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COMMISSION STAFF WORKING DOCUMENT

Country Report Slovakia 2017

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP

2017 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011

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EXECUTIVE SUMMARY

This report assesses Slovakia’s economy in the light of the European Commission’s Annual Growth Survey published on 16 November 2016. In the survey the Commission calls on EU Member States to redouble their efforts on the three elements of the virtuous triangle of economic policy — boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. In so doing, Member States should put the focus on enhancing social fairness in order to deliver more inclusive growth.

Slovakia's economic expansion continues at one of the fastest rates in the EU. According to the Commission winter 2017 forecast, real GDP is projected to have increased by 3.3 % in 2016 due mainly to favourable developments in net exports, as well as solid household spending growth amidst a strong labour market recovery. Overall investment activity fell markedly in 2016 compared to 2015 as public investment returned to more normal levels after the end of the previous programming period for EU funds. Real GDP growth is expected to top 3% again in 2017 and 2018. Accelerating private consumption is set to remain the strongest driver of growth in both years, buttressed by steady gains in employment and robust wage growth. In the medium term, public investment expenditure is expected to rise well above 2016 levels — including in health and transport — while private investment in expanding production facilities in Slovakia's large automotive industry will also support overall investment growth. Subdued external demand, including for the output of the automotive sector, represents the main downside risk to the medium-term outlook.

The labour market has witnessed a cyclical improvement. The unemployment rate fell to 9.7% in 2016, almost full two percentage points below the previous year, and is expected to decline further in 2017 and 2018 on the back of robust economic expansion. However, long-term unemployment still represents a key challenge, reflecting pronounced geographical differences in labour market conditions, accompanied by low labour mobility. Inadequate educational outcomes and inequalities linked to socioeconomic background represent major obstacles to the improvement of human capital, with potential knock-on effects for skill levels and growth potential.

While Slovakia's economy is highly integrated into global value chains, production is concentrated in only a few sectors and regions. The country's specialisation in automotive and electronics manufacturing accounts for a significant proportion of domestic output and is concentrated mainly in the western region. Lack of appropriate infrastructure hampers investment in other regions, which prevents their integration into global value chains and perpetuates regional divergences. Although Slovakia continues to attract new investment from foreign companies, concerns about the quality of the business environment persist. In addition, shortages of qualified labour, particularly in the Bratislava region, are increasingly cited by businesses as a key factor limiting production in both industry and the services sector.

Overall, Slovakia has made limited progress in addressing the 2016 country-specific recommendations. Some progress has been made in a number of policy areas, including on improving activation measures for the long-term unemployed, expanding the number of childcare places, raising the attractiveness of the teaching profession through pay rises and in improving human resource management in the public administration; limited progress has been achieved in raising tax compliance, improving the cost-effectiveness of healthcare, including Roma children in mainstream education, strengthening public procurement practices, and in making the justice system more effective. No progress was made on addressing the regulatory and administrative burden on businesses.

Regarding progress in reaching the national targets under the Europe 2020 strategy, Slovakia is currently meeting — or is on track towards meeting — the prospective targets for the employment rate, R&D intensity, renewable energy use and energy efficiency. While a sufficient reduction in early school leaving and the number of people at risk of poverty and social exclusion appears to be attainable by 2020, both indicators have deteriorated recently and more efforts are needed to reach the targets. The distance to the targets for greenhouse gas emissions and tertiary education remains significant but is progressively narrowing in the latter case.

The main findings of the analysis in this report, and the related policy challenges, are as follows:

Tax evasion and 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 retains a focus on improving VAT compliance, especially through auditing. At the same time, non-audit activities to strengthen voluntary tax compliance are being explored.

Slovakia's public finances still face risks in the long term. 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. Meanwhile, increasing the cost-effectiveness of healthcare in Slovakia remains a challenge. Some steps have been taken to rationalise hospital care and lower costs. Concrete results are not yet visible but are likely to occur following a spending review in the sector and better cost benchmarking in procurement activities. The introduction of the diagnosis-related groups system for payments and the launching of e-health systems are making only slow progress.

Rapid job creation and support measures for low-wage earners have helped reduce the unemployment rate, although labour market challenges persist. Slovakia has recently adopted several active and passive measures to tackle the unemployment of specific vulnerable groups, including an action plan aiming to provide personalised services and training for the long-term unemployed. These measures, if implemented in a timely manner, are likely to help reduce long-term unemployment, which remains very high. Roma and low-skilled remain one of the most disadvantaged groups in the labour market. The adult participation in lifelong learning is low. The employment of women is still hindered by care responsibilities. Continuous efforts are being made to improve access to childcare, but there is still a lack of good-quality, affordable facilities, in particular for children under the age of three. The risk of poverty or social exclusion remains relatively modest, but the intensity of poverty is pronounced, also because of weak social safety nets.

Although steps have been taken to address weaknesses in the education and training system, some challenges remain. Students' performance in basic skills has further deteriorated and educational inequalities — both from a socio-economic and ethnic point of view — remain strong. A reform to support socially and ethnically inclusive education entered into force in 2016 but effective implementation will require additional effort and political commitment. Initial steps have been taken to improve the attractiveness of the teaching profession and Slovakia is preparing a reform at all education levels in order to enhance their quality and labour market relevance. The dual vocational education and training scheme, designed to meet the needs of industry, is now in its second year of implementation.

The overall outlook for public and private investment is favourable but barriers to investment persist. Public infrastructure investment, including in the transport sector, remains a high-profile policy area. Existing investment strategies and cost-saving initiatives can help to close gaps in Slovakia's infrastructure and foster growth and convergence in the central and eastern regions of the country. However, complex bureaucratic procedures, fast-changing regulations and policies as well as insolvency arrangements weigh on the business environment. An ineffective justice system and a lack of skilled workers are probably also holding back investment needed to support growth and convergence.

Small and medium-sized enterprises can play a vital role in Slovakia's economic diversification, while innovation policy and resource efficiency continue to present challenges. Slovakia's relatively dynamic small and medium-sized enterprises sector is being granted greater policy attention, including through a new Act on the promotion of small and medium-sized enterprises and an action plan to support entrepreneurship. Regulated professions face comparatively high restrictions. Meanwhile, and in spite of rising R&D intensity, Slovakia's science base is still ranked below that of most other Member States. Business R&D spending and cooperation between the public sector, research institutions and business are stagnating. Policy measures supporting research and innovation are not effective and reforms are proceeding slowly. Finally, Slovakia's energy efficiency is relatively low and energy dependence is high. The electricity market is blighted by distortions and hurdles for new providers. Municipal waste management continues to to give cause for concern.

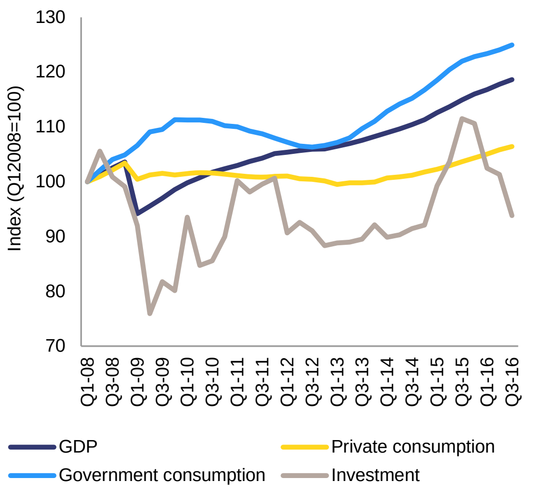
Slovakia's public administration is being modernised and the justice system has received policy attention, but corruption remains a challenge. Sub-optimal human resource management in the civil service is expected to improve with the new Civil Service Act. To date, public procurement practices fall short of best practices in many areas. Training measures are being developed to equip staff to run a more efficient procurement system. Improving the effectiveness and the independence of the justice system is still a challenge for Slovakia, but efforts are being made to address the shortcomings. However, concerns about the independence of the judiciary remain. Corruption perceptions 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.

1. ECONOMIC SITUATION AND OUTLOOK

GDP growth

In recent years, Slovakia's economic performance has remained one of the strongest in the EU. Real GDP growth accelerated gradually from 2013 onwards, reaching 3.8 % in 2015, while investment expenditure rose beyond pre-crisis levels (Graph 1.1). Rising household consumption has also been a major contributor to growth since 2014, benefiting from continuous improvements in labour market conditions. According to the Commission winter 2017 forecast, real GDP growth slowed slightly to a still-solid 3.3 % in 2016 and is set to remain around 3 % in 2017 and to increase to 3.6 % in 2018.

Graph 1.1: **Real GDP and its components**

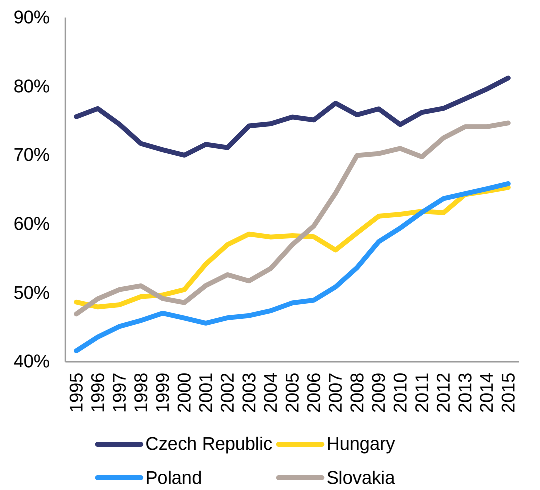


Source: European Commission

Buoyant household spending and net exports became the main drivers of economic growth in 2016. Private consumption growth strengthened to a solid 2.7 % in 2016, supported by continued employment gains, robust real-wage growth, easy access to credit and high consumer confidence. In contrast, a pronounced downturn in public investment linked to the cycle of EU investment funding is expected to have restrained growth in 2016. Strong private investment, especially in the automotive industry, has not fully compensated for this temporary public investment slump. Imports are projected to have increased by less than exports, also reflecting the decline in total investment activity. As a result, net exports are forecast to have become the largest contributor to economic expansion in 2016.

Despite the notable economic recovery, real economic convergence with more developed Member States continued at a rather modest pace. Real GDP per capita on a purchasing power basis rose to 77 % of the EU average in 2015 from 71 % in 2008. However, given the high proportion of foreign investment associated with significant dividend outflows, gross national income (GNI) is regarded as more representative of household purchasing power. The rate of convergence measured by real GNI per capita has been somewhat subdued in recent years, especially compared with gains recorded before the start of the financial crisis. It stood at 75 % of the EU average in 2015 (Graph 1.2).

Graph 1.2: **GNI per capita (in PPP, EU28 = 100)**



Source: European Commission

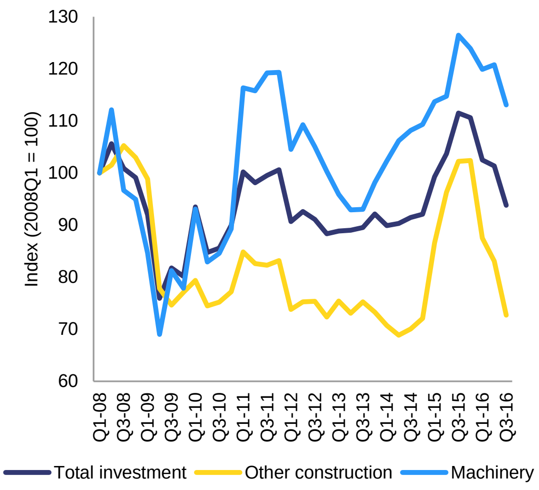
Household consumption

Private consumption is projected to become the main driver of growth in the coming years, mirroring a continued increase in employment and real wages. With energy prices set to remain low and only a gradual increase in overall consumer prices in 2017, household budgets are expected to benefit. The household saving rate is likely to have peaked in 2016 and to decline gradually thereafter, allowing gains in real disposable income to feed through to household spending. Low interest rates are likely to help accelerate household credit flows and fuel consumption expenditure. Growth in household expenditure is forecast to peak at around 3 % in 2017 and to slow slightly in 2018, as accelerating consumer price inflation acts as a brake on real disposable income growth. Private consumption is set to keep GDP growth solid, given that it accounts for more than half of economic output.

Investment

Both private and public investment is set to intensify from 2017 onwards, with foreign direct investment playing an important role. After a sharp decline in public investment activity in 2016, which was unlikely to be offset fully by continued private investment growth, overall investment is set to return to growth in 2017, accelerating further in 2018. Buoyant investment in the car industry and a rise in public investment spending, including large infrastructure projects such as the Bratislava ring road, bolster the outlook. Owing to the high import intensity of Slovak investment (particularly in machinery), the outlook for imports is strongly shaped by the investment profile (Graph 1.3). At the same time, high dependence on foreign investment and the strong specialisation in the automotive sector leave the Slovak economy exposed to global economic fluctuations.

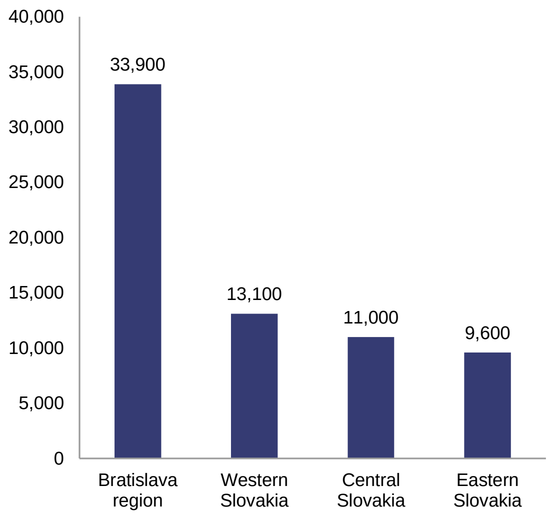
Graph 1.3: **Investment**



Source: European Commission

The uneven geographical spread of private investment spending exacerbates the pronounced regional divide in the country. Regions around Bratislava have benefited strongly from the economic recovery in recent years, experiencing a significant improvement in labour market conditions along with booming investment in the automotive industry. In contrast, the eastern part of the country has been left somewhat behind. Poor transport infrastructure is one of the main reasons why the central and eastern regions have failed to attract foreign investors during the recent recovery. Meanwhile, Slovakia's overall capital stock remains well below the EU average. Investment expenditure accounted for more than 26 % of real GDP before the crisis, but averaged less than 22 % between 2012 and 2016 (see Investment Box in Section 3.3). Income disparities within the country remained pronounced, with GDP per capita in the Bratislava region more than three times higher than in the eastern region in 2014 (Graph 1.4).

Graph 1.4: **Regional GDP per capita (EUR; 2014)**

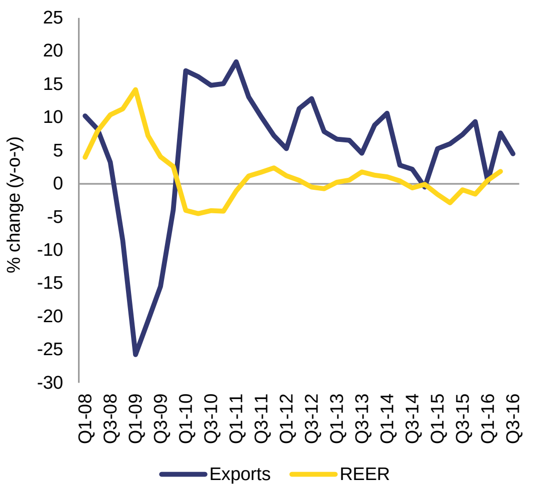


Source: European Commission

Exports and imports

The contribution of net exports to economic growth is expected to moderate in the coming years, reflecting a substantial surge in investment activity in 2017. Given the high import intensity of Slovak investment and the projected return of robust investment growth, net exports are expected to be little more than neutral in terms of their GDP growth contribution in 2017. Export growth is set to increase gradually in line with a recovery in external demand, following their joint slowdown in 2016. Moreover, the real effective exchange rate depreciation observed since 2015 is expected to boost export performance, as Slovak products become more affordable on foreign markets (Graph 1.5). A continued fall in domestic energy prices combined with a continued decline in producer prices is expected to make prices more competitive in the medium term. Expanding car production in new and upgraded facilities is projected to lend a further boost to (net) exports and real GDP growth in 2018.

Graph 1.5: **Exports and real effective exchange rate (REER)**

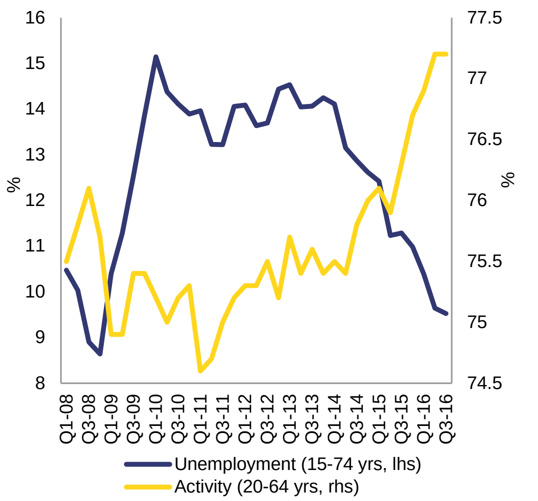


Source: European Commission

Labour market and social developments

Labour market conditions are set to improve further, with a continued decline in unemployment and gradual increases in the activity rate. The annual unemployment rate fell below 10 % in 2016, for the first time since 2008 and the second time since 1995. The activity rate increased to 77.2 % in Q3-2016 surpassing even the years of buoyant economic expansion before the financial crisis (Graph 1.6). Recent sharp declines in unemployment point to a tightening labour market, which is likely to drive up nominal wages. With regard to emerging labour shortages, especially in the Western region, nominal wage growth is projected to steadily strengthen to 4.2 % in 2018. Despite subdued inflation, real wage growth is expected to remain below real GDP dynamics.

Graph 1.6: **Unemployment and activity rates**

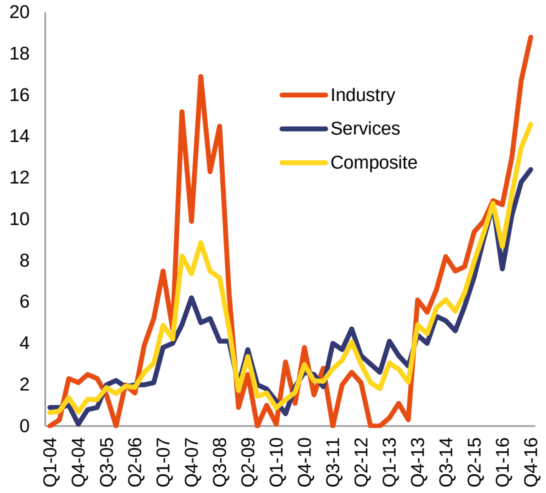


Source: European Commission

The unemployment rate is expected to keep falling along with a gradual increase in the activity rate. Robust economic recovery and solid wage growth will help bring the long-term unemployed back into the labour market. The progressive labour market tightening is also mirrored in greater inflows of foreign workers from the EU and from non-EU countries, although foreign labour remains low as an overall proportion of total employment. Labour shortages reported by employers have increased across sectors (Graph 1.7) and are arguably becoming one of the main barriers to investment and economic growth.

Long-term unemployment remains a major challenge, reflecting pronounced geographical differences in labour market conditions along with low internal labour mobility. Long-term unemployment, in particular, is unevenly distributed across the country, with significantly higher rates in the east, which did not benefit from the economic recovery as much as the regions around Bratislava. The labour market participation of underrepresented groups, including Roma, young people, women with young children and the low-skilled, remains limited. The situation of the Roma is particularly unfavourable, with high rates of unemployment and inactivity. Female employment is well below the EU average in Slovakia, where motherhood has one of the strongest impacts on career progression. Social safety nets continue to be rather weak, particularly for the unemployed and families with children. The risk of poverty or social exclusion is relatively modest, but the intensity of poverty is pronounced.

