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Assessment of the 2014 national reform programme and stability programme for SLOVAKIA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Slovakia's 2014 national reform programme and delivering a Council opinion on Slovakia's 2014 stability programme

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CONTENTS

Executive summary 3
1. Introduction 5
2. Economic situation and outlook 5
3. Challenges and assessment of policy agenda 6
3.1. Fiscal policy and taxation 6
3.2. Financial sector 16
3.3. Labour market, education and social policies 16
3.4. Structural measures promoting sustainable growth and competitiveness 21
3.5. Modernisation of public administration 27
4. Conclusions 30
Overview table 32
Annex 37

EXECUTIVE SUMMARY

The Slovak economy, which saw one of the speediest recoveries from the financial crisis, faces the challenge of strengthening its domestic production base and diversifying its sources of growth, whilst consolidating progress made so far in terms of structural reforms and public finances. After a slowdown in 2013, economic activity in Slovakia is set to pick up in 2014. Real GDP is expected to increase by 2.2% in 2014 and by 3.1% in 2015. The composition of growth is projected to become more balanced as domestic demand becomes the main driver. Private consumption is set to recover gradually after several years of decline. Nevertheless, labour market conditions are expected to improve only modestly and the unemployment rate will remain close to 13%. On current policies the headline general government deficit and the structural balance will deteriorate slightly in 2014 before improving in 2015. The ratio of public debt to GDP will continue to rise in 2014 and 2015.

Overall, Slovakia has made limited progress on addressing the 2013 country-specific recommendations. According to the projections in the Commission 2014 spring forecast the general government deficit has been brought below 3% of GDP in 2013 in a sustainable manner. Nevertheless, there is a risk of deviation from the adjustment path towards the medium-term objective in 2014 whereas an appropriate correction is expected in 2015. Measures aimed at combating tax fraud have been implemented and the effectiveness of VAT collection has improved. Efforts have been made to reduce the tax wedge for the low-paid long-term unemployed. A plan for a Youth Guarantee scheme has been submitted and some steps have been taken to reform vocational education and training. There has been no progress, however, on reducing the financing gap in the public pensions system. There is still ample scope to broaden the tax base. Improvements in the capacity of public employment services remain limited and the links between activation measures and social assistance continue to be weak. Progress on improving the availability of childcare services has also been limited. Marginalised communities continue to face a lack of inclusive access to education. No significant steps have been taken to improve the functioning of the energy market. Limited progress has been made on strengthening the analytical capacities of key ministries and on improving the efficiency of the judicial system.

Further measures are needed in order to improve Slovakia's growth potential, achieve budgetary objectives, and ensure the sustainability of its public finances. More progress is needed in the areas of public finances, employment, education, business environment and innovation, energy and public administration. The national reform programme and the stability programme acknowledge that further efforts are needed in these areas and they put forward measures that have the potential to enhance economic growth, productivity and employment. More specifically, key challenges facing Slovakia are:

- **Public finances:** The general government deficit reached 2.8% of GDP in 2013 and is expected to remain below 3% of GDP also in the coming years but subject to risks. While both the stability programme and the national reform programme adhere to growth-friendly spending, provided data does not fully support this aim. The public debt is expected to remain below 60% of GDP. Further measures will be required to achieve the budgetary targets. In particular, achieving the adjustment towards the medium-term budgetary objective implies reducing the reliance on one-off and other temporary measures shown in recent years. Tax collection has improved, but there appears to be scope to further broaden the base – including for recurrent taxes on real estate and income taxes – and enhance tax compliance. In the long term, the sustainability of public finances remains an important challenge given the projected growth in health-related expenditure.

- **Labour market:** The high unemployment rate remains the most important labour market challenge. Long-term unemployment is a particularly serious issue, accounting for around 70% of total unemployment. The youth unemployment rate is also among the highest in the EU. Female employment continues to be held back by the insufficient availability of childcare services. The integration of Roma people into the labour market remains limited.
- **Education:** The relevance of education and training to the labour market is low and the transition from education to employment is slow. Furthermore, the education sector is not sufficiently attractive to talented young professionals. Coupled with insufficient capacities of pre-primary education, this has a negative impact on the outcomes for pupils in primary education.
- **Business environment and innovation:** The ease of doing business in Slovakia has decreased recently, but partly due to higher tax compliance costs for start-ups. The point of single contact system is under-used and there is scope to conduct impact assessments of regulatory initiatives more systematically. In addition, a lack of cooperation between academia and business hinders the effectiveness of knowledge transfer.
- **Energy:** The lack of transparency in regulatory policy including the method of setting tariffs and the weak accountability of the energy regulator impede the smooth functioning of the energy market. High network charges are reflected in high electricity prices, which harm the competitiveness of the Slovak industry. By completing the cross-border north-south gas interconnection, the gas dependence on a single supplier would be alleviated.
- **Public administration**: Public administration in Slovakia suffers from poor human resource management and high staff turnover, which also affects the slow implementation of EU funds. Weak analytical capacity hampers evidence-based policy making. Public procurement and transparency in judicial proceedings also remain serious challenges. Perceived corruption prevents faster progress in building a high-quality and client-oriented public administration and improving the efficient allocation of public resources.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations for economic and structural reform policies for Slovakia. On the basis of these recommendations, the Council of the European Union adopted six CSRs in July 2013. These CSRs concerned public finances, taxation, the labour market, education, energy, and public administration. This staff working document (SWD) assesses the state of implementation of these recommendations in Slovakia.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014 (AGS)[1] and the third annual Alert Mechanism Report (AMR)[2], which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 16 Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission communication.[3]

