intensity in industry, including in small and medium-sized companies. This includes investment schemes to improve energy efficiency based on energy audits. Support schemes should be complementary (e.g. with the decarbonisation scheme) and be supported by private funding and financial instruments. A further increase in ambition in respect of reducing greenhouse-gas emissions, and increasing renewables and energy efficiency targets will be needed in order for Slovakia to be in line with the 'Fit for 55' objectives.

(27) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Slovakia can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most-affected regions. In addition, Slovakia can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[19], to improve employment opportunities and strengthen social cohesion.

(28) In light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[20] is reflected in recommendation (1).

(29) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on the euro area. For Slovakia, this is reflected in particular in recommendations (1) and (2),

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19 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

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

HEREBY RECOMMENDS that Slovakia take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Make the tax mix more efficient and more supportive to inclusive and sustainable growth, including by leveraging the potential of environmental and property taxation. Continue to strengthen tax compliance, including by further digitalising tax administration.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.

3. Reduce overall reliance on fossil fuels and diversify imports of fossil fuels. Accelerate the deployment of renewables by further facilitating grid access, introducing measures to streamline permitting and administrative procedures and modernising the electricity network. Reduce reliance on natural gas in heating and industry. Adjust renovation policies to accelerate and incentivise deep renovations of buildings.

Done at Brussels,

For the Council

The President