Graph 1.7: **Labour shortages (% of respondents)**



Note: Percentages show share of business survey respondents citing labour shortage as limiting factor on production; composite indicator is a gross value added-weighted average of industry and services series
Source: European Commission

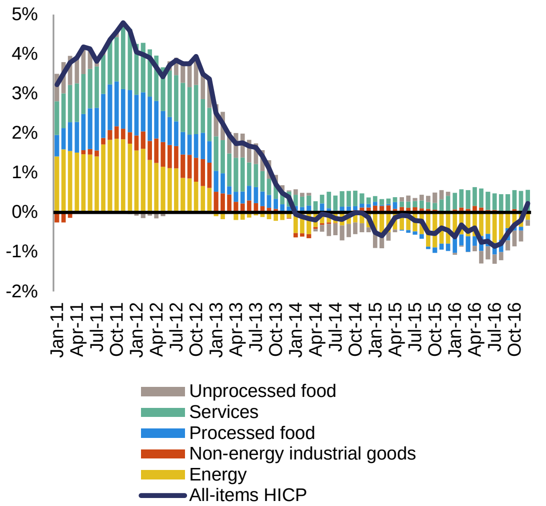
Slovakia has one of the lowest levels of income inequality in the EU. The incomes of the richest 20 % of the population are less than four times higher than the incomes of the poorest 20 %. ([1]) This ratio decreased from 3.9 in 2012 to 3.5 in 2015. Low income inequality in Slovakia can be explained by relatively equally distributed market incomes, in particular the absence of very high earners at the top of the income distribution. ([2]) However, at the bottom end of the distribution, the proportion of low-income households has eroded. ([3]) The small difference between market and disposable income inequalities indicates that the tax and benefit system in Slovakia does not play a considerable role in redistributing incomes. This can be explained by the low degree of progressivity of labour taxation and relatively low social protection expenditure. Despite these low levels of income inequality, the Roma population remains marginalised, with poor education and employment outcomes demonstrating stark socioeconomic inequalities in the country. Slovakia also shows a very low level of net wealth inequality, with the distribution of net wealth being one of the most even in the euro area in 2014. ([4])

Inflation

Inflation is set to increase gradually, driven by rapid rises in the prices of food and services, while the decline in energy prices is expected to continue in 2017. Consumer prices dropped for the third year in a row in 2016, this time by -0.5 % (Graph 1.8). Falling energy and food prices prevailed over moderate increases in the price of services. Energy prices are expected to continue their year-on-year decline in 2017 owing to a reduction in regulated electricity and gas prices. This should, however, be outweighed by the increased cost of services and renewed growth in food and fuel prices. Headline annual inflation is set to turn positive in 2017, rising to almost 1 %. Consumer prices are set to increase gradually thereafter, reflecting continued solid consumer spending.

([1]) As measured by the income quintile share ratio (S80 /S20 ratio).
([2]) The S90 /S50 indicator, which measures the ratio of income of the top 10 % of households to the bottom 50 %, was 57 for Slovakia in the 2015 EU-SILC data, the lowest in the EU. This indicates an absence of very high earners in the Slovak labour market.
([3]) The S50 /S10 indicator, which measures the ratio of income of the bottom 50 % of households to the bottom 10 %, rose substantially from 2012 to 2015. This indicates that the relative income situation of the poorest households in Slovakia has been worsening.
([4]) The Eurosystem Household Finance and Consumption Survey, ECB 2016

Graph 1.8: **Inflation (y-o-y in %)**



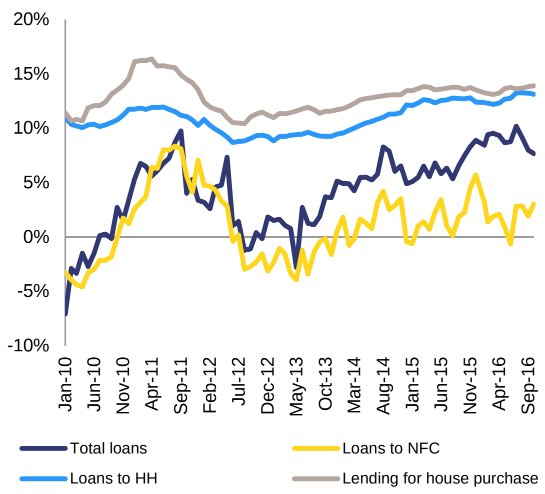
Source: European Commission

Financial sector

Private sector credit growth continued to increase, contributing to an upward trend in the private sector debt ratio. The gross debt-to-income ratio of households increased steadily in recent years, reaching almost 60% in 2016, thus approaching Slovakia's economic peers. Having grown at a double-digit pace since 2010, lending for house purchases remained buoyant in 2016, fuelled by low interest rates (Graph 1.9). Household indebtedness remains far below euro area averages but broadly in line with Visegrád peers. The annual growth rate of credit to non-financial corporations remained close to 2% on average in 2016, despite solid economic growth and high capacity utilisation that suggest increased scope for investment. The total liabilities of the financial sector increased by 6.4% between November 2015 and 2016, with the largely foreign-owned banking sector remaining well-capitalised. ([5])

Overall lending costs continued to ease, but the low interest rate environment exerts downward pressure on banks' profitability. The average cost of borrowing for household mortgage lending and for loans to non-financial corporations continued declining throughout 2016, reaching 1.9 % and 2.6 % respectively in November 2016. ([6]) According to the National Bank of Slovakia, the downward trend in net interest incomes harmed banking profitability, which is expected to fall in 2017. Overall profits of banks rose by 6 % y-o-y in September 2016, but declined by 8 % after deduction of non-recurring revenues. Banks' interest income may be further squeezed due to the Slovak National Bank's imposition of a 1 % ceiling on fees for early repayments of housing loans.

Graph 1.9: **Loans to sectors (y-o-y in %)**

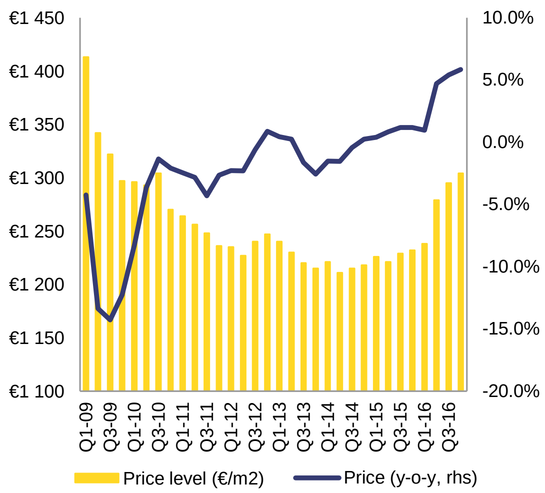


Source: ECB, European Commission

([5]) Data source: ECB; annual growth rates calculated as the difference in outstanding amounts adjusted for all non-transaction related issues, i.e. revaluations, reclassifications, and exchange rate adjustments.

([6]) Data source: ECB Statistical Data Warehouse; (composite) cost of borrowing indicators.

Graph 1.10: **House prices**



Source: National Bank of Slovakia

After bottoming out in 2014, house prices surpassed their pre-crisis levels in 2016. Annual growth in property prices increased to 5.8 % in Q4-2016 (Graph 1.10), driven mainly by stronger demand in the Bratislava region. Significant regional differences in property prices and rents persist, with both growing rapidly in Bratislava but only marginally in the rest of the country. Rising real-estate prices increase incentives for both residential and infrastructure investment in the area, but may also exacerbate the already pronounced regional divide. Rising rents in regions with higher economic activity also reduce internal labour mobility, especially from the Central and Eastern part of the country, where long-term unemployment is the most pressing economic issue.

Public finances

The general government deficit is expected to decline gradually, mainly due to higher tax revenues. The deficit is expected to have receded to 2.2 % of GDP in 2016 thanks to robust corporate income tax receipts reflecting rising profitability, and steady growth in personal income taxes and social contributions on the back of favourable labour market developments. The narrowing of the deficit would have been even more pronounced had it not been for non-budgeted spending (e.g. on financial corrections related to EU funds) and higher-than-budgeted investment expenditure.

The consolidation effort in 2017, which comes exclusively from the revenue side, is expected to reduce the deficit to 1.4 % of GDP. A shortfall in revenue as a result of the reduction of the corporate income tax rate to 21% and increasing lump-sum deductions for the self-employed are more than compensated for by other measures, including a higher levy on regulated businesses, higher tobacco duties and a new levy on non-life insurance policies. The bank levy, which had been expected to expire, has also been retained for 2017. Additional revenue is expected to become available from the removal of the ceiling rate on healthcare contributions and the marked increase of the ceiling rate on social contributions for high-income earners that were approved by the Parliament. Assuming that there are no policy changes other than the introduction of a 7 % tax on dividends, the government deficit is set to fall to 0.6 % of GDP in 2018, mainly due to buoyant tax revenues in conditions of robust economic expansion. The debt-to-GDP ratio is about to revert to a downward trend, and is expected to fall to 50 % in 2018.

Table 1.1: **Key economic, financial and social indicators - Slovakia**

									forecast		
	2004-2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (y-o-y)	7.4	-5.4	5.0	2.8	1.7	1.5	2.6	3.8	3.3	2.9	3.6
Private consumption (y-o-y)	7.1	-0.5	0.4	-0.6	-0.4	-0.8	1.4	2.2	2.7	2.9	2.8
Public consumption (y-o-y)	4.0	6.2	1.7	-1.8	-2.1	2.2	5.3	5.4	2.9	2.9	3.0
Gross fixed capital formation (y-o-y)	8.2	-18.7	7.2	12.7	-9.0	-0.9	1.2	16.9	-7.3	2.1	5.4
Exports of goods and services (y-o-y)	14.9	-16.8	15.7	12.0	9.3	6.7	3.7	7.0	4.1	5.1	6.6
Imports of goods and services (y-o-y)	13.9	-18.8	14.7	9.6	2.5	5.6	4.4	8.1	2.2	5.1	6.5
Output gap	3.1	-2.0	-0.5	-1.1	-2.0	-2.7	-2.1	-1.1	-0.3	-0.1	0.4
Potential growth (y-o-y)	5.5	3.5	3.4	3.5	2.6	2.2	2.0	2.8	2.5	2.7	3.1
Contribution to GDP growth:											
Domestic demand (y-o-y)	6.3	-4.0	2.2	2.1	-2.8	-0.2	2.0	5.7	0.4	2.6	3.2
Inventories (y-o-y)	0.7	-3.6	2.4	-1.0	-1.3	0.6	1.1	-1.1	1.1	0.1	0.0
Net exports (y-o-y)	0.4	2.1	0.5	1.7	5.7	1.2	-0.5	-0.7	1.9	0.2	0.4
Contribution to potential GDP growth:											
Total Labour (hours) (y-o-y)	0.4	0.7	0.6	0.6	0.5	0.3	0.4	0.5	0.6	0.7	0.7
Capital accumulation (y-o-y)	1.4	0.3	0.5	0.8	0.2	0.0	-0.1	0.6	0.1	0.2	0.4
Total factor productivity (y-o-y)	3.7	2.5	2.3	2.0	1.9	1.8	1.7	1.7	1.7	1.8	1.9
Current account balance (% of GDP), balance of payments	-7.0	-3.4	-4.7	-5.0	0.9	1.8	1.2	0.2	.	.	.
Trade balance (% of GDP), balance of payments	-2.7	-1.0	-1.1	-0.4	4.0	4.5	3.9	2.8	.	.	.
Terms of trade of goods and services (y-o-y)	-0.9	-1.1	-0.6	-1.3	-1.2	-0.5	0.0	-0.3	-0.1	0.0	0.0
Capital account balance (% of GDP)	0.4	0.8	1.5	1.3	1.9	1.4	1.0	3.5	.	.	.
Net international investment position (% of GDP)	-49.0	-66.5	-61.9	-64.4	-61.4	-62.3	-63.8	-61.0	.	.	.
Net marketable external debt (% of GDP) (1)	-1.1*	-10.9*	-10.1*	-11.7*	-10.1*	-12.8	-16.5	-17.5	.	.	.
Gross marketable external debt (% of GDP) (1)	42.4	61.5	61.8	60.7	57.8	64.8	72.7	68.0	.	.	.
Export performance vs. advanced countries (% change over 5 years)	78.0*	18.8	12.4	6.2	0.5	5.1	10.0	8.93	.	.	.
Export market share, goods and services (y-o-y)	4.4	-7.2	-4.6	3.0	1.0	4.9	-1.6	-0.6	.	.	.
Net FDI flows (% of GDP)	-5.4	1.0	-0.9	-2.8	-3.2	0.3	0.6	0.0	.	.	.
Savings rate of households (net saving as percentage of net disposable income)	0.9	2.3	2.4	0.8	0.7	0.2	1.4	3.1	.	.	.
Private credit flow, consolidated (% of GDP)	7.8	3.1	2.9	3.0	3.1	5.2	5.7	8.3	.	.	.
Private sector debt, consolidated (% of GDP)	54.6	69.3	67.5	70.3	70.6	74.1	77.6	81.5	.	.	.
of which household debt, consolidated (% of GDP)	14.7	23.7	24.8	26.4	27.7	29.6	32.2	34.7	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	39.9	45.6	42.7	43.9	42.9	44.5	45.4	46.8	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-2.7	5.2	4.0	1.3	6.7	6.7	4.3	4.0	0.8	0.7	0.3
Corporations, gross operating surplus (% of GDP)	27.3	24.5	26.6	26.4	26.8	26.6	25.6	25.2	25.0	24.9	24.8
Households, net lending (+) or net borrowing (-) (% of GDP)	-1.5	0.1	0.4	-0.9	-0.4	-0.9	0.0	1.0	1.6	1.1	1.0
Deflated house price index (y-o-y)	19.3	-12.8	-5.0	-5.2	-5.9	-0.4	1.5	5.5	.	.	.
Residential investment (% of GDP)	2.7	3.0	2.6	2.4	2.3	2.7	2.6	2.3	.	.	.
GDP deflator (y-o-y)	3.0	-1.2	0.5	1.6	1.3	0.5	-0.2	-0.2	-0.2	0.9	1.5
Harmonised index of consumer prices (HICP, y-o-y)	4.1	0.9	0.7	4.1	3.7	1.5	-0.1	-0.3	-0.5	0.9	1.4
Nominal compensation per employee (y-o-y)	8.1	2.6	5.4	2.0	2.6	2.6	1.8	3.1	1.5	3.8	4.2
Labour productivity (real, person employed, y-o-y)	5.5	-3.5	6.7	1.0	1.6	2.3	1.1	1.8	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	2.4	6.3	-1.1	1.0	1.0	0.3	0.7	1.3	0.8	2.3	2.1
Real unit labour costs (y-o-y)	-0.5	7.6	-1.6	-0.7	-0.3	-0.2	0.9	1.5	1.1	1.3	0.6
Real effective exchange rate (ULC, y-o-y)	6.6	8.8	-3.2	0.3	-1.9	0.3	0.1	-0.7	0.4	1.2	0.3
Real effective exchange rate (HICP, y-o-y)	7.1	6.9	-4.2	1.0	0.1	0.9	0.2	-1.7	0.4	-1.6	.
Tax rate for a single person earning the average wage (%)	22.2	21.4	21.5	22.9	22.8	22.8	22.9	23.1	.	.	.
Tax rate for a single person earning 50% of the average wage (%)	14.5*	12.9	13.1	15.9	15.7	15.7	16.0	14.4	.	.	.
Total Financial sector liabilities, non-consolidated (y-o-y)	7.2	6.2	3.5	0.4	1.9	3.1	5.1	8.4	.	.	.
Tier 1 ratio (%) (2)	.	20.9	19.2	16.9	16.3	17.3	16.6	17.4	.	.	.
Return on equity (%) (3)	.	6.7	8.6	-0.8	5.7	6.7	5.2	6.6	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (4)	.	3.5	3.9	4	3.8	3.8	4.1	3.5	.	.	.
Unemployment rate	13.8	12.1	14.5	13.7	14.0	14.2	13.2	11.5	9.7	9.0	7.9
Long-term unemployment rate (% of active population)	9.9	6.6	9.3	9.3	9.4	10.0	9.3	7.6	.	.	.
Youth unemployment rate (% of active population in the same age group)	26.1	27.6	33.9	33.7	34.0	33.7	29.7	26.5	22.3	.	.
Activity rate (15-64 year-olds)	68.9	68.4	68.7	68.7	69.4	69.9	70.3	70.9	.	.	.
People at risk of poverty or social exclusion (% total population)	25.2	19.6	20.6	20.6	20.5	19.8	18.4	18.4	.	.	.
Persons living in households with very low work intensity (% of total population aged below 60)	6.1	5.6	7.9	7.7	7.2	7.6	7.1	7.1	.	.	.
General government balance (% of GDP)	-2.6	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2	-1.4	-0.6
Tax-to-GDP ratio (%)	30.2	28.9	28.2	28.8	28.4	30.3	31.3	32.4	32.8	33.3	33.5
Structural budget balance (% of GDP)	.	.	-7.1	-4.2	-3.6	-1.7	-2.2	-2.3	-2.1	-1.3	-0.8
General government gross debt (% of GDP)	32.6	35.9	40.7	43.2	52.2	54.7	53.6	52.5	52.1	51.8	50.0

(1) Sum of portfolio debt instruments, other investment and reserve assets
(2,3) domestic banking groups and stand-alone banks.
(4) domestic banking groups and stand-alone banks, foreign (EU and non-EU) controlled subsidiaries and foreign (EU and non-EU) controlled branches.
(*) Indicates BPM5 and/or ESA95
Source: European Commission, ECB

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Progress with implementing the recommendations addressed to Slovakia in 2016 has to be seen as part of a process which started with the introduction of the European Semester in 2011. Slovakia's track record since 2011 in formulating policies to address the CSRs and underlying structural problems shows a mix of policy progress and persistent challenges.

The country has made headway in improving tax compliance, combatting tax fraud and reforming its pension system. Labour market challenges have persisted for many years, partly also due to the high initial rate of unemployment that started to decline gradually in 2014 and 2015. Targeting support for the long-term unemployed and vulnerable groups has been on the government's agenda for a number of years, but progress until the end of 2016 appears somewhat limited. Very little progress has been made in tackling low Roma participation in the labour market.

Certain measures were taken to better include Roma children in mainstream education, but effective implementation of already enacted legislation is still required. The lack of adequate childcare facilities for children under three has hampered mothers’ return to the labour market, although there is evidence of some progress in the provision of childcare for older children.

For a number of years an inefficient and ineffective public administration and justice system have been shaping — and harming — the business environment. Efforts to tackle corruption have been limited in recent years. Public procurement has been suffering from long-standing deficiencies, which can lead to a misallocation of public resources.

Overall, Slovakia is considered to have made **limited progress** in addressing the 2016 CSRs. The 2016 country-specific recommendations (CSRs) that were addressed to the country by the Council in June 2016 were focused on three broad themes: public finances and long-term sustainability, labour market and education challenges, and public administration issues. Each of these is assessed in turn below.

Slovakia has made **limited progress** in addressing the fiscal recommendation (CSR 1). Some steps have been taken towards making the healthcare system more cost-effective; notably, a comprehensive spending review has identified large potential cost savings. The targeted gains are ambitious in scope and require concrete follow-up with specific measures. Limited progress has also been made in improving tax compliance. While some measures have been launched and appear promising, the system is, on the whole, highly focused on control, with comparatively less attention paid to fostering voluntary compliance.