Against the background of the 2013 Council Recommendations, the AGS and the AMR, Slovakia presented updates of its national reform programme and stability programme on 23 April 2014. These programmes provide detailed information on progress made since July 2013 and on the plans of the government. The information contained in these programmes provides the basis for the assessment made in this staff working document.

The preparation of the national reform programme involved the Council for Solidarity and Development, which encompasses a broad range of stakeholders. The programme was also subject of a publicly accessible consultation process and was approved by a parliamentary committee. The stability programme was approved by two parliamentary committees and the Parliament.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

After robust growth in 2012, the Slovak economy slowed down in 2013, with real GDP increasing by 0.9%. Domestic demand continued to act as a drag on growth, mainly due to falling investment and stagnating private consumption. Net exports continued to grow, albeit at a slower pace, and remained the main contributor to Slovakia's positive overall growth rate. Inflation decreased significantly in the second half of 2013, mainly due to a fall in energy

[1] COM(2013) 800 final
[2] COM(2013) 790 final
[3] Aside from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

prices. The high overall rate of unemployment remained broadly stable, at around 14% in 2013, while long-term unemployment remains a serious concern.

Economic outlook

Economic growth is expected to gather pace. According to the Commission 2014 spring forecast, real GDP will increase by 2.2% in 2014 and by 3.1% 2015. The composition of growth will become more balanced as the main driving force shifts from net exports to domestic demand. The situation in the labour market is set to improve only marginally with unemployment expected to remain close to 13%. Given declining commodity prices and weak demand-pull pressures, inflation is projected to remain low in 2014.

The macroeconomic outlook presented in the stability programme is in line with the Commission 2014 spring forecast. Both project real GDP growth rates of around 2% in 2014 and of around 3% in 2015. However, there are some differences regarding the expected sources of this growth. The Commission forecast projects growth to be driven mainly by domestic demand, while the forecast underpinning the stability programme expects a larger contribution from net exports. The two forecasts have similar expectations with regards to the unemployment rate, which they see as remaining around 13% until 2015, and to inflation, which they project to remain low in 2014 and to pick up in 2015. Overall, the scenario underpinning the stability programme appears to be realistic regarding Slovakia's macroeconomic prospects in 2014 and 2015. The macroeconomic scenario underpinning the national reform programme is identical with that of the stability programme. The national reform programme 2014 includes estimates of the macroeconomic impact of four structural reforms presented therein. The impact is quantified and based on the QUEST III model.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

Fiscal policy remains focused on complying with EU fiscal rules and generating sustainable long-term outcomes. The main goal of the stability programme is to retain a fiscal position which will ensure the sustainability of public finances in the long term. In the short term, this implies retaining the deficit below 3% of GDP reference value to ensure an abrogation from the Excessive Deficit Procedure. The authorities plan to reach their Medium Term Objective (MTO), defined as a structural deficit of around 0.5% of GDP, in 2017, one year earlier than originally planned. Although the MTO target is stated in somewhat weaker terms than in the 2013 stability programme (i.e. 'around' instead of 'at'), it is more stringent than what the Pact requires.

The headline deficit in 2013 was slightly lower than budgeted. The general government deficit reached 2.8% of GDP in 2013 compared to a target of 2.9% of GDP. Much stronger collection of VAT, lower co-financing of projects financed from the EU funds, lower costs of debt financing, better outcomes of self-governing regions and universities, and the impact of the incorporation of the Slovak Railway Company in the general government sector all contributed to this result. One-off measures accounted for an improvement of 0.3% in the headline balance. On the other hand, revenues from income taxes, dividends and the sale of emission quotas fell short of the budgeted levels. The sale of telecom licences was postponed and the sale of emergency oil reserves was not accepted by Eurostat as general government revenue. An additional negative impact of around 0.2% of GDP came from financial corrections related to EU funding. The Commission 2014 spring forecast projects the headline deficit to remain just below 3% of GDP in 2014 and 2015.

