**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	Permanent Representatives Committee
to:	Council
No. Cion prop.:	10023/13 UEM 106 ECOFIN 394 SOC 363 COMPET 348 ENV 450 EDUC 164 RECH 193 ENER 214 - COM(2013) 375 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on Slovakia's 2013 national reform programme and delivering a Council opinion on Slovakia's stability programme for 2012-2016

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2013) 375 final.

ANNEX

Recommendation for a

COUNCIL RECOMMENDATION

on Slovakia's 2013 national reform programme

and delivering a Council opinion on Slovakia's 2013 stability programme for 2012-2016

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,

After consulting the Economic Policy Committee,

Whereas:

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2013) 375 final.
3 P7_TA(2013)0052 and P7_TA(2013)0053.

(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[4], 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 commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation on Slovakia's national reform programme for 2012 and delivered its opinion on Slovakia's updated stability programme for 2011-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[5], marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[6], in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out.

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4 Council Decision 2013/208/EU of 22 April 2013
5 COM(2012) 750 final.
6 COM(2012) 751 final.

(6) On 14 March 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 24 April 2013, Slovakia submitted its 2013 national reform programme and on 30 April 2013 its 2013 stability programme covering the period 2012-2016. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that Slovakia has reduced the general government deficit from 7.7% of GDP in 2010 to 4.3% of GDP in 2012 thanks to a substantial consolidation effort and, based on current expectations, is on track to correct the excessive deficit. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. Compared to the Commission forecasts, the authorities assume similar growth rates of GDP with a slightly different composition. The objective of the budgetary strategy outlined in the programme is to achieve a fiscal position that ensures long-term sustainability of public finances. To achieve this, the government confirms the objective of reducing the headline deficit below the 3% of GDP reference value in 2013, in line with the Council recommendation under the Excessive Deficit Procedure. The adjusted average annual fiscal effort in 2010-2013 amounts to 1.4% of GDP, well above the required effort of 1% of GDP recommended by the Council. A large part of the expenditure savings in 2013 is expected from the local governments and other general government units over which the central government does not have a direct influence. Achieving the target may therefore be at risk, also in light of expenditure overruns recorded in the past.

The programme confirms the previous MTO of -0.5% to be achieved by 2018. The MTO is in line with the requirements of the Stability and Growth Pact. For the years following the expected date of correction of the excessive deficit the projected improvement in the (recalculated) structural budget balance is appropriate in 2014 and 2015 (0.6 pps and 0.7 pps of GDP respectively) but it would be insufficient in 2016 (0.3 pps of GDP). Slovakia is expected to comply with the expenditure benchmark. According to the programme, the government debt is foreseen to remain below the 60% of GDP reference value in the Treaty until 2016. The Commission's spring forecast projects an increase in the debt ratio to 54.6% of GDP in 2013 and 56.7% of GDP in 2014.

In order to ensure the sizeable reduction in the headline deficit since 2011, the authorities have also relied on reductions in investment financed from the general government budget, which may not be sustainable or desirable in a medium to long-run perspective, as well as on one-off measures. Looking forward, the on-going consolidation and convergence process will need to safeguard expenditure on growth-enhancing categories, such as education, innovation and transport infrastructure.

(9) Slovakia has scope to raise additional resources by broadening the tax base, limiting the scope for tax non-compliance and evasion and by increasing recourse to taxes that are less detrimental to growth, such as property taxation and environmental taxation. An action plan to fight tax fraud, with a particular focus on VAT was adopted in 2012. For the strategy to be successful, further measures are needed, in particular to improve the IT infrastructure, broaden the competences and audit capacity of the authorities and ensure judicial follow-up.

(10) Slovakia adopted a pension reform in 2012 to enhance the long-term sustainability of its public finances. This has reduced the estimated long term sustainability gap by 2% of GDP, however, at 4.9% of GDP, the gap remains well above the EU average of 3% of GDP. It largely reflects the impact of population ageing with pension expenditure contributing 1.5 pps of GDP and health care spending 2 pps of GDP. Given that Slovakia's health-care expenditure is projected to increase significantly in the long-term, the progress achieved in improving pension sustainability will need to be allied with health-care reform in order to place public finances on a sustainable footing. The introduction of effective incentive structures and control mechanisms would help to improve cost effectiveness of the health-care system.

(11) The persistence of high unemployment, particularly in the context of a slow pace of post-crisis recovery, remains one of the main challenges for the Slovak economy. In recent months, Slovakia has taken steps to reform active labour market policies. However, the success of the reform will largely depend on the capacity of public employment services to implement it effectively. Additional more targeted measures for the most disadvantaged jobseekers are needed. The provision of social assistance should be better linked to activation, and there is a need to remove disincentives in the tax-benefit system for those taking up a low paid job. Increasing labour-market participation of women and older people would help to increase the overall employment rate and reach the 2020 national employment target of 72 %. However, the lack of adequate child care facilities in particular for children under three makes it more difficult for mothers to return on the labour market.