Slovakia has made **some progress** in addressing the labour market and education-related recommendation (CSR 2). Some progress has been achieved in improving activation measures. An action plan for the integration of the long-term unemployed and other disadvantaged groups was adopted in late 2016 to address the current lack of individualized services and training. However, no targeted efforts have been made to help integrate Roma into the labour market. There is evidence of some progress in increasing the availability of and access to early childhood education and care. Some progress has also been made in raising the attractiveness of the teaching profession. Annual pay rises have been agreed or are planned for 2016 and 2017. A reform to support socially and ethnically inclusive education, including for Roma pupils, entered into force in 2016 but will require more sustained effort and political commitment.

Slovakia has made **limited progress** in addressing the recommendations on public administration issues (CSR 3). Limited progress has been made in improving competition and tackling illicit practices in public procurement. Some progress has been made on improving human resource management in public administration following the adoption of the Civil Service Act, which represents a potentially important step towards professionalising the civil service and removing strong political ties within the system. Limited progress has been made towards improving the effectiveness of the justice system. No progress has been made on adopting a comprehensive plan to address the administrative and regulatory barriers facing businesses, as a long-term strategy is yet to be formulated.

Table 2.1: **Summary table on 2016 CSR assessment**

Slovakia	**Overall assessment of progress with 2016 CSRs: Limited progress**
CSR 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.*	**Limited progress*** • Limited progress in generating cost-savings in the healthcare sector • Limited progress in improving tax compliance, particularly regarding voluntary compliance.
CSR 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.*	**Some progress** • Some progress has been made in improving activation measures, including through the adoption of an action plan on long-term unemployment. • No targeted efforts have been taken to help integrate Roma into the labour market. • Some progress has been evident in increasing the capacity of and access to early childhood education and care, particularly for the over-threes. • Some progress has been made in raising the attractiveness of the teaching profession, particularly through pay rises. • Limited progress has been made increasing the participation of Roma children in mainstream education.
CSR 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.*	**Limited progress** • Limited progress has been made in improving competition and fighting illicit practices in public procurement. • Some progress has been made in improving human resource management in public administration through the adoption of the Civil Service Act. • Limited progress has been made towards improving the effectiveness of the justice system. • No progress has been made on adopting a comprehensive plan to address administrative and regulatory barriers for businesses.

* This overall assessment of CSR1 does not include an assessment of compliance with the Stability and Growth Pact
Source: European Commission

Box 2.1: Contribution of the EU budget to structural change in Slovakia

Slovakia is a major beneficiary of the European Structural and Investment Funds (ESI Funds) in that it may receive up to EUR 15.3 billion by 2020. This is equivalent to around 2.6% of GDP annually (over 2014-2017) and 55% of national public investment[1]. 553 million of EU financing is planned to be delivered via financial instruments (a doubling from 2007-2013)[2]. By 31 December 2016, an estimated EUR 3 billion, which represents about 20 % of the total allocation for ESI Funds, have already been allocated to concrete projects. The contribution of the ESI Funds to the development of public investment is discussed in Section 3.3.

Financing under the European Fund for Strategic Investments, Horizon 2020, the Connecting Europe Facility and other directly managed EU funds is additional to the ESI Funds. By end 2016, Slovakia has signed agreements for EUR 552 million for projects under the Connecting Europe Facility. The EIB Group approved financing under EFSI amounts to nearly EUR 457 million, which is expected to trigger EUR 1.1 billion in total investment (as of end 2016).

ESI Funds supported progress on a number of structural reforms in 2015 and 2016 via ex-ante conditionalities[3] and targeted investment. Examples include the timely transposition of the EIA directive in the amended Water Act and the development of the transport plan, which has facilitated the preparation of realistic and mature road and railway projects. These reforms have prepared the ground for better implementation of public investment projects in general, including those financed from national sources and from the other EU instruments mentioned above. The fulfilment of ex-ante conditionalities is on track, except for in research, technological development and innovation. Support for administrative reforms is also available through targeted financing under the European Social Fund, advice from the Structural Reform Support Service and, indirectly, through technical assistance.

Relevant CSRs focusing on structural issues informed the design of the 2014-2020 programmes. These include activities aiming at strengthening the administrative capacity of authorities dealing with ESI Funds, improving the energy efficiency of public and residential buildings, and promoting cooperation between academia, research and the business sector. The latter is done by supporting research and development activities in enterprises, transfer of high value-added technology, and implementing innovation measures. Some 90 % of programmed ESF allocations are dedicated to addressing CSRs, such as on long term unemployment through a comprehensive ESF-funded action plan introducing personalised support to jobseekers, enhancing the accessibility of quality childcare facilities, and improving educational outcomes and the inclusion of Roma in mainstream education. ESF projects have contributed to the reform of vocational education and training, the reorganisation of public employment services, the provision of childcare at the workplace, and activities aimed at preparing Roma children for primary school. The Youth Employment Initiative has helped reduce the high youth unemployment rate. Other measures aim at lowering the regulatory and administrative burden on businesses and promoting high standards of transparency, integrity and accountability in public administration, as well as fighting corruption.

In addition to challenges identified in past CSRs, the ESI Funds address other structural obstacles to growth and competitiveness. They support infrastructure investments by increasing the coverage of fast broadband (target: 50% of additional households in 2023), improving Slovakia's transport network through 606 km of reconstructed or modernised roads and 111 km of railway lines, and enhancing the competitiveness of aquaculture and the processing sector by modernising and diversifying production and increasing productivity via renovation and construction of new farms and processing facilities. Moreover, 14 070 enterprises will carry out investments drawing mainly on non-financial support, as well as via innovation and private investment.

https://cohesiondata.ec.europa.eu/countries/SK

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1 National public investment is defined as gross capital formation + investment grants + national expenditure on agriculture and fisheries.

2 JEREMIE – EUR 119 million; JESSICA – EUR 208 million.

3 Before programmes are adopted, Member States are required to comply with a number of ex-ante conditionalities, which aim at improving framework and conditions for the majority of public investments areas. For Members States that did not fulfil all the ex-ante conditionalities by the end 2016, the Commission has the possibility to propose the temporary suspension of all or part of interim payments.

3. REFORM PRIORITIES

3.1. PUBLIC FINANCES AND TAXATION

Tax administration and tax policies

The tax-to-GDP ratio is on the rise but remains relatively low compared to other EU Member States'. Taxes as a proportion of GDP increased by 4 pps from 2010 to around 32 % in 2015. Social contributions are the biggest source of tax revenue (43 % of total tax revenues in 2015) followed by taxes on production and imports (34 %). The latter are — in terms of GDP — relatively low compared to other Member States'.

Improving tax collection has significantly reduced Slovakia's high VAT gap. ([7]) In 2014, the VAT gap was some 7 pps lower than in 2012. Nevertheless, at 30 %, it remains one of the highest in the EU and more than double the EU average, indicating an ongoing VAT compliance challenge (CASE, 2016). The continued improvement in VAT collection since 2012 is the result of several measures, not least the VAT control statement. The Ministry of Finance estimates that the effective VAT rate increased to 14.9 % in the second quarter of 2016, up from 12 % in 2012 (Graph 3.1.1), yielding additional revenue equivalent to 0.9 % of GDP in 2015 compared to 2012.

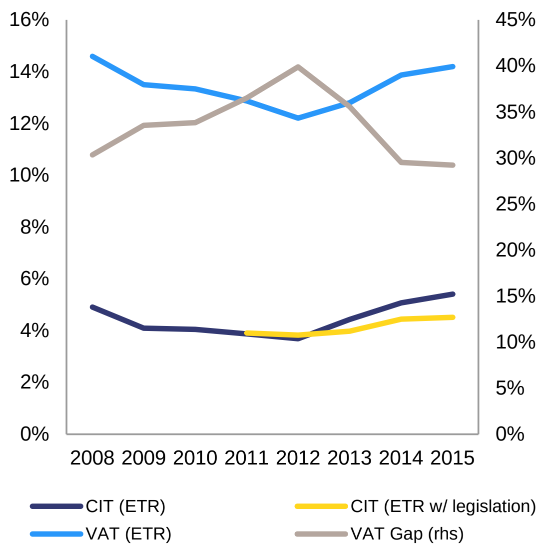
There are indications that limiting VAT fraud has also had a positive impact on the collection of corporate income tax (CIT). Estimates by the Ministry of Finance suggest that effective tax rates for VAT and CIT improved in parallel (Graph 3.1.1), and CIT revenues improved even when netting out the impact of other legislative changes in the area of corporate income taxation. The minimum CIT introduced in 2014, which aimed to tackle the relatively high level of CIT non-compliance, has brought rapid results. ([8]) However, plans to scrap the minimum tax arrangements in 2018 mean that the tax administration's capacity will need to be bolstered to stop CIT compliance from falling again (Remeta *et al.*, 2015; IBFD News, 2016).

([7]) The VAT gap is defined as the difference between the amount of VAT collected and the VAT total tax liability (the theoretical tax liability according to tax law).

([8]) The percentage of companies with zero corporate income tax liability declined from 59 % in 2013 to 9 % in 2014 and then to 6 % in 2015.

Efforts have been made recently to improve the quality of services to taxpayers. Paying taxes has been further facilitated by the introduction of electronic filing and payments for VAT. The number of tax payments was reduced from 10 in 2014 to eight in 2015, but the time taken to comply with tax obligations increased by four hours during the same period ([9]) to 192 hours, i.e. above the EU average of 164 hours (World Bank and PwC, 2017). From 2017, the late reimbursement of VAT refunds will be subject to an interest payment, and communication between the financial administration and VAT taxpayers is to become fully electronic.

Graph 3.1.1: **Effective tax rates in Slovakia**



Source: Slovak Ministry of Finance

The financial administration retains its focus on improving VAT compliance, especially through auditing. Some 80 % of all audits are in the area of VAT and originate primarily from VAT control statements. From 2017, a 'super-custody order' will enable the tax authorities to seize taxpayers' assets as a precautionary measure, where there is suspicion of tax fraud. From 2017, the period during which audited taxpayers can question the impartiality of tax auditors was reduced to 15 days. In 2017 the financial administration also plans to

([9]) The increase was due to the extra time needed to comply with corporate income tax rules.

tackle a high number of fraudulent cash registers and expand the use of virtual cash registers.

Non-audit activities to ensure tax compliance are being gradually explored. Currently, control activities and cross-checking are cornerstones of the compliance strategy, but a holistic approach to auditing taxpayers seems to be lacking. However, in 2017 the financial administration plans to develop a tax reliability index, a tool for identifying and distinguishing compliant and non-compliant taxpayers and which allows for both preventive and corrective measures to be taken. Broadly speaking, progress on e-administration via the e-communication plan and the development of a call centre for taxpayers are likely to help improve the service for taxpayers, as will the administration's plan to reorganise its Large Taxpayers Unit. A United Analytical Centre bringing together analytical and law enforcement competences is set to provide for a better and faster exchange of information and improve efforts to tackle tax fraud.

The taxation framework is subject to relatively frequent changes. For 2017, the government has extended and increased the levy on companies in regulated industries, which had been expected to expire in 2016. This measure could arguably also be seen as part of an effort to reduce undue rents stemming from ineffectively regulated network industries. The bank levy that had also been set to expire was extended until 2020. The CIT rate was reduced from 22 % to 21 %, reversing an increase that had come into force only two years before. Lump-sum deductions for the self-employed, which were reduced in 2012 to ensure a more equal taxation of self-employed and employees, have been increased again in favour of the self-employed. Ceiling rates on healthcare and social contributions for high-income earners have been increased significantly. Other measures include a new 8 % tax on non-life insurances and an increase in excise duties on tobacco and fees on gambling. As of 2018, healthcare contributions on dividends will be replaced with a tax of 7 %.

Property taxation continues to receive limited attention. The current system of residential real-estate taxation remains regressive as it does not reflect the value but the surface area of a dwelling. Recurrent real-estate taxes — a growth-friendly form of taxation — accounted for 1.4 % of total revenues in 2014, among the lowest in the EU (EU average: 4.2 %). Gifts and inheritance are not taxed.

Environmental taxation still features conflicting policy motivations. The electricity price includes a levy to support production from renewable resources, but also a feed-in tariff to support the environmentally harmful electricity production from domestic coal. ([10]) The government introduced environment-friendly elements in the car registration fee, taking into account the age of the car and the engine power. The fee is lower for cars powered by alternative fuels.

Fiscal framework and spending review

The medium-term budgeting framework still shows weaknesses. While the level of detail in the multi-annual budgetary plan is fairly high, information and targets beyond the first budget year are only indicative. Binding expenditure ceilings, which were envisaged by the constitutional law of 2011, have not yet been adopted. This prevents a swifter achievement of a balanced budget — a requirement that was introduced in national legislation in 2013. The government constituted in March 2016 has postponed the original deadline for meeting the medium-term objective from 2017 to 2019, partly reflecting new spending priorities and investment needs.

The authorities are considering relaxing the national debt brake. The debt brake introduced by a constitutional law in 2012 requires corrective actions once the debt level reported by Eurostat exceeds specified thresholds, which are lower than the Maastricht debt ratio. A redefinition of the debt brake thresholds risks diminishing its restraining power.

The Ministry of Finance published a first series of spending reviews. The 'Value for Money' project aims to improve government spending efficiency. In 2016, three reports were published in the areas of healthcare (see below), IT and transport (see Section 3.4) and were annexed to the

([10]) One example is the third block of the Novaky thermal power plant, which was decommissioned on 1 January 2016 as it no longer complied with emissions limits, but resumed operations in autumn 2016.

multi-annual budgetary plan. ([11]) The level of ambition appears to vary across reports, reflecting different degrees of ownership by the associated ministries. ([12]) Nevertheless, the project makes a valuable contribution by providing data-based analytical underpinnings for identifying spending inefficiencies in the areas reviewed. For 2017, there are plans for new spending reviews covering environmental policies, labour market and social policies, and education. Initial reports are scheduled for 30 April 2017, to be followed by final reports by 30 June in order to inform discussions on the budget proposal in summer 2017.

Long-term sustainability of public finances

Slovakia's public finances still face risks in the long term. The long-term sustainability gap indicator (S2) ([13]) shows that Slovakia is at medium risk with regard to the long-term sustainability of public finances. The main drivers of the projected rise in ageing-related costs are spending on healthcare and pensions. Each is projected to increase by 2 pps of GDP by 2060 compared to 2013. The level of healthcare spending, which is currently below the EU average, is projected to experience one of the highest increases in the EU by 2060. ([14])

Pension system

Slovakia faces very adverse demographic trends. Low fertility rates are expected to cause the working-age population to shrink, leading to a decline in the number of people in employment, despite a predicted rise in the participation rate and the automatic increase of the statutory retirement age linked to changes in life expectancy. According to the 2015 *Ageing Report*, Slovakia shows the fastest increase in the old-age dependency ratio in the EU. By 2060, there are projected to be fewer than two workers for each pensioner, compared to five at present. Consequently, the ratio of people aged 65 or above relative to the working-age population is expected to practically triple between 2013 and 2060. So, despite the effectiveness of the recent reform in limiting the increase in pension expenditure to around 2 % of GDP by 2060 (bringing it to 10.2 % of GDP compared with an EU average of 12.4 %), ageing still poses a threat to the long-term sustainability of the system and the full implementation of the reform will have to be closely monitored.

Although the effective retirement age is one of the lowest in the EU the retirement period remains relatively short. In 2014, Slovak men left the labour market at an average age of 61.6 — one of the lowest values in the EU. The effective exit age for women was 59.7 years, driven mainly by a low statutory pension age, which is, nevertheless, gradually increasing. The time Slovaks spend in retirement is relatively short, at least for men, compared to other EU countries (16.8 and 22.7 years for men and women respectively, against the EU average of 18.1 and 22.6 years). The ratio between the time spent in retirement and the average length of working careers is lower than the average for men (42 % against 43.5 % in the EU as a whole) but higher for women (67 % against 58 % in the EU as a whole) because of the very low retirement age. Since retirement age is linked to life expectancy, this ratio is projected to be below the EU average for both men and women by 2060 (45.2 % against 50.4 % for men and 58.7 % against 61.8 % for women).

Recent adjustments to the pension system were of an ad hoc nature. Since 2013, pensions have been indexed by a fixed amount determined by applying the weighted average growth of wages and consumer prices (with greater weight accorded to the latter) to the average pension. However, the government decided on an ad hoc pension increase of 2 % in 2017.

([11]) There were three pilot projects prior to the fully fledged reviews. They included spending reviews for primary and secondary schools, efficiency of tax collection by the financial administration, and effectiveness of labour offices and active labour market policies.

([12]) The review of healthcare expenditure is detailed and provides concrete areas for possible savings and estimates of their fiscal impact. Somewhat less detailed is the review of IT spending. The planned review of transport expenditure is set out in relatively broad terms without enough specific information on areas that could potentially yield savings (and no quantification is provided).

([13]) S2 determines the upfront structural adjustment required in order for the ratio of gross public debt over GDP to stabilise in the very long term. Based on the Commission winter 2016 forecast, the S2 indicator for Slovakia is estimated at 2.5 pps of GDP, with contributions for the healthcare and pensions components accounting for 1.3 pps and 1.0 pp respectively.

([14]) Average expenditure on healthcare in the EU was 7.9 % of GDP in 2014, while the figure for Slovakia was 5.6 %.

The planned changes to the indexation rules may offset the effects of the recent pension reform. As of 2018, pensions are set to be indexed to the increase of prices in a 'pension' basket. This indexation method would ensure that the living standards of pensioners are preserved but their situation would deteriorate relative to the economically active section of the population. ([15]) The authorities have expressed their intention to introduce possible changes to the indexation formula to ensure that pension growth is higher than the expected rate of inflation. If confirmed, such measures would put greater pressure on public finances and might further jeopardise the long-term sustainability of the pension system.

Cost effectiveness of the healthcare sector

The cost-effectiveness of healthcare in Slovakia remains low. The spending review published in autumn 2016 in connection with the 'Value for Money' project suggests that there is significant scope to increase the cost-effectiveness of various areas of healthcare, providing targeted savings of up to EUR 174 million in 2017 (Černěnko *et al.*, 2016). The review's recommendations (mainly price reductions) are already being implemented, notably through price referencing of healthcare materials, devices and equipment and reduction in payments for diagnostics and other specialised treatments; tangible results are expected from 2017.

The health status of the population is improving slowly and private healthcare expenditure is relatively high. Between 2008 and 2014, there was a two-year increase in healthy life years but the figures remain well below the EU average for both genders (54.6 vs 61.8 for men and 55.5 vs 61.4 for women). Preventable mortality in 2014 was also higher than in the EU (339.5 deaths per 100 000 inhabitants vs an EU average of 204.1). ([16]) Out-of-pocket payments are high as a proportion of total health expenditure (23.3 % compared to the EU average of 16 %). ([17]) Informal, under-the-table payments remain common, potentially inhibiting equitable access to care. ([18])

The high level of hospital debt has not decreased. Obligatory external financial audits were carried out in the 14 state-owned hospitals in 2015. Overdue liabilities of hospitals amounted to EUR 592 million in June 2016. Debt accumulation is facilitated by non-binding budgetary constraints and adverse incentives, but could also be due to poor budget planning and inefficient procurement practices. Payment systems are linked to the quantity rather than quality and performance of services, potentially creating incentives for overprovision (Kovalčík and Tunega, 2015). Public hospitals show large average delays in paying private suppliers. A new agency was established within the Ministry of Health in mid-2016 to manage hospitals, among others, and has introduced benchmarks for a wide range of services. The authorities aim to balance hospital budgets by 2018.