The stability programme presents a more ambitious deficit target for 2014 compared to the Draft Budgetary Plan (DBP). In 2014, the authorities target a deficit of 2.6% of GDP, the same as originally presented in the 2013 stability programme and 0.2 pp lower than envisaged by the DBP. However, the stability programme acknowledges that without additional measures, the headline deficit would not change compared to 2013 and remain at 2.8% of GDP. This estimate reflects an already realised revenue shortfall from dividends and the sale of telecom licences vis-à-vis values projected in the DBP. Nevertheless, stronger revenue from VAT (partly from improved collection) and non-budgeted revenues from a fine for a cartel in the construction sector as well as envisaged large one-off proceeds (0.2% of GDP) from a levy on industries operating in a regulated environment are expected to offset the shortfalls in dividends and sale of licences.[4] The stability programme envisages also further mandatory expenditure cuts triggered by the domestic constitutional debt brake (as the government ratio exceeded 55% of GDP in 2013). These cuts are not incorporated in the deficit estimate presented for 2014. The Commission 2014 spring forecast projects a deficit at 2.9% of GDP, assuming expenditure cuts due to the domestic debt brake, but excluding the planned revenue from the levy on regulated industries due to lack of details, while projecting a stronger increase in the public wage bill in view of persistent expenditure overruns in this area.

As of 2015, two thirds of the measures that are specified and quantified in the stability programme concentrate on the revenue side. The main measures include retaining the revenue yield from VAT (which is assumed to refer to maintaining the standard VAT rate at 20% instead of reducing it to 19% from that year, as previously planned) and the introduction of cash registers for doctors and other free professions. Savings on the expenditure side are envisaged to stem from the ongoing reform of the state administration – ESO. The constitutional debt brake which was triggered by the public debt ratio exceeding 55% of GDP in 2013 is expected to yield additional savings (vis-à-vis the no-policy-change scenario) as the local governments have to keep their spending at the levels budgeted for 2014. This rule will be tested for the first time and the programme baseline for 2015 and later years does not yet incorporate it. Finally, as of 2016, an annual settlement of social contributions is planned to provide additional revenue (see Box 1).

The envisaged fiscal adjustment is back-loaded and requires specification of additional measures after 2014. The programme aims to reduce the general government deficit to 2.5% of GDP in 2015, 1.6% of GDP in 2016 and 0.5% of GDP in 2017. The headline deficit targets are somewhat less ambitious compared to the 2013 stability programme and require specification of additional measures in order to be achieved. With no additional measures, the deficit in 2015 would reach 2.8% of GDP (in line with the Commission 2014 spring forecast), 2.0% of GDP in 2016 and 1.3% of GDP in 2017.

The consolidation path is subject to a number of risks, which could be mitigated by the prospect of higher revenue from a better-than-expected recovery and the dampening impact of expenditures cuts from the application of the constitutional debt brake. In 2014, the consolidation effort still relies markedly on one-off measures, to the effect of 0.5% of GDP, although to a lesser extent than in the DBP of autumn 2013. Moreover, the planned one-off revenue related to the organisational changes in SPP (the gas company) will depend on a successful implementation and will be subject to Eurostat's decision as to whether it can be accounted as general government revenue. The envisaged reduction of the public wage bill by 0.6% of GDP in 2014 is not adequately supported by sufficiently specified measures.

[4] The one-off revenue from the levy on regulated industries relates to the change in the ownership structure of SPP (a gas company) where the state has currently a 51% stake. The stability programme does not specify further details of this transaction.

Savings from the ESO in 2015, which is reaching the more advanced phases and can be hence more difficult to implement, are also subject to a degree of uncertainty. On the other hand, this could be mitigated by stronger tax collection during the recovery phase and required savings stemming from the application of the debt brake rules.

Efforts to improve the efficiency of public spending have continued but growth-enhancing expenditure does not appear to be sustained. Slovakia has continued the state administration reform (ESO), which is expected to yield cost savings and improve the use of public resources, although it remains subject to implementation risks. The national reform programme declares an intention to increase spending on education in future years. However, the state budget for 2014-16 reflects this intention only in 2014. Projected spending on education in the following years would decline also in nominal terms.

In light of the above considerations and of the fact that the headline deficit is projected to remain below 3% of GDP in 2014 and 2015, the Commission concludes that Slovakia sustainably corrected its excessive deficit in 2013 in compliance with the recommendation by the Council. This consolidation was supported by a strong fiscal effort spanning over a number of years. The general government deficit was reduced from 8% of GDP in 2009 to 2.8% of GDP in 2013. Over the period 2010-2013 the annual average fiscal effort reached 1.5% of GDP (1.8% of GDP in adjusted terms), well above the average fiscal effort of at least 1% of GDP recommended by the Council.