(12) Slovakia has one of the highest youth unemployment rates in the EU. In spite of reform steps in 2012 to improve the quality and labour-market relevance of education, school-to-job transition remains difficult and the education system does not respond readily to labour-market needs. Per capita funding of education favours quantity over quality and the share of funding allocated to teaching activities (teachers, material, and equipment) is low. Improving the quality of higher education and the cooperation between businesses and education institutions would also help developing a well-functioning knowledge triangle, greater effectiveness and attractiveness of investment in R&D, and enhancing the innovation capacity of the Slovak economy.

(13) Under-utilised labour potential also concerns marginalised communities that face significant barriers when seeking to enter the labour market and the education system. After adopting Strategy of the Slovak Republic for Integration of Roma up to 2020, no effective action was taken in 2012 and the living conditions of marginalised communities, including Roma, remain difficult. It is important to accelerate efforts to improve educational outcomes of marginalised groups, as well as to ensure provision of targeted activation measures for adults.

(14) Despite notable progress, Slovakia ranks fifth amongst the most energy-intensive Member States, partially explained by having the greatest share of industry in its economy (25.9 % of GDP). At the same time, electricity prices are relatively high, in particular for small and medium sized industrial customers. Slovakia has made efforts in recent years to partially liberalise the energy market but there is still scope to improve the way the market functions; in particular through greater transparency — including in setting network tariffs — and improving the economic underpinning and predictability of the regulatory decisions. There is also scope to improve security of supply and to set more ambitious targets for energy efficiency.

(15) In 2012, Slovakia launched a major reform of public administration to improve the client-orientation of public services for citizens and businesses. At this stage, with the exception of local agencies, the reform does not focus on the central government and its overall quality and effectiveness. As there has been no progress in reforming the judicial system, judicial proceedings remain lengthy, in particular in insolvency cases, and alternative dispute resolution is not sufficiently used. Slovakia recently reformed its public-procurement rules, also enhancing the independence of the Public Procurement Office, experience in the implementation of the EU structural funds suggests that the effective application of the public-procurement rules remains a challenge.

(16) 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 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.

(17) In the light of this assessment, the Council has examined Slovakia's stability programme, and its opinion[7] is reflected in particular in recommendation (1) and (2) below.

(18) 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 this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. Slovakia also should ensure the full and timely implementation of these recommendations.

HEREBY RECOMMENDS that Slovakia should take action within the period 2013-2014 to:

1. Implement as envisaged the budget for the year 2013, so as to correct the excessive deficit in a sustainable manner and achieve the fiscal effort specified in the Council recommendations under EDP. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Slovakia to reach the medium-term objective by 2017. Avoid cuts in growth enhancing expenditure and step up efforts to improve the efficiency of public spending. Building on the pension reform already adopted, further improve the long term sustainability of public finance by reducing the financing gap in the public pension system and increasing the cost-effectiveness of the health-care sector.

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

2. Speed up the implementation of the action plan to combat tax fraud and continue efforts to improve VAT collection, in particular by strengthening the analytical and audit capacity of the tax administration. Improve tax compliance. Link real-estate taxation to the market value of property.

3. Take measures to enhance the capacity of public employment services to provide personalised services to jobseekers and strengthen the link between activation measures and social assistance. More effectively address long-term unemployment through activation measures and tailored training. Improve incentives for women employment, by enhancing the provision of child-care facilities, in particular for children below three years of age. Reduce the tax wedge for low-paid workers and adapt the benefit system.

4. Step up efforts to address high youth unemployment, for example through a Youth Guarantee. Take steps to attract young people to the teaching profession and raise educational outcomes. In vocational education and training, reinforce the provision of work-based learning in companies. In higher education, create more job-oriented bachelor programmes. Foster effective knowledge transfer by promoting cooperation between academia, research and the business sector. Step up efforts to improve access to high-quality and inclusive pre-school and school education for marginalised communities, including Roma.

5. Step up efforts to make the energy market function better; in particular, to increase the transparency of the tariff-setting mechanism, enhance the accountability of the regulator. Strengthen interconnections with neighbouring countries. Improve energy efficiency in particular in buildings and industry.

6. Take measures, including by amending the Act on Civil Service, to strengthen the independence of the public service. Improve the management of human resources in public administration. Step up efforts to strengthen analytical capacities in key ministries, also with a view to improving the absorption of EU funds. Implement measures to improve the efficiency of the judicial system. Promote alternative dispute resolution procedures and encourage their greater use.

Done at Brussels,

For the Council
The President