Some steps have been taken to rationalise hospital care. The number of acute care beds is high (424 per 100 000 inhabitants vs an EU average of 356 in 2013) while the bed occupancy rate is low (67 % vs an EU average of 74 %). A restructuring exercise based on patient care needs and minimum use is ongoing. In January 2017, a new network of hospitals eligible for EU structural funds and capital investments was established. To reduce unnecessary recourse to emergency care, an out-of-pocket fee has been introduced (EUR 2 for out-patient care; EUR 10 for in-patient care), except if the patient is taken to hospital. A new university hospital in Bratislava is planned to be run as a public hospital (Slovak government, 2016). A private investment group also plans to set up another new hospital in the capital from 2018 onwards.

The introduction of e-health systems has suffered successive delays. Since 2008, EUR 80 million have been invested in e-health, ([19]) but with no tangible results as yet, according to findings of the National Supreme

([15]) This is indicated by the declining benefit ratio, which denotes the relationship between the average pension benefit and the average gross wage.

([16]) Preventable mortality relates to deaths which could have been avoided by preventive public health interventions.

([17]) Out-of-pocket payments are official expenses for medical care that are borne by the patient and are not reimbursed by insurance.

([18]) Special Eurobarometer 397 on Corruption, February 2014.

([19]) Over EUR 45 million came from the ESIF and the state budget and a further EUR 35 million from contributions paid into the National Health Information Centre by health insurance companies.

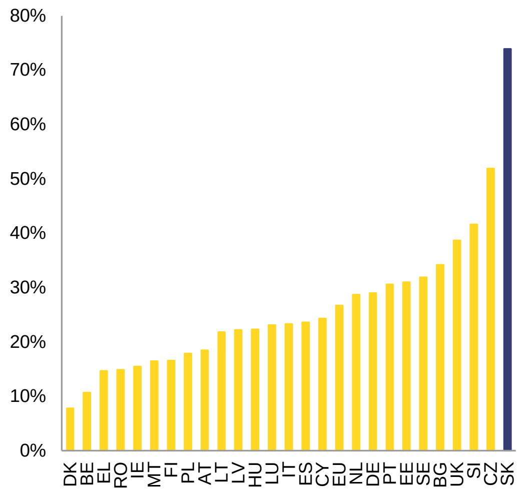
Audit Office. The implementation of extended e-health (e.g. electronic health records, e-prescriptions and e-referrals) was postponed until 2017 because of signs of reticence on the part of users. An IT system allowing performance data to be collected from healthcare providers is at the validation phase and is currently in use in eight hospitals.

The introduction of the diagnosis-related groups (DRG) system for remunerating hospital activities, to allow more transparency of care supply and pricing, is being gradually implemented following preparatory activities in previous years. Since 1 January 2017, DRG is in place as a regular payment mechanism, first on a voluntary and later on a mandatory basis. Payments in 2017 will be "budgetary neutral", with several safety nets in place (global budgets, safety payment corridors and benchmarking with previous payment mechanism). However, there are implementation challenges (Commission services/Economic Policy Committee, 2016), delays and systemic shortcomings as providers are ill-prepared, reporting systems are not ready and initial input data are of poor quality.

The implementation of an integrated care model has stalled. For the 2014-2020 programming period, European funds totalling EUR 130 million have been earmarked to set up 134 integrated healthcare centres. The planned pilot phase announced for 2015-2016 has not taken place. While stakeholder consultations were held in 2015, the related ‘master plan’ for service distribution has still to be updated and the announced cost-benefit analysis and definition of integrated healthcare centres are not yet ready.

The number of general practitioners (GPs) is low and increasing only gradually. The number of GPs per 100 000 inhabitants (42 in 2007, latest available data) is well below the EU average (78.3 in 2013) and results in inefficient provision of primary care (Graph 3.1.2). The lack of GPs is contributing to high rates of potentially avoidable medical visits (twice the EU annual average, 11 vs 6.2 in 2013) through specialist referrals and emergency department visits. While the government intends to reduce the ratio of specialist-to-GP visits from the current 80-20 % to 60-40 %, a residency programme designed to boost the number of GPs has not yet produced significant results, with only 95 new GPs expected to start practising in 2017. According to professional associations, many more additional GPs and nurses are needed in the system. To reduce the case load for specialist care, the role of GPs has been expanded by law to cover pre-operative examinations and chronic care. New clinical guidelines, to be drawn up with support from the European Social Fund (ESF) in 2017-2020, are not expected to be ready before the end of 2017.

Graph 3.1.2: **Proportion of patients who visited an emergency department because the primary care physician was not available**



Note: Data were collected within the QUALICOPC study (Quality and Costs of Primary Care in Europe) between 2011 and 2013. The reference population is the proportion of people who visited an ED in the previous year.

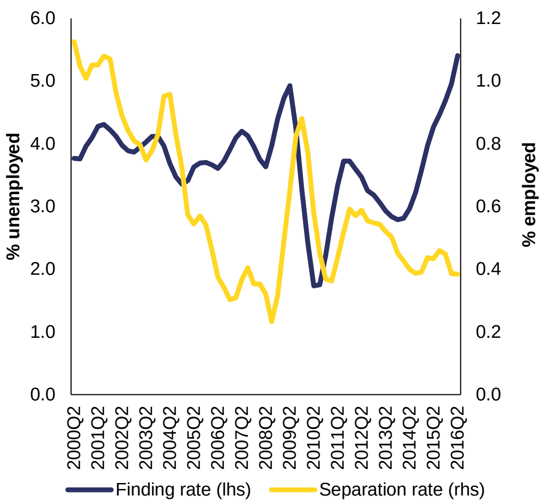
No data available for Croatia and France.

Source: OECD (2016), Health at a Glance: Europe

3.2. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

Slovakia witnessed a marked improvement in its labour market in 2015 and 2016, not least due to strong job creation. Section 1 reviews Slovakia's labour market improvement, which has been driven more by changes in job creation than job destruction (Graph 3.2.1). While job destruction (i.e. the separation rate) has remained broadly stable over the past 10 years (except for a spike in 2009), the job-finding rate has increased rapidly and reached the pre-crisis level at the end of 2015. This also led to a sharp increase in outflows from unemployment, while inflows to unemployment did not change dramatically. As a result, Slovakia's unemployment rate has been in rapid decline, while the employment rate jumped to 70.1 % in Q3-2016 (still below the EU average of 71.5 % and the national Europe 2020 target of 72 %). Moreover, as set out in Section 1, the labour market tightening is accompanied by early signs of potential labour supply shortages.

Graph 3.2.1: **Job finding and separation rate**



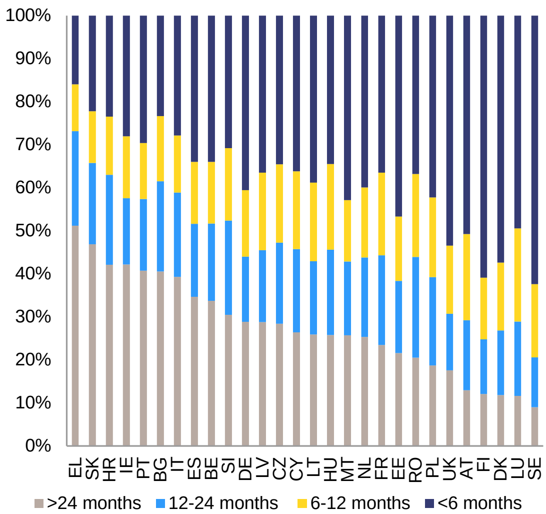
Note: Separation rate: proportion of jobs in the economy for which a separation of the employee from his or her post is observed during a given period of time. Job-finding rate: proportion of unemployed people who find a job during a given period of time. Average over four quarters: reference quarter and previous three quarters.
Source: European Commission

Despite these positive developments, several labour market challenges remain apparent. For specific vulnerable groups, such as the low-skilled, young workers, Roma and mothers with young children, labour market outcomes are unfavourable, with low participation and high unemployment. This pattern is aggravated by strong regional disparities as discussed in last year's country report (European Commission, 2016a).

Long-term unemployment

Long-term unemployment (LTU) declined in 2015 and 2016, but despite these improvements it remains one of the highest in the EU. The increase in job-finding rates affected both the short- and long-term unemployed. Consequently, LTU decreased in parallel with overall unemployment. Despite this positive development, the LTU rate in Slovakia is still among the highest in the EU (5.6 % in Q3-2016, EU: 3.8 %). In particular, the proportion of very long-term unemployment (>24 months) is very high at 47 % of overall unemployment in 2015 (Graph 3.2.2). In recent years, Slovakia introduced several new active and passive measures to tackle the unemployment of specific vulnerable groups, which is likely to have helped bring about a reduction in LTU (see below).

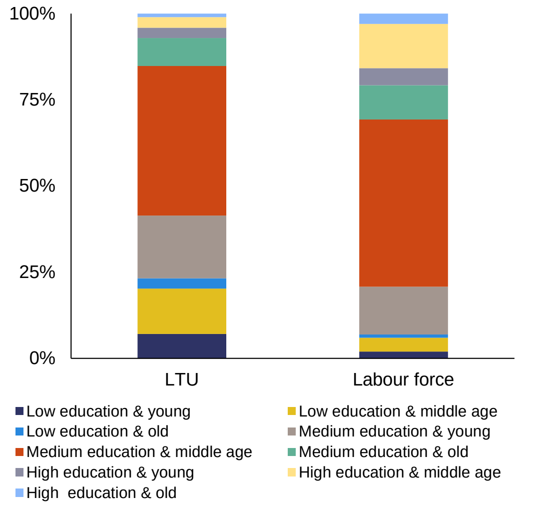
Graph 3.2.2: **Unemployment by duration, 2015**



Note: Unemployment by duration is expressed as a percentage of total unemployment (15-74) in 2015.
Source: European Commission

LTU is a major risk for the low-skilled and young. In 2015, 30 % of the low-skilled were unemployed for more than a year, in comparison to 8 % and 3 % respectively for the medium- and high-skilled. A lower level of education increases the probability of LTU across all age groups, in particularly for the young (15-29 years) (Graph 3.2.3). In general, the young are overrepresented among the long-term unemployed. However, this does not apply to highly skilled young people. Furthermore, Slovakia has a consistently high proportion of young people not in education, employment or training (13.7 % in 2015 vs 12 % in the EU as a whole, age group 15-24). These findings are particularly alarming in the light of an increasing early school leaving rate and low — albeit increasing — tertiary education attainment.

Graph 3.2.3: **Personal characteristics of the long-term unemployed, 2014**



Educational levels included are low (ISECD 0-2), Medium (ISECD 3-4) and High (ISCED 5-6). Age levels included are Young (15-29), Middle age (30-54) and Old (55-64).
Source: Based on LFS Microdata, 2014

The Roma community is still one of the most disadvantaged groups in the labour market. The situation of Roma in Slovakia is particularly precarious. They are estimated to make up 9 % of the total population (Council of Europe, 2010) and the age distribution is skewed towards the younger cohorts. According to Fundamental Rights Agency (FRA) survey results for 2016, only around 25 % of Roma aged 20-64 were engaged in 'paid work' at the time of the survey or in the previous four weeks, while 48 % were unemployed. ([20]) The ethnic segmentation of labour markets results in poverty, social exclusion and a lower labour market status for Roma and undermines the economic potential of Slovakia's poorest regions, where Roma are concentrated. The key factors behind labour market divisions are low educational attainment and qualifications, and persistent barriers and discrimination in access to education, housing, healthcare and the labour market (Kahanec, 2014; IFP, 2014). A survey (FRA, 2016) showed that 30 % of the Roma surveyed felt they had been discriminated against because of their background at least once in the past 12 months in at least one area of daily life (22 % when looking for a job). Only 18 % of the respondents who felt discriminated against reported the last incident to the authorities or made a complaint. Almost 74 000 Roma live in isolated settlements, often in poor living conditions.

Labour market policy

Slovakia has implemented several measures to encourage low-wage earners to work. In recent years, the government has lowered social contributions for low-wage workers and the long-term unemployed and introduced in-work benefits for the long-term unemployed (European Commission, 2016a). These measures have helped counter the inactivity trap for those earning between the minimum wage and 80 % of the average wage (Graph 3.2.4). ([21]) On average, low-wage workers in this income bracket will now retain 72 % of their gross income when working, compared to only 58 % in 2014. For higher incomes (80 % to 120 % of average income) the inactivity trap has worsened. However, that is likely to have a less severe impact on this higher-paid group.

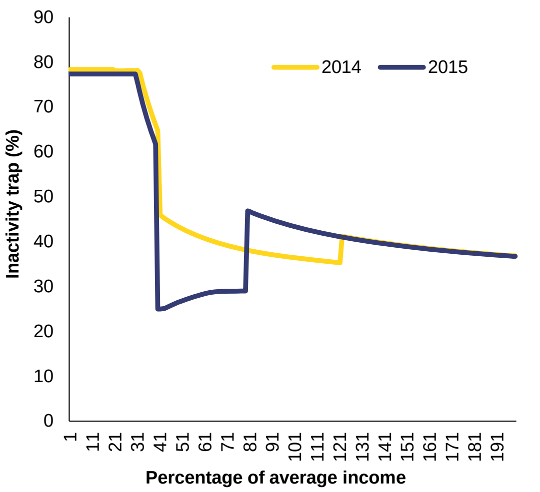
Various labour market policies have seen advances. Slovakia has widened the scope of active labour market policies, introducing support measures targeting the long-term unemployed and other vulnerable groups and reforming public employment services. A recent study on the effectiveness of Slovak public employment services and active labour market policies under the 'Value for Money' project (IFP, 2016) was a step forward in terms of improving the evaluation of policy measures. The findings confirmed that current active labour market policies are often either poorly designed (e.g. they are too focused on

([20]) The 2016 FRA survey improved on the sampling and weighting methods developed for the 2011 survey, so the results provide a more accurate representation of the situation of Roma in the countries covered. Indicators used are closely resemble those applied in standard European surveys (EU-SILC, EU LFS) but full comparability was not intended. For more details see FRA 2016.

([21]) The inactivity trap measures the part of additional gross wage that is taxed away in the case where an inactive person takes up a job.

activation measures) or targeted (geographically or in terms of the group(s) covered). There is a lack of effective active labour market measures for the low-skilled. Insufficient financing for active labour market policies (0.16 % of GDP in 2015) combined with a high caseload (currently 2 280 clients per specialised counsellor) and an underdeveloped system for managing the performance of public employment services limit potential efficiency improvements (by 10-35 %).

Graph 3.2.4: **Inactivity trap by percentage of the average wage, 2014 and 2015**



Note: The inactivity trap - or the implicit tax on returning to work for inactive persons - measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job.
Source: OECD Tax and Benefits database

The new action plan on LTU will be implemented in 2017-2020 with the aim of providing more individualised services. It will include a combination of projects financed by the ESF on provision of specialised counselling, including on indebtedness, psycho-social problems, substance abuse and other barriers to labour market entry. A newly introduced profiling system should improve case allocation. The planned hiring of new specialised staff, outsourcing of job search support and enhanced cooperation with private agencies and NGOs could help decrease the caseload (see above). The labour market prospects of the long-term unemployed and the low-skilled are set to be further enhanced by the introduction of individualised training programmes based on regional labour market needs. Second-chance education or apprenticeship schemes for the low-skilled, long-term unemployed and Roma are not available and adult participation in life-long learning remains low (3.1 % in 2015). The recently announced plans to promote practices to validate non-formal and informal learning are a step in the right direction.

New legislative measures aim to increase the impact of activation measures and to tackle some of the barriers to primary labour market entry faced by the long-term unemployed and marginalised groups. Key measures were taken to address indebtedness, which is a serious social problem for many low-income households and acts as an impediment to entering official employment because of the threat of permanent seizure of official income. The Slovak Justice Ministry estimates that at least 100 000 individuals are caught in a debt trap. The recent amendment of the Act on bankruptcy and restructuring will make personal debt relief simpler and cheaper and therefore more accessible through bankruptcy or a repayment schedule. A legal aid centre will provide assistance to indebted people without income or assets to help lift them out of the debt trap. ([22]) Stricter sanctions for non-cooperation before and during placement in active labour market programmes will be introduced under a new amendment to the Employment Services Act. While the component on tackling indebtedness may have very positive effects, the sanctions component may put vulnerable groups off public employment services if they are not combined with individualised support before, during and after the placement.

The implementation of measures for Roma inclusion is stagnating. The desegregation legislation adopted in 2016 has not yet demonstrated measurable results (see education section). Increased ESF support was allocated to marginalised Roma communities, but there have been significant delays in implementation (European Commission, 2016a). The launch of outreach support such as social field work (which was successful in the past) and community centres has been postponed to 2017. ESF projects on rented social housing and access to drinking water

([22]) Only 391 people applied for personal bankruptcy in Slovakia in 2015 compared to more than 32 000 in the Czech Republic.

face a similar delay. Action plans for the National Roma Integration Strategy expired in 2015 and the new ones for the period 2016-2018 have still not been adopted. Long-awaited legislation on social enterprises is now scheduled to be drawn up and adopted in 2017 and will not enter into force until 2018. Furthermore, no headway has been made on addressing the lack of data on the economic integration of Roma.

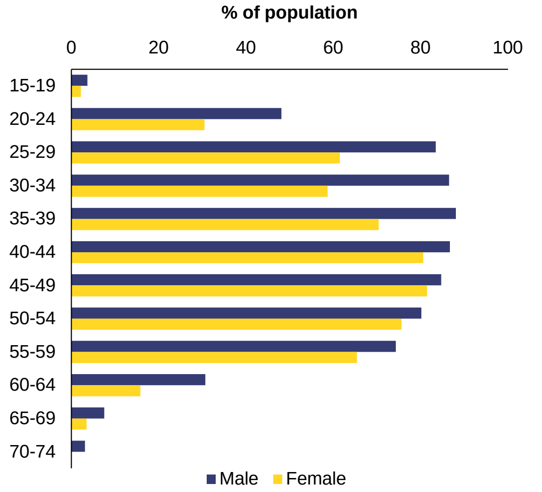
The measures for young people under the implementation of the Youth Guarantee helped support sustainable youth employment. Short-term programmes on voluntary work and traineeships proved particularly successful for young people under the age of 29 (IFP, 2016). However there are still no individualised services targeting the specific problems of the young low-skilled or the young long-term unemployed. This bottleneck will be addressed by new youth measures planned for 2017 in the form of a support package including a training or work placement.

The government implemented several measures to address regional disparities in the labour market. The requirements for a removal allowance were loosened, leading to increased uptake of this measure, albeit from a low starting point (364 beneficiaries in Q2-2016 compared to 53 in 2015). Under the new legislation on regions lagging behind, regional action plans were drawn up to tackle unemployment. The objective is to create 17 615 new jobs by 2020 by promoting, for example, better infrastructure and social enterprises. Successful implementation rests on the creation of regional and local partnerships.

Employment of women

Women's skills are underused and undervalued on the labour market. The female employment rate (60.3 %; EU: 64.2 %) remained well below that of men (75 %; EU: 75.8 %) in 2015. The employment gap is particularly wide for women under the age of 40, and diminishes sharply for women above that age (Graph 3.2.5). Slovakia is one of the countries in which motherhood has the highest impact on employment and professional life. This is the result of long parental leave, which is very rarely taken up by men (2-3 %), a shortage of childcare facilities and a low update of flexible work arrangements. The unadjusted gender pay gap is among the highest in the EU (19.7 % in 2014). About a third of the gap can be explained by differences in individual and job characteristics leading to gender segregation in the labour market, i.e. women are more often employed in occupations and industries that pay comparatively lower salaries. Two thirds of the gap remain unexplained but can be attributed to various factors, such as the low transparency of wage negotiations in the private sector, female employees' lack of awareness of male salary levels, and discrimination. Challenges concerning the participation of women in the labour market also have a detrimental knock-on effect on efforts to foster an integrated approach to investing in children.