Slovakia is expected to partly respect EU fiscal rules. In 2014, Slovakia is subject to the requirements of the preventive arm of the SGP. The recalculated planned change in structural balance of -0.4% of GDP in the Stability Programme for 2014 would imply that Slovakia deviates significantly from the required adjustment path towards the MTO, i.e. a minimum required fiscal effort for this year of 0.1% of GDP. By contrast, the targeted improvement of 0.3% of GDP in 2015 would be more than the minimum requirement in that year. In the outer years of the stability programme, the structural adjustment would not ensure adequate adjustment towards the MTO. Further measures are hence needed to achieve the required adjustment towards the MTO by the end of the programme period, implying a reduced reliance on one-off and other temporary measures. According to the information provided in the stability programme, the growth rate of government expenditure, net of discretionary revenue measures, over the years 2014 to 2015 is expected to contribute to an annual structural adjustment towards the MTO of 0.5% of GDP. This is because the growth rate of this expenditure is below 2.6%, the lower rate under the expenditure benchmark. A much lower revenue elasticity assumed by the programme compared to the standard elasticity explains much of the difference in signals provided by the change in the structural balance and the expenditures growth in 2014. According to the Commission forecast, the deviation from the adjustment path would be smaller in 2014 than foreseen in the programme, while a sufficient structural adjustment is projected in 2015, with the expenditure benchmark being met both in 2014 and in 2015. Following an overall assessment of Slovakia's budgetary plans, with the structural balance as a reference and including an analysis of expenditure net of discretionary revenue measures, there is a risk of deviation from the adjustment path towards the medium-term objective in 2014 whereas an appropriate correction is expected in 2015.

With respect to the adjustment path, in the 2013 Draft Budgetary Plan, Slovakia requested to benefit from the investment clause for 2014, which allows countries to temporarily deviate from the required change in structural balance. At present, Slovakia cannot be considered eligible to benefit from the investment clause, as based on the Commission 2014 spring forecast it does not meet the condition of non-declining general government investment in 2014.

The stability programme envisages a reduction in the public debt ratio by the end of the programing period. The debt-to-GDP ratio reached 55.4% of GDP in 2013 and is projected to increase to some 56% of GDP in 2015 before declining to some 53% in 2017, under the assumption that a primary surplus will be reached in that year. With respect to debt-relevant operations the stability programme envisages that the planned restructuring of the Emergency Oil Stock Agency will contribute to a debt reduction through a classification of its debt amounting to some 0.6% of GDP outside the general government accounts in 2014. The Commission forecast does not assume this, which explains a faster increase in the projected public debt ratio to 57.8% of GDP in 2015. Since the debt-to-GDP ratio would remain below the 60% of GDP reference rate, the debt reduction benchmark is not applicable. Based on the Commission forecast, the government debt is projected to further rise by 2030 although remaining below the reference value. The full implementation of the stability programme would put debt on a decreasing path by 2030, confirming debt to remain below the reference value in 2030.

Box 1. Main measures

Additional revenue in 2014 from a fine for a cartel in the construction sector and a levy on regulated industries would be one-offs. Afterwards, the consolidation measures presented in the 2014 stability programme are from two thirds on the revenue side with the rest of the estimated effort coming from expenditure savings. These measures are of a structural nature.

Main budgetary measures

Revenue	**Expenditure**
2014	
• A fine for a cartel in the construction sector (0.1% of GDP) • One-off revenue from a levy on companies operating in a regulated environment (0.2% of GDP)	• n.a.
2015	
• Retaining the VAT revenue yield (0.3% of GDP) • Introduction of cash registers for doctors and other free professions (0.1% of GDP)	• Savings in the context of state administration reform ESO (0.1% of GDP)
2016	
• Annual settlement of social contributions (0.1% of GDP)	• n.a.
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

Box 2. Excessive deficit procedure for Slovakia

Slovakia is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Slovakia on 2 December 2009 and recommended to correct the excessive deficit by 2013 at the latest. Slovakia was recommended to implement deficit reducing measures in 2010 as planned in the budget for 2010-2012, ensure an average annual deficit effort of 1 % of GDP over the period 2010-2013, and specify the necessary measures for correcting the excessive deficit by 2013, cyclical conditions permitting. It was also recommended to accelerate the reduction of the deficit if economic or budgetary conditions turned out better than expected. In addition, to limit risks to this adjustment, Slovakia was recommended to strengthen the enforceability of its medium-term budgetary framework and improve the monitoring of budget execution throughout the year, in particular to avoid expenditure overruns compared to budget plans.

The year following the correction of the excessive deficit, Slovakia will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

Fiscal framework

The main building block of the Slovak fiscal framework is a detailed three-year government budget plan and the State Budget Act. The macroeconomic forecast on which the government's budgetary plans are based is produced by the Institute for Financial Policy in the Ministry of Finance and endorsed by an independent body (Macroeconomic Forecasting Committee), whose members represent commercial banks and some public institutions.

In response to Fiscal Compact requirements, Slovakia introduced a balanced budget rule in November 2013.[5] The law also sets out the procedure for activating a correction mechanism if there is a significant deviation from the medium-term objective or from the adjustment path for the balanced budget. Escape clauses in exceptional circumstances are provided for. The law defines the roles, in relation to the application of the balanced-budget rule, of the Ministry of Finance, the government and the independent Council for Budget Responsibility. The latter is given responsibility for assessing the need for activating the correction mechanism, assessing the proposal for correction and confirming circumstances in which escape clauses may apply. In addition, the budgetary rules for local governments have also been strengthened.

The budgetary framework is weakened by the absence of expenditure ceilings and the fact that only detailed fiscal data relating to the central government is published. The 2013 stability programme envisaged the introduction of expenditure ceilings to support convergence towards the medium-term objective. However, to date, these ceilings have not been defined and the 2014 stability programme does not reiterate the commitment to introduce them in the next programming period. The publication of cash fiscal data for the central government is timely and relatively detailed. However, official publication of data on other government units only began at the beginning of 2014, and only aggregated revenue and expenditure are provided. This hampers in-year monitoring of fiscal developments.

[5] The law defines the balanced budget as structural deficit equal to or below 0.5 % of GDP (1 % if the public debt-to-GDP ratio is significantly below 60 %) based on the European system of accounts methodology.

Long-term sustainability

Slovakia remains at medium risk regarding the sustainability of public finances. Slovakia appears to face low fiscal sustainability risks in the medium-term. The medium-term sustainability gap[6], showing the adjustment effort up to 2020 required to bring debt ratios to 60 % of GDP in 2030, is at -0.3% of GDP, primarily related to the projected ageing costs contributing with 0.3 pp. of GDP until 2030. In the long-term, Slovakia appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 3.4 pp. of GDP over the very long run. The long-term sustainability gap[7], which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 4.3% of GDP. Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for Slovakia to further contain age-related[8] expenditure growth to contribute to the sustainability of public finances in the medium/long term.

Healthcare expenditure is expected to drive the ageing costs. While pensions are estimated to contribute to the long-term costs of ageing by 1.4, healthcare would contribute by 2 pps of GDP,[9] one of the highest projected increases in healthcare expenditure in the EU. Country-specific recommendations to Slovakia also addressed the issue of the long-term sustainability of public finances. The analysis in this SWD leads to the conclusion that Slovakia has made limited progress in addressing these recommendations.

One of the 2013 CSRs concerned the need to improve the long-term sustainability of public finances by reducing the financing gap in the public pension system. No progress has been made on this recommendation. The changes adopted in 2012 significantly reduced public pension costs in the long term.[10] Despite this, public pension expenditure is expected to increase by 2.7 pps between 2010 and 2060, compared to an EU average increase of 1.0 pps, and the public pension system is projected to remain in deficit until 2060.[11] One of the drawbacks of the current pay-as-you-go pension scheme is that the pension calculations do not incorporate any sustainability factor. Nevertheless, Slovakia improved the sustainability of police and armed forces pension systems, which are not part of the universal pension system, by – amongst other things – increasing the minimum required number of contribution years and adjusting the indexation mechanism to inflation as of 2018.

Another aspect of the CSR concerned the increase in the cost-effectiveness of healthcare. Overall, Slovakia has made limited progress in this area. Slovakia is expected to have one of the highest increase (3 pps between 2010 and 2060)[12] in the ratio of public healthcare expenditure to GDP in the EU28. At the same time, health outcomes for the Slovak population continue to lag behind the rest of the EU. In particular, poor outcomes for selected

[6] See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population.

[7] See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing.

[8] Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education, and unemployment benefits. See the 2012 Ageing Report for details.

[9] As compared to an average increase of 0.9 pps of GDP in the EU; *2012 Ageing Report* and *Fiscal Sustainability Report 2012.*

[10] The two most important changes were the introduction of a link between the statutory retirement age and life expectancy from 2017, and the switch to inflation-based indexation, starting from 2018.

[11] Council for Budgetary Responsibility, *Report on the Long-term Sustainability of Public Finances* (April 2013).

[12] *Fiscal Sustainability Report 2012*, European Commission.

indicators[13] are less likely to be affected by population lifestyle, which indicates the potential role of the healthcare system in delivering better health outcomes for the Slovak population.

The problems are most visible in inpatient care. One of the main bottlenecks is the model of healthcare, which is centred on hospitals. As a result, the number of acute care beds, their occupancy rate and the average length of stay[14] all show excess capacity, when compared to the EU average. The managers of state-owned facilities also face the risk of moral hazard due to a lack of incentives for proper management. In particular, there are concerns about proper incentives for a fair contract policy between insurance funds and hospitals. There is also a lack of transparency in the system of pricing and billing for healthcare services, owing to poor data availability. Public-sector procurement is not operating cost-effectively, as a result of a limited number of bids for tenders and a lack of incentives for hospitals to save costs.

Apart from deficiencies in the inpatient segment, there are barriers in other areas as well. A lack of coordination within the fragmented outpatient healthcare segment and an ineffective gatekeeping role for GPs result in over-use of outpatient services. The relatively high levels of out-of-pocket payments[15] raise concerns about the accessibility of care. Given the ageing population, there is a lack of adequate long-term services, which would also facilitate a shift from expensive in-patient care. Proper healthcare sector workforce planning to address predicted workforce challenges in the medium and long-term has not taken place, leading to a shortage of nurses and a low proportion of GPs.[16] The lack of standard clinical guidelines creates a barrier to doctors treating patients cost-effectively.