Graph 3.2.5: **Employment rate by gender and age, 2015**



Source: European Commission

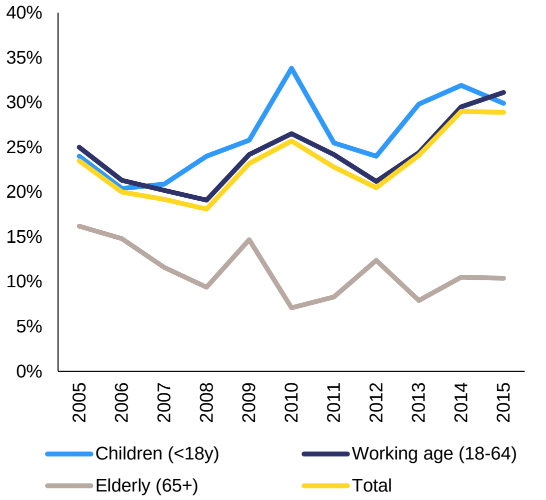
Efforts have been made to strengthen the quality and affordability of childcare. The quality of care for children under three is not regulated by minimum standards in terms of the care facilities or the qualification requirements for care staff. An amendment to the Social Services Act will enter into effect in March 2017 in order to address this shortcoming. Childcare benefit for working parents has also been increased (there were very few recipients in 2015). The extension of childcare facilities is still insufficient. Only 7 % of children under three were enrolled in formal childcare in 2014. For children between the age of three and the compulsory school age of six, the coverage rate is better (74 %), but it is still below the EU average (83 %) and the Barcelona targets (90 %). The number of unsuccessful applications for kindergarten places is still high, especially in the region of Bratislava. EUR 138 million in EU funding was made available in 2016 to increase the provision of preschool care in the coming years.

Social inclusion and poverty reduction

Poverty rates remain low but the intensity of poverty is of concern. In 2015, the number of people at risk of poverty or social exclusion remained at 18.4 % (significantly below the EU average of 23.7 %) and the number of people subject to severe material deprivation dropped further to 9 %, although this is still above the EU average of 8.1 %. The poverty rate among Roma remains exceptionally high, at several times that of the overall population (FRA, 2016). After several years of steady increases, the poverty gap, which measures the intensity of poverty (i.e. how poor the poor are), stagnated at 28.9 % in 2015, above the EU average of 24.9 % (Graph 3.2.6). The rate of poverty among Roma is more than six times higher than for the general population. It is high in comparison with other Member States with a sizeable Roma minority (Bulgaria, Czech Republic, Hungary and Romania), where the rate of poverty for Roma is estimated to be between three and six times that of the general population (FRA, 2016).

Shortcomings in the social safety net persist. Around 230 000 people relied on minimum income support (benefits to cover material need) in 2016. The number of recipients and jointly assessed household members declined further as a result of falling unemployment and a measure to make eligibility for the support conditional upon participation in workfare ('activation work'). There is still no clear mechanism for establishing and reviewing the level of minimum income support. The scheme's conditions in relation to the number of members in the household disadvantage larger families with more children. The housing allowance is not available to those who are most in need, particularly marginalised Roma who live in undocumented dwellings, and homeless people, because eligibility is conditional upon home ownership, a rental contract or residence in a social care facility. The proportion of short-term unemployed covered by unemployment benefits is considered low, estimated at 18 % in 2015, 11 pps lower than the EU average. Eligibility conditions are strict and the duration of benefits is short, at a maximum of six months. Despite attempts to develop basic outreach programmes (work in the social field, preventive healthcare and community work), the link to quality social services such as individualised support for inactive people and registered jobseekers, access to social housing, debt management counselling, participation in early childhood education and support for weaker pupils is underdeveloped.

Graph 3.2.6: **Poverty gap for selected groups**



Note: The poverty gap estimates the depth of poverty and measures how far, on the average, the poor are from that poverty line.
Source: European Commission

The availability of social housing is very scarce (around 3 % of the total housing stock) and support for rental accommodation remains limited. Serious overcrowding is a problem for many of the poor (57.6 % vs EU average of 29.7 % in 2015) and large numbers of social housing tenants face severe housing deprivation (21.6 % vs EU average of 9.6 % in 2015). There are 4 061 dwellings without a legal permit and 4 131 makeshift shanties that do not meet the criteria to be classed as proper buildings 'house' approximately 65 000 residents (Atlas of Roma Communities, 2013). Despite the urgent need, the number of state-supported housing units has stagnated at relatively low levels in recent years (between 1 300 and 2 000 in 2012-2015). Some towns and municipalities struggle with co-financing requirements when applying to the State Housing Development Fund for loans to build social housing. Deprived households then face difficulties in accessing the housing because of stringent eligibility requirements for prospective tenants. Accompanying support services and monitoring of the use of the social housing are not always sufficient to tackle rent arrears and other problems. Assisted construction of family homes combined with interest-free microloans was piloted successfully among marginalised communities such as the Roma but further systemic support would allow for making greater headway.

The long-term care system remains underdeveloped. Family carers still provide a substantial proportion of long-term care in Slovakia. As a result, female inactivity due to care responsibilities ranks among the highest in the EU. The status of informal carers has been boosted since January 2017. The allowance for caring for a person with a severe disability has been increased by EUR 27.10 to EUR 247.65, benefiting 33 450 eligible recipients, and state pension insurance for carers will no longer be subject to a time limit. This should provide caregivers with better protection against poverty in old age. Likewise, the safeguard limit on the income of people with severe disabilities has been increased, by EUR 59.44 to EUR 336.75, benefiting 17 598 eligible recipients. Overall, however, progress in the transition from institutional to community-based care is too slow and does not go far enough, and support for independent living is still insufficient (Concluding Observations of the UN Committee on the Rights of Persons with Disabilities, 2016).

Education and skills

Students' performance in basic skills has deteriorated further and educational inequalities remain very pronounced. According to the 2015 OECD Programme for International Student Assessment (PISA), the proportion of low achievers is high in all areas tested (31 % in science, 32 % in reading and 28 % in mathematics) and lies significantly above the EU average. Average performance is also significantly below the EU average. The impact of socioeconomic status on educational outcomes is strong: the gap in performance between the upper and lower social quarters of the PISA socioeconomic index is among the largest in the EU (above 35 pps compared to an EU average gap of 26 pps). Every second pupil in the lowest social quartile is a low achiever. At the same time, the proportion of low achievers in the higher social quartile is also higher than in most other EU countries (OECD, 2016a). Against a backdrop of declining educational outcomes, rising inequalities in education and heavy societal pressures (including teachers' strikes), the authorities have initiated ambitious reforms at all education levels and have begun preparing a 10-year education strategy. The ongoing comprehensive consultation process is to be followed by the adoption of a government strategy in early 2017.

General government expenditure on education remains very low, leading to low educational outcomes. At 4.2 % of GDP in 2014, Slovakia's expenditure is much lower than the EU average of 4.9 %. The latest OECD data also point to an increase in annual expenditure per student at all levels, which nevertheless remains low at 70 % of the OECD average for primary education, 59 % for secondary education and 65 % for tertiary education (OECD, 2016a). Education is among the topics to be analysed in 2017 under the 'Value for Money' project.

The low participation in early childhood education and care has an adverse impact on future educational outcomes (PISA 2015). Against this background, the low participation of Roma children in early childhood education and care (estimated at 34 %) is particularly problematic (FRA, 2016). The national participation rate also remains low, standing at 77.4 % in 2014, compared with an EU average of 94.3 % (from the age of four to the start of compulsory education). Capacity is being bolstered with the focus on places with the highest unmet demand, high levels of unemployment and with a large proportion of marginalised Roma communities. Consideration is being given to making education compulsory from the age of five.

The early school leaving rate remains low in international comparison (6.9 % in 2015), but regional disparities are high and the rate has been increasing constantly since 2010. It has exceeded the 6 % Europe 2020 national target in recent years (for more information see European Commission, 2016b). The high estimated proportion of Roma children who are expected to leave school early is of particular concern, given the significant impacts on their future labour market prospects (FRA, 2016). ([23]) Since Slovakia has one of the lowest employment rates in the EU for people without upper secondary education (33.2 % compared to the EU average of 52.6 % in 2015), the socioeconomic cost of early school leaving is particularly pronounced.

Educational inequalities are of serious concern. The latest data point to a significant proportion of Roma children attending segregated schools or classes (FRA, 2016). ([24]) This can be partially explained by the uneven distribution of the Roma population in the country. It is also estimated that the proportion of Roma pupils attending special education establishments is among the highest in the region (FRA, 2016). According to Education Ministry data, the proportion of pupils with special needs taught in special schools/classes rose from 4.7 % in 2006 to 6.2 % in 2015 and is considerably higher in poorer regions. The impact of attending so-called ‘grade zero’ classes on educational attainment and equality was analysed by the State School Inspectorate in 2015 for the majority of schools. Results showed that 81% of pupils continued their education in mainstream inclusive education. Moreover, the practice of setting up offshoots of vocational schools in the vicinity of Roma settlements is worrying because of their substandard equipment, limited choice of study programmes and their role in hindering inclusive education (Balážová, 2015).

A reform to support socially and ethnically inclusive education entered into force in 2016, but effective implementation depends on political commitment. ([25]) The reform targets the misplacement of children in special schools or classes on the basis solely of their disadvantaged socioeconomic background. The State School Inspection and the Public Advocate of Rights have highlighted practical difficulties in putting the reform into effect, such as the use of appropriate screening tests, timely re-diagnosis, placement of pupils from special needs education with lighter curricula back into mainstream education or securing parental consent. While the competences of the state school inspectorate to steer the shift towards inclusive education have been strengthened, its capacities have not been adequately strengthened and there are implementation loopholes which need to be addressed. The reform will be supported by two ESF projects aimed at providing extra pedagogical staff to support inclusive education, offering support programmes for weaker pupils and informal education for children who do not attend early childhood education, and supporting the transfer of pupils from special to mainstream education. However, the impact of the project may be limited as it covers only 130 schools and 50 kindergartens (European Commission, 2016a).

Initial steps have been taken to improve the attractiveness of the teaching profession. Teachers’ salaries have been low for some time, both in international comparison and compared to the salaries of workers with similar qualification levels (Graph 3.3.7). Salaries increased by 6 % in September 2016 and a further 6 % increase in September 2017 was agreed in collective bargaining. A further average annual increase of 6 % is envisaged for 2018-2020 (Ministry of Finance, 2016). Faster salary increases are being considered for younger teachers. ([26]) Teachers, however, consider the increases insufficient and some continued their strike actions in 2016. As well as increasing salaries, the government aims to restore the attractiveness of the teaching profession by raising the standards for entering and graduating from teacher-training programmes. Plans are also afoot, with support from the ESF, to improve initial teacher training, in particular by improving practical training and continuing professional development. Everything considered, it is still too early to assess the planned reforms for teacher training and continuing professional development.

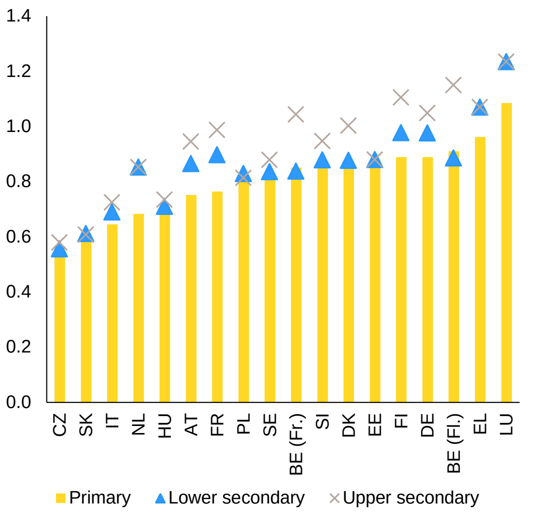
([23]) FRA estimates that 58 % of Roma children are early school leavers.

([24]) The 2016 FRA survey indicates that 62 % of Roma children in Slovakia attend a school where all or most children are Roma (FRA 2016). Using a different methodology, the 2015 Roma Inclusion Index estimated that 52 % of Roma children receive education in segregated schools (Roma Decade 2015).

([25]) See European Commission, 2016b, for more information.

([26]) This is due to the need to attract talented young people to the profession and the fact that, in international comparison, the gap in salaries is wider for younger teachers than for older ones (IVP, 2015).

Graph 3.2.7: **Salary of teachers, relative to earnings for full-time, full-year workers with tertiary education (ISCED 5 to 8)**



Source: OECD

Slovakia is preparing to reform higher education in order to improve its quality and labour market relevance. The tertiary educational attainment of 30-34 year-olds rose to 28.4 % in 2015 and has doubled over the past decade. However, it remains well below EU average of 38.7 % and the national EU 2020 target of 40 %. The proportion of young adults with short-cycle tertiary education or a bachelor's degree is lower than the OECD average, while the opposite is true for those who hold a master’s degree (OECD, 2016a). Slovak adults with tertiary qualifications earn 70 % more than those who attained upper secondary education as their highest level. Graduate tracking and performance agreements with higher education institutions are lacking at present. Finally, more than 10% of recent university graduates have left Slovakia. This proportion is especially pronounced amongst graduates of i.e. medicine and technical fields. (IFP, 2017).

The sector is subject to a wide reform covering accreditation, alignment with EU standards, as well as funding and cooperation with employers. Support from the ESF is being offered to higher education institutions for the development of short-cycle, professionally oriented programmes. An amendment to existing higher education legislation is planned to be adopted in 2017 and to enter into force in 2018. Currently there are also two related strategies under discussion, including one for higher education. In the end, both could be merged into one strategic and long-term document, to be adopted by the government in April 2017. All of these announcements seem to be going in the right direction but have yet to be turned into concrete proposals.

The dual vocational education and training (VET) scheme, designed in response to the needs of industry, entered its second year of implementation. An increasing proportion of manufacturing companies report difficulties in hiring people with the right skills, for instance in the automotive sector (European Business Statistics, 2016). While the interest of employers in dual VET is growing, the scheme does not seem to be sufficiently attractive to young people ([27]) or to certain schools. Targeted efforts to raise awareness of the benefits of dual VET among young people in compulsory education and their families are insufficient. For instance, there is a need for more direct involvement of companies and social partners in guidance and communication activities. Innovative schemes to make professions more attractive, in particular where there are skills shortages, are insufficiently developed. The practice already in place in some companies, where a ‘job guarantee’ is offered to young people who enter their dual VET programme, can serve as a positive example.

([27]) For the 2016/2017 school year, 293 companies signed up to the scheme, offering 2 763 apprenticeship places, but due to insufficient demand only 1 121 new contracts were signed, with 142 companies.

3.3. INVESTMENT

Quality of business environment

Weaknesses in Slovakia's business environment are reflected in cross-country comparisons. Slovakia scores significantly worse than the EU average in a number of areas relating to the responsiveness of the administration to the needs of small and medium-sized enterprises (SMEs). In particular, these are the time needed to start a business, the complexity of administrative procedures, and the burden of government regulations (European Commission, 2016f). These factors can inhibit investment and growth by discouraging entrepreneurs from starting or expanding a business. The World Bank's 2017 *Doing Business* report ranks Slovakia 68th out of 190 for starting a business — a slight deterioration compared to the 2016 report (World Bank, 2017).

Construction permits are comparatively cheap but take a long time to obtain in Slovakia. Slovakia performs significantly worse than the OECD high-income average with respect to the time it takes to obtain a construction permit for a warehouse (286 vs 152 days), although the cost is very low (0.1 % of warehouse value, OECD average 1.6 %). Overall, according to *Doing Business 2017*, Slovakia ranks 103rd in terms of dealing with construction permits, having improved by 7 places in the space of two years. Although, since October 2015, the Construction Act has allowed for shorter procedures to receive building permits, the fast-tracking applies only to large-scale investments and infrastructure projects (European Commission, 2016a).

Insolvency arrangements still represent a major business hurdle. According to *Doing Business 2017*, Slovakia is ranked 35th of 190 economies on the ease of resolving insolvency. Slovakia performs worse than the EU average in respect of the procedure for resolving insolvency, both in terms of the time needed (4 years for Slovakia and 1.97 for the EU) and the costs (18 % of debtors' estate in Slovakia, 10.3 % in the EU). Despite a significant improvement since 2006, the average recovery rate on claims is low, at 55.6 % (McCormack et al., 2016). While some features of Slovakia's insolvency framework are competitive, ([28]) the country still lacks fast-track procedures allowing entrepreneurs to move more quickly through the bankruptcy processes. Moreover, restructuring proceedings require an evaluation of the debtor by an insolvency practitioner, which may deter debtors from resorting to this option. In September 2016 the Slovak government adopted a legislative proposal aimed at reducing the costs of — and improving access to — the debt discharge procedure and strengthening the regulation of executors, which may help insolvent debtors to be given a second chance.

Overall investment needs

The overall outlook for public and private investment is favourable, and public infrastructure investment ranks as a key policy priority. As set out in the 'economic situation' section and the 'investment box', investment activity is expected to gain pace again in 2017 after having moderated in 2016. Public investment will play a pivotal role in shaping the medium-term investment outlook. A national infrastructure plan for 2018-2030, which aims to quantify investment needs in economic and social infrastructure and facilitate private investment, should be completed by the end of 2017. A roadmap towards developing the plan was still pending adoption in January 2017. Working alongside the Ministry of Finance, an investment department, under the newly established office of the Deputy Prime Minister and responsible for coordinating investment and digitisation, will follow up on the implementation of spending review measures under the 'Value for Money' project (see Section 3.1). In particular, it will assess large investment projects on the basis of value for money. The cost-benefit analysis methodology for investment project appraisal is planned to be developed by March 2017.

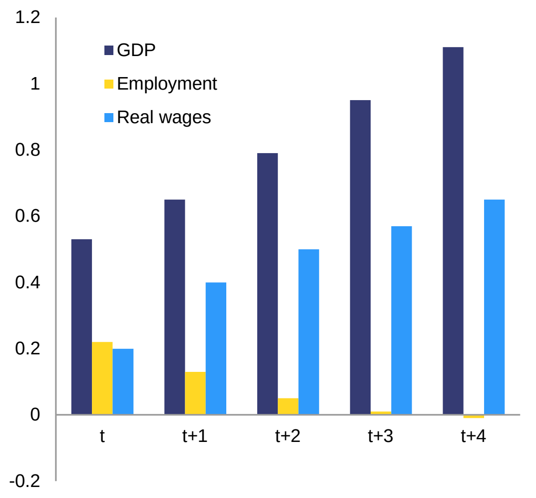
Raising public investment is likely to boost Slovakia's long-term GDP. Simulations of a public investment shock using the European Commission's QUEST model show a rising positive impact of higher public investment spending on GDP, productivity and real wages in a stylised scenario. ([29]) The simulations assume that Slovakia's level of public investment (around half

([28]) This includes the management of debtor's assets, the reorganisation proceedings index and creditor participation. See McCormack *et al.* (2016) for a detailed assessment.

([29]) QUEST is the European Commission's global macroeconomic model used for macroeconomic policy analysis and research.

of which is transport-related) increases by 1 % of GDP for 10 years, and that the extra investment is deficit-financed at currently low government yields. While the impact on GDP is limited by increased imports, given the openness of the Slovak economy, GDP after five years is 1.1 % above its baseline level and real wages are 0.7 % above their baseline, since a higher stock of public capital raises the productivity of other factors of production.

Graph 3.3.1: **Simulation of a public investment shock (deviation from baseline in pps. of GDP)**



Note: Public investment is assumed to increase by 1% of baseline GDP over a period of 10 years, beginning in year t. Simulations conducted using the Commission's QUEST model.
Source: European Commission

Efficiency savings could help to raise the public capital stock at minimum cost. The above scenario can be adapted so that the public investment shock is funded through efficiency savings rather than through a higher government deficit. In particular, if the unit costs for public investment projects were reduced — including through the rigorous application of the 'Value for Money' methodologies — the savings could be used to fund extra investment in public capital stock. The corresponding rise in the capital stock would still be productivity-enhancing, thereby raising GDP levels in line with the above scenario, while being delivered at a lower fiscal deficit cost.

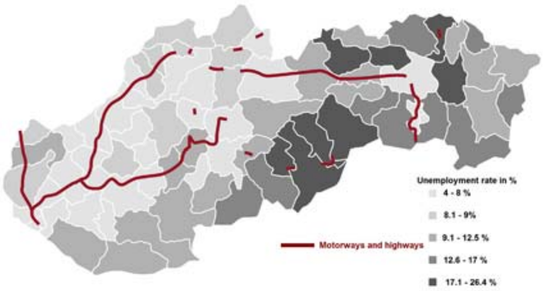
Transport infrastructure

Slovakia's transport infrastructure has significant gaps and is receiving much-needed policy attention. Regional economic disparities, including in unemployment rates, risk being perpetuated by sometimes poor and unevenly distributed transport infrastructure (Graph 3.3.2). Road density is low in comparison to EU peers (at 9 km/km^2), and congestion levels and average delays are significant. While motorways and expressways are usually in good condition, the country still lacks a continuous motorway TEN-T link (D1) along the Bratislava-Kosice corridor and an upgraded rail link. Slovakia's ageing rail network restricts train speed, while various lines appear to be virtually obsolete in view of the very low frequency of trains and small or inexistent passenger volumes.

A strategic plan for transport development until 2030 aims to tackle the most urgent transport investment needs, but various factors are causing delays. Transport investments are prioritised according to the strategic development plan and a technical and economic analysis geared towards delivering cost-effective solutions. New investment needs and the maintenance of existing infrastructure are required to ensure the long-term sustainability of transport networks. However, delays in project preparation and adoption — partly due to administrative capacity constraints — are causing projects to be prioritised according to the speed of approval, but not necessarily on intrinsic merits. The construction of the D4 Bratislava ring road will be financed through a public-private partnership. This is one of the first projects where a blending of funds, including from the European Fund for Strategic Investments (EFSI) and European Structural and Investment Funds (ESIF), has been used.

The transport policy framework is being strengthened as part of the 'Value for Money' initiative, potentially yielding efficiency gains. As set out in the section on public finances and taxation, the 'Value for Money' initiative also includes a spending review for the transport sector. However, the review only deals with operational spending on transport. The efficiency savings identified in this (small) part of the overall transport budget are low (EUR 500 000), in part due to the Transport Ministry's lack of analysts and the lack of necessary data. A fully fledged spending review for transport investment is to be completed in 2017. In view of pressing investment needs and limited competition in the Slovak construction sector, cost savings for transport investment could potentially be generated through better international benchmarking of unit prices.

Graph 3.3.2: **Road network coverage and unemployment**



Source: Slovak Ministry of Finance

Given the environmental impact of transport networks, an effective system of environmental impact assessments remains vital. Slovakia took its first steps in applying a precautionary approach (30) to mitigate and compensate the negative impact of transport on protected areas (including the EU-wide protected Natura 2000 network). Environmental assessments are not sufficiently integrated into the multi-modal analysis and the cost-benefit analyses of individual projects. Many transport projects that are to be co-financed by the EU have obsolete/non-compliant assessments. (31) Various critical projects need to undergo updated assessments in order to satisfy the development consent procedure in accordance with environmental impact assessment law. (32) Restructuring the multi-stage development consent system would allow environmental assessments to be incorporated into a project's life-cycle.

EU funds

There was a significant decrease in investments co-financed from EU funds in 2016 due to the closure of the 2007-13 programming period in 2015 and the slow launch of the 2014-20 programming period. Concerning the 2007-13 programming period, the overall share of payments paid to the project beneficiaries from the Cohesion and Structural Funds increased from 90.6 % in December 2015 to 97.6 % in December 2016. Nevertheless, the total amount of funds paid to the project beneficiaries remains below 100% of the overall allocation, due to irregularities identified by audit authorities linked notably to errors in public procurement and in project selection and evaluation.

The implementation of the 2014-20 programming period is picking up pace, although more slowly than expected. Despite the early adoption of the operational programmes, the designation of authorities responsible for their implementation was still not completed by December 2016, and the publication of calls for projects has fallen behind schedule. Delays in the preparation of implementation documents and manuals, insufficient internal capacity and continuity in the programme management, as well as high staff turnover linked to the political cycle are the main factors accounting for the delay. By December 2016 total ESI Funds implementation on the ground amounts to 20 % of the overall allocation for the programmes. Further details on EU co-financed investment are provided in Box 2.1.

(30) Implementation of the EU Habitats and Birds Directives.

(31) Slovakia's legislation was found not to be compliant with the Environmental Impact Assessment (EIA) Directive as a result of which EU infringement proceedings have been launched on two occasions since Slovakia's accession to the EU. This has had an impact on the legality of the projects which fall under the EIA Directive and which were subject to development consent procedures during this period.

(32) The amended EIA Act (and other relevant legislation) entered into force on 1 January 2015.

Box 3.3.1: Investment Challenges

Section 1. Macroeconomic perspective

While remaining considerably above the EU average as a percentage of GDP in 2015 (23 % vs. 19.5 %), total investment in Slovakia (measured as gross fixed capital formation) has not fully recovered from the marked decline in the period following the financial crisis. General government investment remained broadly stable between 2009 and 2014 at an average rate of 3.7 % of GDP, and saw a marked rise to 6.3 % in 2015 as drawdowns of EU funds under the 2007-13 programming period ended. Meanwhile, decreasing private investment accounted for the entire fall in total investment between 2009 and 2014, and in 2015 stood at 16.7 % of GDP, only 0.3pps above its 10-year low of 2014. Based on the Commission 2016 autumn forecast, these trends are expected to reverse over the medium term, as drawdowns of structural funds in the new programming period will normalise and lower public investment, while private investment (including in car manufacturing plants) is likely to accelerate somewhat.

Section 2. Assessment of barriers to investment and ongoing reforms {TO BE UPDATED}

Public administration/ Business environment	Regulatory/ administrative burden	CSR
	Public administration	CSR
	Public procurement /PPPs	CSR
	Judicial system	CSR
	Insolvency framework	
	Competition and regulatory framework	
Labour market/ Education	EPL & framework for labour contracts	
	Wages & wage setting	
	Education	CSR

Financial Sector / Taxation	Taxation	
	Access to finance	
R&D&I	Cooperation btw academia, research and business	
	Financing of R&D&I	
Sector specific regulation	Business services / Regulated professions	
	Retail	
	Construction	
	Digital Economy / Telecom	
	Energy	
	Transport	

Legend:

	No barrier to investment identified
CSR	Investment barriers that are also subject to a CSR
	No progress
	Limited progress
	Some progress
	Substantial progress
	Fully addressed

Main barriers to investment and priority actions underway

1/ A frequently changing legislative environment makes it difficult and costly for companies to comply with legislation, and legislative and regulatory processes are often viewed as insufficiently business-friendly. While the lack of evidence-based policy making is often noted, the framework for regulatory impact assessments is being strengthened. The lack of eGovernment services complicates business interactions with authorities. Perceptions of corruption and favouritism are rife, especially in public procurement.

2/ The justice system in Slovakia continues to face challenges with regard to its overall effectiveness. While efficiency has started to increase, the workload of the courts remains high. Efficiency aside, the quality of the justice system can be further improved, and persistently low levels of perceived judicial independence in Slovakia undermine the trust of citizens and business.

3/ According to the latest Annual Report on European SMEs, the availability of skilled staff and experienced managers is the second most pressing problem for Slovak SMEs. Slovakia's labour market recovery is likely to be causing labour supply pressures. Official statistics currently show about 40 000 vacancies, while recruitment companies cite far higher figures. After a period of deterioration and stagnation, dual education was rolled out in 2015, but results have yet to materialise.

3.4. SECTORAL POLICIES

Small and medium-sized enterprises (SMEs) and diversification

SMEs are important for growing and diversifying Slovakia's automotive-dominated economy. The Slovak economy is heavily geared towards manufacturing, particularly in the automotive sector. Against this background, a supportive SME environment can promote diversification through grass-roots entrepreneurship. Slovakia is in a good position to promote growth via SMEs; firm birth and death rates in Slovakia are higher than in most other EU countries. ([33]) The start-up rate of employer enterprises stood at 36.1 % in 2012-13 — one of the highest in OECD countries (OECD, 2016b). At the same time, the business survival rate of five-year-old Slovak enterprises in 2014 was 37.5 %, somewhat below the EU average of 44.3 %. ([34])

Support services for SMEs have not yet exhausted their full potential. For example, the efficiency and speed of the services delivered by the 'Point of Single Contact' for start-up procedures and other government services are sub-optimal; various databases still need to be linked up better to ensure the successful application of the so-called 'once-only' principle; and the one-stop-shops dealing with administrative procedures for start-ups do not cover the full spectrum of services to enterprises.

However, targeted support for SMEs is being improved and regulatory impact assessments (RIAs) enhanced. The Act on the Promotion of SMEs entered into force on 1 January 2017. This opens the way for the application of the Small Business Act and the Entrepreneurship 2020 action plan, and should help to ensure progress on implementing SME-friendly policies. The bill clarifies coaching and mentoring and provides for better-structured and simpler support schemes for SMEs. To measure the regulatory impact of the new rules on SMEs, it introduces the SME test, for which pilot testing started in 2016. The test forms part of the RIA procedure which was strengthened in 2015 and 2016. The new RIA introduces the Standing Working Commission of the Legislative Council of the Government for Assessing Selected Impacts and mandatory consultations with the business sector whenever a regulatory proposal has a potential impact on businesses. However, risk assessments are not included in RIAs, and implementation and enforcement of existing rules is not covered by the RIA methodology. Overall, given that it is still in its infancy, the effectiveness and efficiency of the RIA framework remains to be seen.

A long-term-strategy to lower the regulatory burden on companies is yet to be formulated. In the 2016 national reform programme, the Slovak government pledged to adopt a long-term strategy to reduce the regulatory burden on businesses in Slovakia, and amended the methodology for conducting impact assessments of legislative and non-legislative documents. However, this strategy has not been formulated and is postponed to December 2017. An inter-ministerial working group for Doing Business, led by the State Secretary of the Economy Ministry, was recently set up and is expected to present by June 2017 proposals for measures to improve the business environment.

A new national business centre is planned to support enterprises. The centre aims to provide comprehensive support to entrepreneurs and SMEs. Pilot testing of the centre got under way in mid-2016 but full operation and the replication of business centres in the regions have been postponed due to delays in launching the relevant national project financed from the Operational Programme for research and innovation (OP RI). For the very first time, Slovakia received a substantial financial allocation of EUR 400 million from the ESIF for dedicated support of SMEs. Although the first calls have been launched, a number of national projects from the Operational Programme for research and innovation (R&I) to promote the growing, scaling-up, internalisation and competitiveness of SMEs have not yet materialised.

Regulated Professions

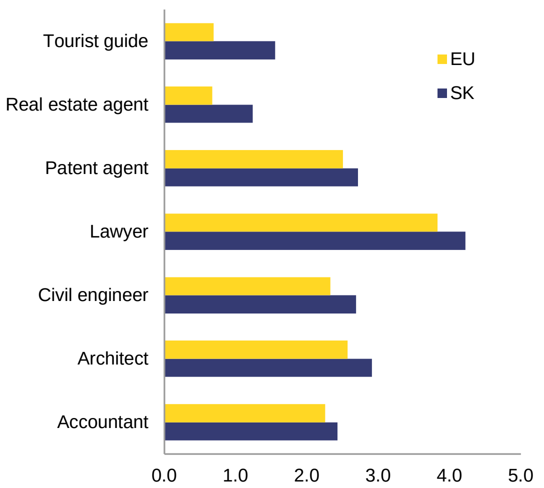
Restrictive barriers remain in regulated professions. The level of restrictiveness is higher in Slovakia than the EU weighted average for all the professions recently reviewed by the European

([33]) The firm birth rate in 2014 was 19.8 % (EU average 10.6 %), and the death rate in 2013 (latest data) was 14.6 % (EU: 9.6 %); for definitions see OECD, 2016b.

([34]) Data missing for Portugal, Malta, Croatia, Ireland and Belgium.

Commission (European Commission, 2016c). ([35]) Restrictiveness is highest for lawyers (see Graph 3.4.1), and simulations suggest that a lowering of the restrictiveness indicator for lawyers to the EU average would boost the number of firms (+0.7 %) while lowering profitability by 2 %. However, for all the professions reviewed, the business churn (or turnover) rate in Slovakia is higher than or similar to the EU average, arguably indicating relatively high levels of dynamism and competition within regulated professions in the country. The national action plan submitted by Slovakia in connection with the mutual evaluation of regulated professions announces very limited changes to the existing restrictions governing access to regulated professions.

Graph 3.4.1: **Summary restrictiveness indicator for regulated professions (2015)**

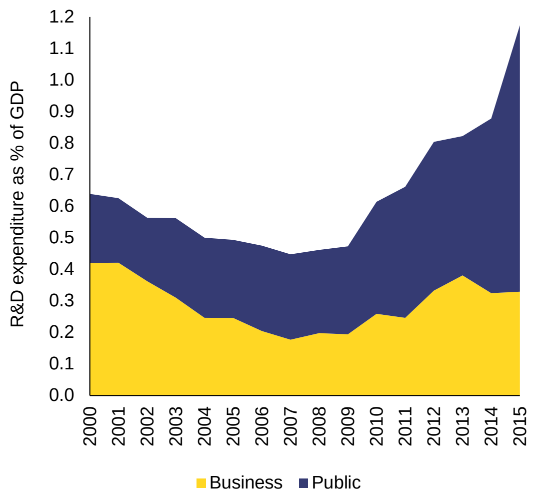


Source: European Commission

Research and innovation strategy

In spite of rising public R&D expenditure, business R&D investment remained unchanged at relatively low levels in recent years. Overall, R&D spending increased from an annual average of 0.83 % of GDP in 2012-2014 to 1.18 % in 2015 (EU average: 2.03 % of GDP). Public R&D spending accounted for the entire increase in recent years (Graph 3.4.2) and was driven by the greater use of EU funds; however, it remains to be seen if public R&D investment can be maintained at its 2015 high as calls to draw funds from the new operational R&I programme are only just being launched. Business R&D expenditure remained virtually unchanged at 0.33 % of GDP in 2015, one of the lowest levels in the EU and well below Slovakia's indicative target of 0.8 % for 2020.

Graph 3.4.2: **R&D intensity in Slovakia in 2000-2015**



Note: Excludes private non-profit R&D spending.
Source: European Commission

Slovakia's science base still ranks at the low end compared with other EU Member States. ([36]) The low volume of business R&D activities in the country is also reflected in the low proportion of researchers employed by business relative to total employment (1 % in 2014, vs an EU average of 3.6 %). While Slovakia saw an improvement in its overall innovation performance between 2012 and 2014 according to the innovation index of the European Innovation Scoreboard, it still underperforms by EU standards and is classed as a moderate innovator (European Commission, 2016d). Poor links between the public sector, research institutions and businesses are evident from the low number of public-private co-publications per million inhabitants (8.1, EU: 33.9) and the below-EU-average scores in

([35]) Regulatory barriers entail, for example, reserved activities, shareholding and voting requirements, multidisciplinary restrictions, compulsory chamber membership, authorisation schemes and professional indemnity insurance.

([36]) For instance, in 2013 Slovakia ranked 23rd among EU Member States on the 'share of national publications within the top 10 % most-cited publications worldwide' indicator (5.5 vs EU average of 10.5), with no significant progress made between 2007 and 2013.

indicators for commercial and non-commercial research outputs in Slovakia.

Upgrading Slovakia's Research and Innovation (R&I) performance requires improvements in the governing policy framework. The slow progress made towards a more efficient and attractive R&I system risks hampering Slovakia's transition from a cost-based to a more innovation-driven growth model. The underperformance of the public research system also seems to be linked to inefficiencies in public funding. This constitutes a bottleneck to growth, and the lack of sufficient public-private cooperation is hampering business R&D investment. ([37]) The main challenges are linked to the need to improve governance in R&I and to increase coordination among governing institutions for developing and implementing R&I policy.

Support measures for business R&I exist, but some remain relatively small-scale. Several national initiatives such as the development of clusters and innovation vouchers to foster cooperation between the research and business sectors received only limited funding. A special 125 % tax super-deduction for private companies investing in R&I entered into force in January 2015. However, it is not used extensively by companies, which claim that the eligibility criteria are unclear and the scheme is not generous enough. ([38]) Most of the measures in the pipeline are to be financed by the R&I Operational Programme, but many have been delayed and some calls for demand-driven projects were only published in late 2016.

Progress on implementing R&I reforms is slow. The national smart specialisation strategy adopted in November 2013 aims to identify strategic specialisation areas and supporting measures, and to put in place a modernised R&I governance structure. However, the action plan to implement the strategy was again postponed. In 2016 the Slovak Academy of Sciences launched an evaluation of its institutions with a view to improving the quality of research. The conversion of the Academy into a public organisation, which was intended to improve cooperation with the business sector, has been postponed. These continual delays hamper the effective and timely implementation of the reforms envisaged and slow down investment from the Structural Funds.

Further general plans in support of R&D are being developed. The Slovak government adopted a decision in 2016 on the launch of three new programmes to be implemented by the Slovak Research and Development Agency in 2016-2019 with a budget of EUR 92 million. The programmes are linked to the national smart specialisation strategy and the Horizon 2020 European funding programme. They aim in particular to provide support to business R&D, including through cooperation with public research organisations, and to support projects which received high scores in the Horizon 2020 evaluation but were not allocated funding. Scientists will receive assistance with preparing proposals for grants from the European Research Council.

Energy, resource efficiency and pollution

Slovakia's energy intensity and energy dependence are relatively high. In 2015 primary and final energy consumption showed a slight increase on the previous year ([39]) (rising by 0.8 % to 15.38 Mtoe and by 3 % to 10.3 Mtoe, respectively). The energy intensity of the economy, which serves as a proxy indicator for overall energy efficiency, also improved slightly but still consistently ranks among the highest in the EU and is approximately 80 % higher than the EU average (Graph 3.4.3.). ([40]) The country's relatively high energy intensity is coupled with high energy dependence: 58.7 % of the energy consumed in 2015 came from imports, a slight increase on the previous year. ([41])

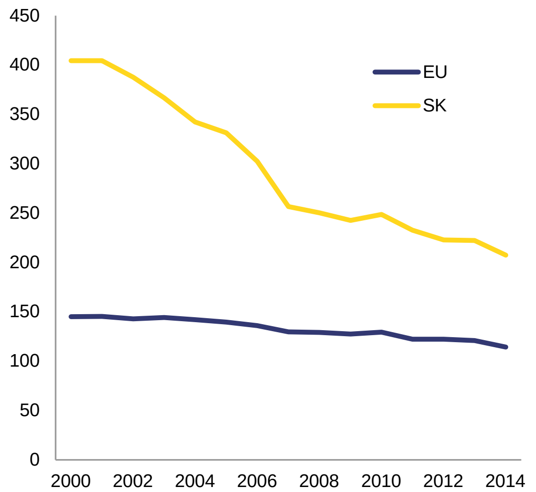
The electricity market is distorted and poses hurdles to new production and cross-border transmission. Electricity prices are high compared to neighbouring countries and include several politically motivated price components, such as a feed-in-tariff for domestically produced but

([37]) For instance, Slovakia ranks 19th among EU Member States on the 'public-private co-publications per million population' indicator (8.1 vs EU average of 34), with no progress made between 2008 and 2014.
([38]) E.g. in the Czech Republic, companies can deduct 200 % of R&I expenses.