Given the multiple deficiencies in the health care system, in 2013 the Commission highlighted the need for well-designed incentive structures and an action plan for reform. In December 2013, the government adopted a strategic framework for health, covering the period 2014-30. The framework sets medium and long-term objectives, including measurable targets in the areas of outpatient and inpatient care, and public health. Implementation strategies to meet these objectives will be developed between 2014 and 2016. The framework contains measures to improve cost-effectiveness, such as a planned decrease in the number of acute care beds, the introduction of the Diagnosis Related Groups (DRG) funding mechanism in full operation by 2016 (albeit for the in-patient care only), the introduction of a residential programme to address the shortage of GPs, improving care with a focus on the gatekeeping role of GPs, the development of e-health technologies and services, a restructuring of the hospital sector and the promotion of prevention programmes.

Tax system

Slovakia faces significant challenges in further improving the efficiency of tax collection, exploiting revenue sources that are less detrimental to growth, and addressing lax rules on tax deductions. The efficiency of the Slovak tax system appears to have improved in 2013, especially with regard to VAT. The effective tax rate of VAT has improved markedly since the second quarter of 2012, when it reached its lowest-ever level of 12 %. In the last quarter of 2013, the effective VAT rate was more than 1.5 pps higher, though still below pre-

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[13] Such as perinatal mortality, avoidable mortality and vaccine-preventable diseases.

[14] 4.5 acute beds per 1000 inhabitants compared to an EU average of 3.6 per 1000 inhabitants; a 66 % occupancy rate compared to an EU average of 75%, and an average length of hospital stay of 6.6 days, compared to an EU average of 6.1 days. Source: European Commission, based on Eurostat and OECD health data from 2011, or most recent data available.

[15]According to 2011 OECD data, Slovakia, with out-of-pocket payments on all health expenditure of some 24%, is above the OECD average (20%).

[16] The proportion of GPs out of all physicians was 13.8% in 2007, compared to an OECD average of 29.6%; the number of nurses per 1000 inhabitants was 5.9 in 2011, compared to an OECD average of 8.8. Source: OECD health statistics 2013.

crisis levels.[17]Strengthening the risk assessment, audit and IT capacity in the tax administration could help sustain the ongoing improvements in the efficiency of tax collection. The basis for housing taxation remains inadequate and rules on tax deductibles may overly facilitate tax optimisation for self-employed people. The framework for environmental taxes contains conflicting elements for addressing environmental issues. In 2013, Slovakia received a country-specific recommendation on taxation. Slovakia was encouraged to broaden the basis for its taxation on real estate and to improve tax collection and tax compliance, including by implementing the action plan to combat tax fraud. The analysis in this SWD leads to the conclusion that Slovakia has made some progress on addressing these recommendations.

One of the 2013 country-specific recommendations was on taxation, aiming to address a large VAT gap in Slovakia. Slovakia has made some progress on addressing the recommendation to speed up implementation of the action plan to combat tax fraud and to continue efforts to improve VAT collection. There is high awareness of this issue at national level and improving tax collection is a priority for the Slovak authorities. Slovakia significantly improved its legislative framework to curb tax evasion in targeted areas, particularly VAT. Roughly half of the 50 measures envisaged in the three-stage action plan to fight tax fraud were adopted in the review period. Measures in the first phase concentrated on VAT-related issues, including in particular cleaning up the current VAT registry, limiting abuse of the system by new applicants and preventing the most obvious fraud schemes.[18] In the second phase, the administration set up internal processes to fight corruption and fraud within the institution.[19] Pilot teams composed of representatives of the tax office, police and prosecution services — known as the ‘tax cobra’ — discovered complex fraud schemes. Since January 2014, entities paying VAT have been required to submit VAT statements detailing all invoices, and the application of reverse charge has broadened. In addition to efforts as part of the action plan, a ‘receipt lottery’ was launched in September 2013, where citizens can win a prize if they register a valid cash receipt. The lottery increased public awareness and appears to have helped strengthen voluntary tax compliance by encouraging customers to request receipts.[20] The adopted measures will need to be monitored and evaluated to ascertain the extent to which they have improved taxpayers’ voluntary compliance with tax obligations.

Challenges remain in addressing gaps at operational level in terms of risk assessment, audit, debt collection and IT to ensure that the legislative framework produces the expected results. Current efforts appear scattered and links between tax assessment/filing, tax collection and, subsequently, risk assessment and tax audits have not been sufficiently explored. For example, a scheme to rank taxpayers in risk categories, making use of information from additional sources to better target tax audits, has not yet been developed. There is scope to develop and implement fully fledged, end-to-end processes and strategies to manage compliance risks. No specific efforts have been made to improve the management of tax arrears collection.[21] The UNITAS project, designed to link the collection of taxes, customs

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[17] The implicit tax rate on consumption in 2012 amounted to 16.7% the second lowest in the EU.

[18] The measures included removing entities who do not communicate with the tax authorities from the VAT registry, an obligation for high-risk VAT registration applicants to provide a guarantee, joint and several tax liability for two payers in the VAT chain, extending the reverse charge, and a reduction in the number of people paying VAT quarterly.