([39]) Eurostat.
([40]) *ibid*. In 2014 Slovakia had the sixth highest energy intensity in the EU with 220.1 kgoe/EUR 1 000 compared to an EU average of 121.7 kgoe/EUR 1 000.
([41]) *ibid*.

environmentally damaging lignite. The connection of new sources to the network is perceived as difficult, and since 2013 a 'stop status' prohibits the connection of new renewable sources to the grid. The national arrangements for congestion management and bidding zone definition in central Europe do not necessarily reflect actual congestion, reducing possibilities to trade electricity across borders. Finding a joint regional solution would be likely to benefit all affected neighbours. The complex, opaque regulatory framework complicates relations between stakeholders in the energy market, hampering the production and distribution of renewable energy and the transition to clean energy technologies. Recent changes in the setting of distribution tariffs indicate continued political and business influence.

Graph 3.4.3: **Primary energy intensity (toe/GDP)**



Note: Primary energy consumption divided by GDP, expressed in toe per millions of euros of GDP, in chain linked volumes (2010)
Source: European Commission

Air quality remains troubling. Although the emission of several types of air pollutants has decreased significantly in Slovakia [42] due to structural changes in industry over the previous decade, air pollution ranks as one of the main environmental challenges in Slovakia. [43] Regarding the currently applicable limits, in 2014 the Slovak authorities communicated to the European Commission breaches of EU air quality standards [44] for nitrogen dioxide (NO2) in one air quality zone (Prešov) and particulate matter (PM1 0) in seven air quality zones. Furthermore, target values and long-term objectives regarding ozone concentrations are exceeded in two air quality zones. The resumed operation of a previously decommissioned block of the Novaky thermal power plant risks worsening the country's air quality further.

Municipal waste management remains a challenge despite significant support from EU funds. Municipal waste generation in Slovakia increased in 2015, although it remained well below the EU average (329 kg/y/inhabitant compared to around 477 kg/y/inhabitant). [45] Slovakia still has a high landfilling rate of municipal waste (68 % in 2015 compared to an EU average of 25 %) and a low recycling rate (15 % in 2015; EU: 45 %). A new law on waste entered into force on 1 January 2016. It has the potential to improve the circularity of the economy, in particular via the extended producer responsibility scheme. In 2015, Slovakia adopted a new waste management plan for 2016-2020, with provision made for a retrospective evaluation. This showed that several objectives had not been reached, including recycling targets. It is not yet clear whether the measures will enable Slovakia to achieve the 2020 objectives of the Waste Framework Directive (i.e. 50 % recycling target by 2020) and the more ambitious objectives of the Circular Economy package. [46]

([42]) EIONET Central Data Repository and Air pollutant emissions data viewer (NEC Directive)
([43]) http://www.minzp.sk/iep/publikacie/ekonomicke-analyzy/tri-vyzvy-slovenskeho-zivotneho-prostredia.html
([44]) Directive 2008/50/EC and Directive 2004/107/EC.
([45]) Differences exist between national and Eurostat figures.
([46]) A full assessment of the main challenges and opportunities in respect of Slovakia's environmental policies is set out in the European Commission staff working document *Environmental Implementation Review 2016, Country Report Slovakia*.

3.5. PUBLIC ADMINISTRATION

Human resource management in the public administration

Slovakia faces challenges in modernising its public administration. Shortcomings in public administration have been identified as one of the obstacles to improving the business environment (European Commission, 2016a). A low level of cooperation across ministries hampers strategic planning and blurs policy objectives. Political influence and decentralised recruitment procedures hinder transparency and affect the quality of the service. The selection and appointment of the chairman and vice-chairmen of various regulatory authorities have at times been influenced by political interests, which may impede the achievement of a high-quality regulatory environment guaranteed by independent and accountable regulators.

A new Civil Service Act could offer some improvements. The Act was adopted in February 2017 and contains provisions to reduce political influence on public administration, increase transparency and raise the quality and mobility of staff. It also includes new principles for public service. Some provisions are scheduled for adoption, e.g. the mandatory retirement of public servants at 65 (by 2017), compulsory training for managers (by 2018) and the launch of an electronic register of all civil service positions by January 2019. A new, politically independent Civil Service Council will be set up to coordinate and monitor implementation of the new Civil Service Act and supervise the code of ethics for civil servants.

The regional public reform (ESO) is making progress. It aims to raise the efficiency and quality of services in the newly created one-stop shops in most regions. Since implementation is still under way, it has not yet delivered tangible results in terms of optimising human resources. The human resources strategy implemented since 2015 is under evaluation by the Slovak authorities. The Civil Service Act and other recent measures will need to be carefully monitored in terms of their implementation and in the light of the impact assessment (European Commission, 2016a).

Public Procurement

Public procurement outcomes point to a significant share of non-competitive tendering operations. Recent data show that there was only a single bidder in 31 % of public tenders in 2016. Furthermore, in 7 % of cases the Slovak contracting authorities awarded a contract without having previously publishing a call for tender — a figure that is somewhat above the EU average of 4 % (European Commission, 2016e). While these results show a certain degree of improvement from the preceding year, they nonetheless suggest a considerable lack of competition in public procurement processes.

Public procurement control and transparency mechanisms are not fully functional. A Eurobarometer survey also notes that 54 % of managers of Slovak companies participating in public tenders said that corruption had prevented the company from winning a public tender or contract, compared to an EU average of 34 % (European Commission, 2015b). The above-average perception of public procurement manipulation stands in contrast to the comparatively low number of persons convicted of this crime. In 2015 the Office of the Prosecutor General reported only four such cases (General Prosecutor's Office, 2016, p. 41).

Slovakia transposed the modernised public procurement and concession directives on time, i.e. by 16 April 2016. The role of the Public Procurement Office has been strengthened, in particular by allowing ESIF beneficiaries to request an *ex ante* assessment of tender documents and by establishing mandatory verification of public procurement procedures before contracts are signed by beneficiaries of ESIF funding above EU thresholds.

E-procurement is making progress but the IT environment is still sub-optimal. The Public Procurement Office announced an e-procurement strategy in May 2016 and updated it in January 2017. In 2016, the revamp of the central e-procurement system (EVO) got off the ground with a view to bringing the system into line with the requirements of the corresponding 2014 directive and providing users with a wider range of tools. The current rate of use of the EVO system is low (at 4 %), hampering the improvement of the public procurement process in Slovakia in terms of cost, time and value for money. Since mid-2014, Slovakia has been using a second e-procurement system, the electronic contracting system (EKS), for off-the-shelf purchases. This system has the advantage of being simple and quick when it comes to concluding small and standard purchases and it allows for strict anonymity between purchasers and buyers. Nevertheless, a number of questions have been raised in view of its off-the-shelf format, its mandatory character, alleged collusive practices (despite the in-built anonymity), dumping offers and problems with the automatic generation of contracts by the system.

Improvements in procurement staffing and training appear to be in the pipeline. The staff capacity of the Public Procurement Office has been boosted by 25 posts to help cope with new tasks. Two training programmes were set up in 2016 to address the professional training needs of procurement officers — one for ESIF staff and one for the contracting authorities. The Public Procurement Office organised further training courses following the adoption of the new Public Procurement Law and started to offer e-learning tools on its website. The main areas in need of improvement concern the use of the 'most economically advantageous tender' award criterion instead of the lowest-price criterion, the drafting of technical specifications using functional and objective criteria, and the use of life-cycle costing together with other environmental and social aspects.

Institutional ownership and incentives for efficient procurement remain relatively low. Although certain ministries already act as central purchasing bodies, in particular the Ministry of Interior and the Ministry of Health, Slovak contracting authorities show little interest in various forms of central or joint purchasing activities that usually bring transaction savings, economies of scale and reduce the risk of challenges against the tender decision. Procurement is done in a collaborative way in around 4% of the cases in Slovakia — somewhat below the EU average of 9 %. While it remains to be seen whether the 'Value for Money' initiative will create greater incentives for cost-effective procurement, initial signs are promising. Use of the lowest-price criterion (93 % in 2015) and single bid procedures (38 % in 2015) remains high in healthcare procurement. Following numerous incidents involving illicit procurement practices in the health sector, including overpriced purchases of hospital catering services and medical equipment such as CT scanners in 2014 and 2015, the Ministry of Health has been preparing a price benchmarking system, and organising centralised purchasing of core technologies in 2016. Initial results indicate a slight improvement in procurement outcomes. Slovakia faces a recurrent problem with ICT contracts that have been awarded with unbalanced intellectual property rights in favour of suppliers which prevent the contracting authorities from retendering their contracts in open competition (vendor lock-in). ([47])

Justice System

Slovakia remains one of the lowest-ranked EU Member States in terms of the perceived independence of the judiciary, and further concerns have emerged. The country improved only marginally compared to the previous year in terms of perceived judicial independence. ([48]) In 2016 the Slovak authorities conducted a survey on the general level of trust in the justice system which confirmed this slight improvement (Council for the Judiciary, 2016). However, the persistently low levels of perceived independence in Slovakia continue to be a concern as this undermines the trust of citizens and businesses. The screening of the suitability of judges on the basis of information from the Slovak National Security Authority continues to raise concerns in terms of the independence of the judiciary and the proceedings before the Slovak Constitutional Court are still pending. ([49]) This has caused a bottleneck in the procedures to recruit judges. The failure to appoint candidates to three vacant posts in the Slovak Constitutional Court remains a concern. ([50])

Slovakia has made efforts to improve the effectiveness of its justice system, both in terms of efficiency and quality. The government has identified justice reform as a priority in its 2016 manifesto. Court data confirm that the efficiency

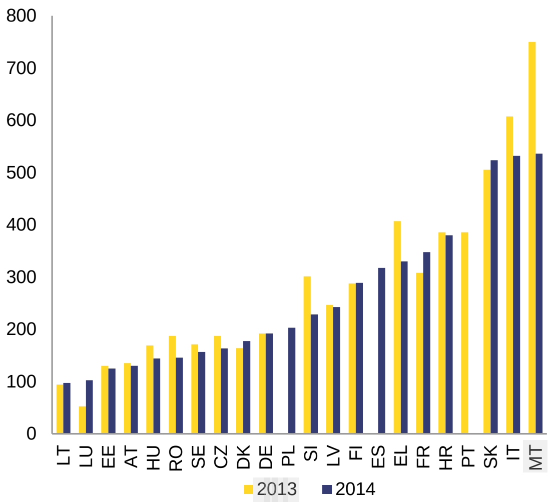
([47]) Typically, customers are obliged to renegotiate crucial intellectual property rights prior to the end of their contracts before these can be opened to genuine competition.
([48]) Slovakia ranks 120 out of 138 compared to 125 out of 140 previously (World Economic Forum, 2016).
([49]) For further details, see European Commission (2016a).
([50]) In early 2017 the President of the Slovak Republic requested an opinion from the Venice Commission of the Council of Europe on questions related to the appointment of judges to the Constitutional Court.

of the court system continues to improve. ([51]) In particular, clearance rates for litigious civil and commercial cases, i.e. the ratio of the number of resolved cases over incoming cases, have improved significantly, thanks in part to the drop in the number of incoming and pending cases (European Commission, 2017). However, the average time needed to resolve cases is among the highest in the EU and is still rising (Graph 3.5.1). In 2016, a number of ICT projects were launched to accelerate procedures and facilitate the interaction of between courts and the general public. The revised Civil Procedural Law entered into force on 1 July 2016 and could bring with it additional efficiency gains. The same may hold true for the new Act on consumer arbitration and the amended Act on arbitration by providing further incentives to pursue alternative dispute resolution methods. Amendments to the enforcement procedure aim at improving the efficiency and specialisation by concentrating these proceedings before a single court. Introducing a fully electronic payment order should further facilitate enforcement. However, it is still too early to assess the situation since the reforms were, for the most part, adopted only recently.

Best practices are not always adhered to in the justice system. Slovakia is still making very limited use of surveys among court users and legal professionals, and judicial training is not fully developed (European Commission, 2017a). Moreover, the financing of justice reforms continues to rely heavily on EU Structural Funds, which raises sustainability concerns in the longer term. Staff in the judiciary also report a persistent lack of qualified administrative support personnel.

([51]) Regarding past improvements in the area of administrative justice see European Commission (2016a), p. 35.

Graph 3.5.1: **Time needed to resolve litigious civil and commercial cases (first instance, in days)**



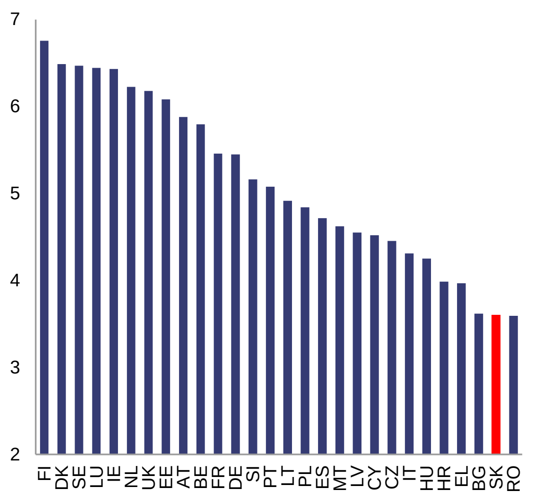
Note: Missing or incomplete data for BE, BG, CY, IE, NL, UK
Source: European Commission

Consumer law enforcement capacity in Slovakia remains limited, as reflected in poor assessments given by consumers and retailers. Slovakia has one of the highest percentages in the EU of retailers and consumers reporting unfair commercial practices (47 % and 30 % respectively compared with 30 % and 17 % for the EU in 2016). Perceived compliance with consumer regulations, as evaluated by retailers, is among the lowest in the EU. This, combined with other factors, means that Slovakia has one of the lowest scores on the compliance and enforcement composite indicator (European Commission, 2017b).

Corruption

Corruption remains one of the main barriers to doing business in Slovakia. The problem is particularly acute in the area of public procurement and in interactions with the public administration. According to the World Economic Forum (2017), out of 138 countries surveyed, Slovakia ranks 122nd on the diversion of public funds and 89th on irregular payments and bribes, placing it among the worst performers in the EU (Graph 3.5.2). In 2015, 12 % of managers reported that they had been asked or expected to pay a bribe when dealing with the public administration (European Commission, 2015b). The World Bank has also reported weak control of corruption (World Bank, 2016). Evidence is mixed in terms of the trajectory of corruption perceptions in recent years. ([52])

Graph 3.5.2: **Perceived incidence of irregular payments and bribes (Index, 2016)**



Note: Possible scores range from 1 (worst) to 7 (best)
Source: World Economic Forum

Prosecutions for corruption-related offences have risen but are still low compared to the high perceived levels of corruption. Criminal statistics show that in 2015, 163 individuals were charged with crimes related to corruption, 53 were prosecuted and 118 were convicted — a fraction of the numbers in the case of economic crimes (mostly tax and insurance fraud) (General Prosecutors Office, 2016, p. 45). The structure of sentences also suggests a lenient approach to corruption-related offences. Of the 118 people convicted, only 10 faced imprisonment, while the majority of cases (67) were concluded with a plea bargain (General Prosecutors Office, 2016, p. 79-80). Charges have very rarely been pressed against high-ranking officials.

A lack of transparency and accountability in the police and public prosecutor's office may be impeding the fight against corruption. As the chief of police and the police inspection are appointed and directly responsible to the interior minister, rather than the cabinet as a whole, this may reduce the level of independence of the police force and hinder the investigation of sensitive or high-level corruption cases. Available data further point to the pivotal role of the public prosecutor's office in punishing corruption crimes, as only a minority of sentences are decided by the courts. The relatively low degree of transparency at the level of the prosecutor's office hinders public scrutiny over the investigation and punishment of corruption and abuses of power.

Legislation protecting whistleblowers entered into force in 2015, but its impact has been modest. So far, only 11 people received institutional protection after making allegations of corruption at the workplace (Transparency International Slovakia, 2016). Low public awareness of the protection available seems to be one of the main reasons for this. A recent survey revealed that only 26 % of survey respondents were aware of the existence of legislation protecting whistleblowers (Transparency International Slovakia, 2016). Another qualitative study suggested that labour inspectorates (as the primary guardians of whistleblowers) tended to react slowly and often failed to properly identify the need for protection (Transparency International Slovakia, 2015). Finally, the obligation to report suspicions to the employer rather than to an independent external body, coupled with the limited protection offered by legislation, may lead to fear of repercussions and discourage people from reporting illicit behaviour (Hospodárske Noviny, 2016).

A new, ambitious act against letterbox companies marks an important step towards greater transparency and less corruption. The legislation will enter into force in 2017 and will require all legal persons accessing public resources to register their full ownership structure down to the final beneficiary in a new register accessible to the public. This legislation should allow for more oversight over the flow of public resources to private persons and may prove a useful tool for identifying conflicts of interest and uncovering money laundering and bankruptcy or restructuring fraud.

([52]) Relevant World Bank indicators show no improvement between 2014 and 2016 data vintages, while Transparency International's Corruption Perceptions Index shows a steady improvement from a score of 46 in 2012 to 51 in 2015; in 2016 Slovakia's score remained unchanged at 51.