[19] The financial administration also introduced organisational changes prior to the action plan, aiming to break personal links between local tax administrators and taxpayers and prevent their re-emergence in the future.

[20] Irregularities related to cash registers or receipts have been uncovered either through a refusal to register receipts for the lottery or active reporting of malpractice. The number of these surged from 300 cases for the period March-August 2013 to more than 4 500 cases within five months of the launch of the lottery.

[21] In 2011, tax debt as a proportion of net revenue collections was the highest in the EU (*Tax Administration 2013*, OECD).

duties and social insurance contributions, has not advanced significantly and information exchange between various tax bodies remains difficult. IT systems also appear to be a significant bottleneck.[22] In addition, Slovakia replies late to more than 80% of requests for VAT-related information coming from other Member States suggesting that there is scope to improve administrative cooperation with other Member States' revenue authorities, especially those of neighbouring countries, to tackle cross-border VAT fraud.[23]

Slovakia may also be able to pursue other means to broaden the effective tax base. The existing scheme of tax-deductible expenditure appears to provide room for self-employed people to optimise their tax liability. In 2013, the government implemented measures to reduce a large discrepancy between employees and self-employed people in the tax wedge. However, the substantial gap in the effective tax rates of the two groups observed in 2012 had not much changed in 2013. [24] The revenue from personal income tax paid by self-employed people is low given the proportion they make up of the labour force. It may in part result from the narrow tax base. The ratio of declared expenditure compared to declared revenue, which has hovered around 90 % since 2007, appears high. This suggests potential under-reporting of revenue, over-reporting of expenditure, or both. The number of audits to assess revenue remains relatively low (9 % of all audits). In 2014, the government intends to review the current framework of tax deductibles, including those for self-employed people, and propose legislative changes to make progress in this area.

In 2013, Slovakia received a country-specific recommendation to link real estate taxation to the market value of property. Given the absence of any adjustments to the taxation of residential real estate, no progress has been made in this respect. The revenue from recurrent taxes on immovable property is low. It has remained at 0.4 % of GDP since 2000, more than 1 pp lower than the EU average. The Ministry of Finance has carried out an analysis to propose a system for estimating market prices for property, to facilitate linking real-estate taxation to the market value of property. However, further implementation is envisaged only after 2015.

The current design of the tax system does not provide a coherent framework of incentives to help meet environmental objectives. The price of electricity includes a levy to support electricity production from renewable resources and cogeneration, but also electricity production from lignite, which has a large negative impact on emissions and increases electricity prices.[25] The preferential tax treatment for diesel compared to petrol is one of the highest in the EU. Numerous exemptions for excise duties on coal, electricity and natural gas discourage environmentally conscious behaviour in companies and households. These exemptions include social and competitiveness aspects. However, targeted redistribution to the most vulnerable households generally provides a more efficient instrument to alleviate regressive impacts. Similarly, a gradual phasing out of harmful subsidies can give companies time to invest in green technologies, shielding them from immediate competitiveness impacts. The tax system also promotes the use of company cars, as the percentage used to calculate the taxable value of this employee benefit remains low, and does not reflect distance driven or

[22] For example, the IT system is not yet able to use data obtained from VAT statements.

[23] European Commission (2014) Commission Staff Working Document accompanying the document Report from the Commission to the Council and the European Parliament on the application of Council Regulation (EU) No 904/2010 concerning administrative cooperation and combating fraud in the field of VAT, SWD(2014)39 final.

[24] The effective tax rate (ETR) reached 0.5% for self-employed people and 6.2% for employees in 2012. The proxy for the ETR of self-employed people is the ratio of money paid in taxes to the mixed income aggregate obtained from national accounts. The proxy for the employee's ETR is the ratio of money paid in taxes to domestic compensation of employees.

[25] In 2011, support for electricity production from coal amounted to 25% of the overall charge.

any CO_2 performance.[26] Low taxes on pollution in Slovakia, such as the landfill tax for municipal waste, fail to provide incentives for a more appropriate use of resources.[27]

3.2. Financial sector

The banking system continues to perform well on key stability indicators. Capital ratios are well above minimum requirements, while loan-to-deposit ratios and the proportion of non-performing loans has stayed low compared to the EU average. Loans to households have grown at a robust pace, but the net flow of loans to non-financial corporations was negative in 2013. In 2013, Slovakia did not receive a country-specific recommendation in this area.

Access to finance poses some constraints, especially for SMEs. According to a 2013 survey by the European Commission and the European Central Bank, 42.4 % of Slovak SMEs consider access to finance to be a pressing problem, by far the highest percentage in the EU.[28] The overall strong state of the Slovak banking sector should, however, allow for funding for promising projects given the phase of the credit cycle. Progress on implementing financial instruments for SMEs from the European Regional Development Fund remains slow. Only one of the three JEREMIE[29] instruments — the first loss portfolio guarantee — started disbursing loans to SMEs in September 2013. The other two — venture capital and the portfolio risk sharing loan — were still selecting financial intermediaries at the end of 2013. The slow start of JEREMIE in Slovakia was mainly due to a lack of a legislative framework to support financial engineering instruments, a lack of private investors, and insufficient implementation know-how. Given Slovakia's limited market size, encouraging cross-border investment will also be critical for improving businesses financing.