ANNEX A

Overview Table

Commitments	Summary assessment ([53])
2016 Country-specific recommendations (CSRs)	
CSR 1: • Improve the cost-effectiveness of the healthcare system. • Take measures to increase tax compliance.	Slovakia has made **limited progress** in addressing CSR 1 (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth pact): • **Limited progress** has been made in improving the cost-effectiveness of the healthcare system: as a comprehensive spending review has identified major cost inefficiencies and potential cost savings, but these are not yet backed by concrete measures. • **Limited progress** has been made in improving tax compliance. While some measures have been launched and appear promising, the system as a whole remains too focused on control, with little attention paid to voluntary compliance.
CSR 2: • Improve activation measures for the long-term unemployed and other disadvantaged groups, including individualised services and targeted training.	Slovakia has made **some progress** in addressing CSR 2: • **Some progress** has been achieved in improving activation measures. An action plan on the integration of the long-term unemployed was adopted in late 2016 in order to address the lack of individualised services and training. However, its timely and adequate implementation will need to

([53]) The following categories are used to assess progress in implementing the 2016 country-specific recommendations:
No progress: The Member State has not credibly announced nor adopted any measures to address the CSR. Below a number of non-exhaustive typical situations that could be covered under this, to be interpreted on a case by case basis taking into account country-specific conditions:
• no legal, administrative, or budgetary measures have been announced in the National Reform Programme or in other official communication to the national Parliament / relevant parliamentary committees, the European Commission, or announced in public (e.g. in a press statement, information on government's website);
• no non-legislative acts have been presented by the governing or legislator body;
• the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures that would need to be taken (unless the CSR explicitly asks for orientations or exploratory actions), while clearly-specified measure(s) to address the CSR has not been proposed.
Limited progress: The Member State has:
• announced certain measures but these only address the CSR to a limited extent; and/or
• presented legislative acts in the governing or legislator body but these have not been adopted yet and substantial non-legislative further work is needed before the CSR will be implemented;
• presented non-legislative acts, yet with no further follow-up in terms of implementation which is needed to address the CSR.
Some progress: The Member State has adopted measures that partly address the CSR
and/or
the Member State has adopted measures that address the CSR, but a fair amount of work is still needed to fully address the CSR as only a few of the adopted measures have been implemented. For instance: adopted by national parliament; by ministerial decision; but no implementing decisions are in place.
Substantial progress: The Member State has adopted measures that go a long way in addressing the CSR and most of which have been implemented.
Full implementation: The Member State has implemented all measures needed to address the CSR appropriately.

	be monitored. No targeted efforts have been undertaken to help integrate Roma into the labour market.
• Facilitate the employment of women, in particular by extending the provision of affordable, quality childcare.	• **Some progress** has been identified in increasing the capacity of and access to early childhood education and care, particularly for the over-threes. For children under three, the number of private facilities has increased slightly but no progress has been made in setting up a legislative framework for childcare services.
• Improve educational outcomes by making the teaching profession more attractive and by increasing the participation of Roma children from early childhood in mainstream education.	• **Limited progress** has been made in the educational dimension of the CSR. Some measures have been taken in order to raise the attractiveness of the teaching profession. Substantial annual pay rises have been agreed or are planned for 2016 and 2017. The government aims to raise entry requirements for teaching and improve training. A reform to support socially and ethnically inclusive education, including of Roma pupils, entered into force in 2016, but effectively implementing the reform will require further efforts and political commitment.
CSR 3:	Slovakia has made **limited progress** in addressing CSR 3:
• Consolidate governance, reinforce the shift from price only to quality-based competition and improve the prosecution of illicit practices in public procurement.	• **Limited progress** has been made in improving competition and fighting illicit practices in public procurement. While some initiatives for fostering quality-based procurement procedures have been launched, these are not yet systematic or concrete.
• 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.	• **Some progress** has been made in improving human resource management in public administration. While the new Civil Service Act has the potential to materially improve the situation, this will require determined implementation of the Act, which will be applicable only from the second half of 2017 onwards.
	• **Limited progress** has been made towards improving the effectiveness of the justice system. Although the new government

	made this a key priority, the impact of new measures (some of which are still in draft) cannot be assessed yet.
• Adopt a comprehensive plan to address administrative and regulatory barriers for businesses.	• **No progress** has been made in adopting a comprehensive plan to address administrative and regulatory barriers for businesses. In the 2016 national reform programme the Slovak government committed to adopt a corresponding long-term strategy, but the plan has not yet been formulated.
Europe 2020 (national targets and progress)	
Employment: *72 %*	After the sharp fall in employment during the financial crisis and a moderate recovery in 2014, the Slovak labour market improved slightly. The employment rate increased and reaching 67.7 % in 2015 (Eurostat). However, despite these improvements, the labour market still performs worse than the EU average (for both men and women) and the overall employment rate remains significantly below the target to be achieved by 2020.
R&D: *1.2 % of GDP (where the private sector is to provide 2/3 of total expenditure)*	R&D intensity increased significantly between 2007 and 2015 (from 0.46 % to 1.18 % of GDP; Eurostat). While this is just about meets the target, the extremely low level of business expenditure on R&D should be noted (0.33 % in 2015; Eurostat).
National Greenhouse Gas (GHG) emissions target: maximum 13% increase in 2020 compared to 2005 (in non-ETS sectors)	2020 target: 13% According to the latest national projections and taking into account the existing measures, the non-ETS emissions are expected to decrease by 3.8% in 2020 compared to 2005. Thus, the target will be over-achieved by some 16.8 percentage points. Non-ETS 2015 target: 5% While the target for 2015 was an increase of no more than 5% compared to 2005, the preliminary figures show that the non-ETS emissions actually decreased by 14%.

Renewable energy target: *14 %*	Slovakia had an 11.9 % share of renewable energy in gross final consumption in 2015. ([54]) This was above the indicative goal for 2015/2016 of 10 %, which the country needs in order to stay on track towards its 2020 target.
Energy efficiency: *16.4 Mtoe expressed in primary energy consumption (9.0 Mtoe expressed in final energy consumption)*	Slovakia has to increase its effort to lower its final energy consumption further in order to achieve its indicative final energy consumption 2020 target (9 Mtoe) and to keep its current primary energy consumption below its primary energy 2020 target (16.4 Mtoe).
Early school leaving: *6 %*	The percentage of early leavers from education and training increased from 6.7 % in 2014 to 6.9% in 2015 (Eurostat) and is thus moving away further away from the 6 % national target. It is particularly high for Roma, calling for targeted measures.
Tertiary education: *40 %*	The tertiary education attainment rate rose to 28.4 % in 2015 (Eurostat). While this constitutes progress, efforts to ensure greater quality and labour market relevance of higher education remain valid if the 40% target is to be reached.
Poverty/social exclusion: *Reduction of 170 000 persons between 2008 and 2020*	Between 2008 and 2015 there was a cumulative decrease of 148 000 (Eurostat). Given that the figures have hardly changed since the previous year, the pace of poverty reaction appears to have stalled.

([54]) Renewable energy shares for 2015 are approximations and not official data, reflecting the available data (04.10.2016). See the Öko-Institut Report: Study on Technical Assistance in Realisation of the 2016 Report on Renewable Energy, http://ec.europa.eu/energy/en/studies .

ANNEX B

MIP Scoreboard

Table B.1: **The MIP scoreboard for Slovakia**

			Thresholds	2010	2011	2012	2013	2014	2015
External imbalances and competitiveness	Current account balance, (% of GDP)	3 year average	-4%/6%	-4.9	-4.4	-2.9	-0.7	1.3	1.1
	Net international investment position (% of GDP)		-35%	-61.9	-64.4	-61.8	-62.3	-63.8	-61.0
	Real effective exchange rate - 42 trading partners, HICP deflator	3 years % change	±5% & ±11%	10.9	3.4	-3.1	2.1	1.2	-0.7
	Export market share - % of world exports	5 years % change	-6%	4.2	-2.3	-9.6	-3.5	2.4	6.7
	Nominal unit labour cost index (2010=100)	3 years % change	9% & 12%	9.5	6.1	0.8	2.2	1.9	2.2
Internal imbalances	Deflated house prices (% y-o-y change)		6%	-5.0	-5.2	-5.9	-0.4	1.5	5.5
	Private sector credit flow as % of GDP, consolidated		14%	2.9	3.0	3.1	5.1	5.7	8.2
	Private sector debt as % of GDP, consolidated		133%	67.4	70.2	70.6	74.0	77.6	81.4
	General government sector debt as % of GDP		60%	41.2	43.7	52.2	54.7	53.6	52.5
	Unemployment rate	3 year average	10%	12.1	13.4i	14.1	14.0	13.8	13.0
	Total financial sector liabilities (% y-o-y change)		16.5%	1.6	0.3	3.5	0.0	6.9	4.5
New employment indicators	Activity rate - % of total population aged 15-64 (3 years change in p.p)		-0.2%	0.4	-0.1b	1.0	1.2	1.6	1.5
	Long-term unemployment rate - % of active population aged 15-74 (3 years change in p.p)		0.5%	0.9	2.6	2.8	0.7	0.0	-1.8
	Youth unemployment rate - % of active population aged 15-24 (3 years change in p.p)		2%	13.3	14.4i	6.4	-0.2	-4.0	-7.5

Flags: b: break in time series. i: see metadata. na: not available.
Note: 1) Unemployment rate: for 2011 i = Eurostat back-calculation to include 2011 Population Census results. 2) Youth unemployment rate: for 2011 i = Eurostat back-calculation to include 2011 Population Census results.
Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund

ANNEX C

Standard Tables

Table C.1: **Financial market indicators**

	2011	2012	2013	2014	2015	2016
Total assets of the banking sector (% of GDP)	82.2	82.1	82.3	84.6	87.8	89.8
Share of assets of the five largest banks (% of total assets)	72.2	70.7	70.3	70.7	72.3	-
Foreign ownership of banking system (% of total assets)	94.9	95.8	96.0	96.0	96.3	-
Financial soundness indicators:1)						
- non-performing loans (% of total loans)	4.0	3.8	3.8	4.1	3.5	4.0
- capital adequacy ratio (%)	13.5	15.9	17.5	17.3	17.7	17.3
- return on equity (%)2)	12.0	9.0	10.0	9.2	9.7	6.7
Bank loans to the private sector (year-on-year % change)	9.3	3.8	6.4	7.4	10.4	9.1
Lending for house purchase (year-on-year % change)	13.7	11.1	11.9	13.6	13.8	14.1
Loan to deposit ratio	90.3	87.2	87.9	91.2	91.5	96.2
Central Bank liquidity as % of liabilities	3.1	4.0	0.7	1.1	1.2	1.3
Private debt (% of GDP)	70.2	70.6	74.0	77.6	81.4	-
Gross external debt (% of GDP)1) - public	16.6	24.2	32.9	38.0	33.7	32.8
- private	27.4	28.2	32.1	30.7	31.3	31.3
Long-term interest rate spread versus Bund (basis points)*	183.9	305.8	161.8	90.8	38.9	42.5
Credit default swap spreads for sovereign securities (5-year)*	135.2	191.5	83.7	53.3	44.9	39.2

1) Latest data Q2 2016.
2) Quarterly values are not annualised.
* Measured in basis points.
Source: European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators).

Table C.2: **Labour market and social indicators**

	2011	2012	2013	2014	2015	2016 [4]
Employment rate (% of population aged 20-64)	65.0	65.1	65.0	65.9	67.7	69.7
Employment growth (% change from previous year)	1.8	0.1	-0.8	1.4	2.0	2.3
Employment rate of women (% of female population aged 20-64)	57.4	57.3	57.8	58.6	60.3	62.5
Employment rate of men (% of male population aged 20-64)	72.5	72.8	72.2	73.2	75.0	76.8
Employment rate of older workers (% of population aged 55-64)	41.3	43.1	44.0	44.8	47.0	48.6
Part-time employment (% of total employment, aged 15-64)	4.0	4.0	4.5	5.1	5.8	5.7
Fixed-term employment (% of employees with a fixed term contract, aged 15-64)	6.5	6.7	6.8	8.8	10.5	10.0
Transitions from temporary to permanent employment	40.7	42.0	41.0	35.3	30.8	:
Unemployment rate[1] (% active population, age group 15-74)	13.7	14.0	14.2	13.2	11.5	9.9
Long-term unemployment rate[2] (% of labour force)	9.3	9.4	10.0	9.3	7.6	5.9
Youth unemployment rate (% active population aged 15-24)	33.7	34.0	33.7	29.7	26.5	22.8
Youth NEET[3] rate (% of population aged 15-24)	13.8	13.8	13.7	12.8	13.7	:
Early leavers from education and training (% of pop. aged 18-24 with at most lower sec. educ. and not in further education or training)	5.1	5.3	6.4	6.7	6.9	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	23.2	23.7	26.9	26.9	28.4	:
Formal childcare (30 hours or over; % of population aged less than 3 years)	3.0	4.0	3.0	6.0	:	:

1) The unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within 2 weeks.
2) Long-term unemployed are those who have been unemployed for at least 12 months.
3) Not in education employment or training.
4) Average of first three quarters of 2016. Data for total unemployment and youth unemployment rates are seasonally adjusted.
Source: European Commission (EU Labour Force Survey).

Table C.3: **Labour market and social indicators (continued)**

Expenditure on social protection benefits (% of GDP)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Sickness/healthcare	5.4	5.3	5.3	5.5	5.6	:
Disability	1.5	1.5	1.6	1.6	1.6	:
Old age and survivors	7.6	7.5	7.7	7.9	8.2	:
Family/children	1.7	1.7	1.7	1.7	1.7	:
Unemployment	1.0	0.8	0.7	0.6	0.5	:
Housing	0.0	0.0	0.0	0.0	0.0	:
Social exclusion n.e.c.	0.5	0.4	0.4	0.4	0.4	:
Total	17.7	17.3	17.5	17.8	18.0	:
of which: means-tested benefits	0.9	0.9	0.9	0.9	0.9	:
Social inclusion indicators	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
People at risk of poverty or social exclusion[1] (% of total population)	20.6	20.6	20.5	19.8	18.4	18.4
Children at risk of poverty or social exclusion (% of people aged 0-17)	25.3	26.0	26.6	25.5	23.6	24.9
At-risk-of-poverty rate[2] (% of total population)	12.0	13.0	13.2	12.8	12.6	12.3
Severe material deprivation rate[3] (% of total population)	11.4	10.6	10.5	10.2	9.9	9.0
Proportion of people living in low work intensity households[4] (% of people aged 0-59)	7.9	7.7	7.2	7.6	7.1	7.1
In-work at-risk-of-poverty rate (% of persons employed)	5.7	6.3	6.2	5.7	5.7	6.0
Impact of social transfers (excluding pensions) on reducing poverty	39.4	33.3	34.0	36.3	35.7	35.3
Poverty thresholds, expressed in national currency at constant prices[5]	3434	3516	3710	3478	3465	3530
Gross disposable income (households; growth %)	1.5	1.9	2.8	1.4	2.5	3.9
Inequality of income distribution (S80/S20 income quintile share ratio)	3.8	3.8	3.7	3.6	3.9	3.5
GINI coefficient before taxes and transfers	43.9	43.6	41.9	41.3	43.2	:
GINI coefficient after taxes and transfers	25.9	25.7	25.3	24.2	26.1	:

1) People at risk of poverty or social exclusion: individuals who are at risk of poverty and/or suffering from severe material deprivation and/or living in households with zero or very low work intensity.
2) At-risk-of-poverty rate : proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.
3) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.
4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.
5) For EE, CY, MT, SI and SK, thresholds in nominal values in euros; harmonised index of consumer prices = 100 in 2006 (2007 survey refers to 2006 incomes).
Source: For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table C.4: **Product market performance and policy indicators**

Performance indicators	2010	2011	2012	2013	2014	2015
Labour productivity (real, per person employed, year-on-year % change)						
Labour productivity in industry	17.86	1.20	1.42	0.65	11.30	6.84
Labour productivity in construction	-4.93	10.40	9.84	-7.81	-0.06	2.70
Labour productivity in market services	2.27	-1.20	1.41	1.13	1.77	1.02
Unit labour costs (ULC) (whole economy, year-on-year % change)						
ULC in industry	-14.76	3.26	4.51	3.41	-7.65	-3.55
ULC in construction	9.36	-6.64	-8.08	10.80	-0.46	1.96
ULC in market services	1.09	5.94	-0.07	1.26	1.63	3.45
Business environment	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Time needed to enforce contracts[1] (days)	565.0	565.0	545.0	545.0	705.0	705.0
Time needed to start a business[1] (days)	17.5	17.5	13.5	18.5	11.5	11.5
Outcome of applications by SMEs for bank loans[2]	na	0.92	na	1.07	0.83	0.65
Research and innovation	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
R&D intensity	0.62	0.66	0.80	0.82	0.88	1.18
Total public expenditure on education as % of GDP, for all levels of education combined	4.22	4.06	3.05	4.12	na	na
Number of science & technology people employed as % of total employment	39	38	37	37	37	37
Population having completed tertiary education[3]	15	16	17	18	18	19
Young people with upper secondary education[4]	93	93	93	91	91	91
Trade balance of high technology products as % of GDP	-3.17	-4.93	-5.55	-5.32	-5.08	-5.94
Product and service markets and competition				**2003**	**2008**	**2013**
OECD product market regulation (PMR)[5], overall				na	1.62	1.29
OECD PMR[5], retail				1.14	1.04	1.75
OECD PMR[5], professional services				na	na	2.90
OECD PMR[5], network industries[6]				3.33	2.28	1.88

1) The methodologies, including the assumptions, for this indicator are shown in detail at : http://www.doingbusiness.org/methodology.
2) Average of the answer to question Q7B_a. '[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?'. Answers were scored as follows: zero if received everything, one if received most of it, two if only received a limited part of it, three if refused or rejected and treated as missing values if the application is still pending or if the outcome is not known.
3) Percentage population aged 15-64 having completed tertiary education.
4) Percentage population aged 20-24 having attained at least upper secondary education.
5) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail at: http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm
6) Aggregate OECD indicators of regulation in energy, transport and communications.
Source: European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.5: **Green growth**

Green growth performance		2010	2011	2012	2013	2014	2015
Macroeconomic							
Energy intensity	kgoe / €	0.26	0.25	0.24	0.24	0.22	0.22
Carbon intensity	kg / €	0.94	0.90	0.83	0.81	0.75	-
Resource intensity (reciprocal of resource productivity)	kg / €	1.45	1.46	1.24	1.17	1.26	1.30
Waste intensity	kg / €	0.19	-	0.16	-	0.16	-
Energy balance of trade	% GDP	-5.7	-6.4	-5.9	-5.9	-4.3	-
Weighting of energy in HICP	%	15.68	15.40	18.91	16.48	16.18	15.54
Difference between energy price change and inflation	%	-4.0	4.7	1.8	-1.9	-2.0	-2.0
Real unit of energy cost	% of value added	27.6	30.9	30.2	28.9	25.5	-
Ratio of environmental taxes to labour taxes	ratio	0.13	0.12	0.11	0.11	0.11	-
Environmental taxes	% GDP	1.8	1.8	1.7	1.7	1.8	-
Sectoral							
Industry energy intensity	kgoe / €	0.31	0.29	0.30	0.30	0.27	0.25
Real unit energy cost for manufacturing industry excl. refining	% of value added	24.0	26.2	25.4	23.6	22.8	-
Share of energy-intensive industries in the economy	% GDP	15.07	15.05	15.42	14.46	16.50	20.28
Electricity prices for medium-sized industrial users	€ / kWh	0.12	0.13	0.13	0.13	0.12	0.11
Gas prices for medium-sized industrial users	€ / kWh	0.03	0.04	0.04	0.04	0.04	0.03
Public R&D for energy	% GDP	0.01	0.01	0.00	0.00	0.01	0.01
Public R&D for environmental protection	% GDP	0.01	0.01	0.01	0.01	0.01	0.01
Municipal waste recycling rate	%	9.1	10.3	13.3	10.8	10.3	14.9
Share of GHG emissions covered by ETS*	%	50.1	51.1	50.7	50.9	51.5	51.2
Transport energy intensity	kgoe / €	1.13	0.98	0.85	0.87	0.65	0.57
Transport carbon intensity	kg / €	3.17	2.69	2.50	2.50	1.93	-
Security of energy supply							
Energy import dependency	%	63.1	64.3	60.2	59.2	60.9	58.7
Aggregated supplier concentration index	HHI	71.0	71.9	66.1	68.9	70.4	-
Diversification of energy mix	HHI	0.22	0.22	0.22	0.22	0.21	-

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2005 prices).
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR).
Carbon intensity: greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR).
Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR).
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP.
Weighting of energy in HICP: the proportion of 'energy' items in the consumption basket used for the construction of the HICP.
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change).
Real unit energy cost: real energy costs as a percentage of total value added for the economy.
Environmental taxes over labour taxes and GDP: from European Commission's database, 'Taxation trends in the European Union'.
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR).
Real unit energy costs for manufacturing industry excluding refining : real costs as a percentage of value added for manufacturing sectors.
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP.
Electricity and gas prices for medium-sized industrial users: consumption band 500–20 00MWh and 10 000–100 000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste.
Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP
Proportion of GHG emissions covered by EU Emissions Trading System (ETS) (excluding aviation): based on greenhouse gas emissions (excl land use, land use change and forestry) as reported by Member States to the European Environment Agency.
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2005 EUR).
Transport carbon intensity: GHG emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels.
Aggregated supplier concentration index: covers oil, gas and coal. Smaller values indicate larger diversification and hence lower risk.
Diversification of the energy mix: Herfindahl index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels.
Source: European Commission (Eurostat) unless indicated otherwise

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