3.3. Labour market[30], education and social policies

The labour market continues to be an area of serious concern, and economic growth is still not sufficient to support substantial job recovery. The unemployment rate is around 14 % and is expected to improve only modestly. Most of the country's unemployment is long-term, underlining that unemployment in Slovakia is more structural than cyclical. School-to-job transition is still slow and the education system does not respond readily to labour market needs. The integration of Roma people into the labour market and their social inclusion in general remain limited.

Labour market

Slovakia is experiencing high unemployment, with significant regional disparities. Long-term and youth unemployment rates are among the highest in the EU and the employment rate amongst Roma people is very low. The continued shortage of childcare services hinders labour market participation by women. The planned increase in the retirement age calls for improving the employability of older workers. The capacity of public employment services (PES) to provide personalised services remains hampered by limited resources. In 2013, Slovakia received a country-specific recommendation concerning the labour market that called for enhancing the capacity of public employment services, strengthening the link between activation measures and social assistance, addressing long-term unemployment,

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[26] As of 2014, the value of the benefit will decline, because it will be calculated as 1% of the residual value of the car rather than the acquisition value.

[27] 75% of Slovak municipal waste is landfilled, while in some Member States this practice has been abolished.

[28] 2013 survey on the access to finance of small and medium-sized enterprises (SAFE).

[29] The joint European resources for micro to medium enterprises (JEREMIE) programme is an initiative managed by the European Commission and the European Investment Fund, which aims to improve access to finance for SMEs by using structural funds.

[30] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

reducing the tax wedge for low-paid workers, and improving the incentives for female employment. The analysis in this SWD leads to the conclusion that Slovakia has made limited progress on addressing these recommendations.

Only limited progress has been made to address the elements of the 2013 country-specific recommendation aimed at enhancing the capacity of public employment services (PES), strengthening the link between activation measures and social assistance, and tackling long-term unemployment through activation measures and training. To improve the quality of the support they provide, the public employment services introduced an integrated labour market guide, offering on-line services to jobseekers. However, progress on providing more personalised services has been slow. The 2014 national reform programme envisages strengthening the capacity of public employment services, including improving services and increasing salaries of PES staff. Links between activation measures and social assistance remain weak. In January 2014, the government introduced requirements for benefits recipients to accept work in order to continue to receive benefits, tightening benefit provisions to reduce abuse and increase incentives to work.[31] This measure does not include elements to encourage job searches or training and education, while the coverage and level of unemployment and other benefits remain below the EU average. The relatively low expenditure on active labour market policies — including education and training — declined over the past two years, as did the number of people taking part in relevant programmes.[32] A regular and comprehensive analysis of the impact of active labour market policies has not taken place.

No progress has been made on the 2013 recommendation to improve the provision of childcare facilities, especially for children under three. The negative impact of parenthood on the employment of women continues to be among the highest in the EU. Female labour market inactivity due to personal and family responsibilities is almost double the EU average, while for men it is around EU average. Despite some partial improvement in the provision of good quality childcare services for children aged from three to six, kindergarten places remain scarce. Many applications are rejected and availability of affordable childcare for children under three remains among the lowest in the EU. The 2014 national reform programme includes plans to increase funding for childcare, but there is no strategy or legislative and budgetary framework for the provision of childcare for children under three years of age. Furthermore, awareness of the potential of quality early child education and care is weak. Women's employment is also negatively affected by the low availability of flexible work arrangements, the relatively high gender pay gap[33], insufficient care services for the elderly and disabled, and by the availability of parental leave for up to three years.

Slovakia has made some progress towards reducing the tax wedge for low-paid workers, as called for in the 2013 country-specific recommendations. Since November 2013, long-term unemployed workers who get hired for a job that pays less than 67% of the average wage and their employers can benefit from an exemption to pay social and public health insurance contribution for 12 months. Since the long-term unemployed constitute some 70% of overall unemployment, the measures has potential to increase employment of especially

[31] The Act on assistance in material need introduced a system of benefits conditional on work activity (32 h/month) where ad hoc work was offered by municipalities. It attracted widespread criticism for indirect discrimination against the Roma minority and the Public Defender of Rights (Ombudsman) referred the legislation to the Constitutional Court for a decision on possible violation of fundamental human rights.

[32] In 2012, the number of participants in programmes relating to active labour market policies decreased by more than 20 000 in comparison to the previous year (by 18 pp). EU network of independent experts on social inclusion, Z. Kusa, Institute for Sociology of the Slovak Academy of Sciences, December 2013.

[33] In 2012, the gender pay gap in Slovakia (21.5%) is one of the highest in the EU (the EU average was 16.4%) and is tightly linked with gender segregation in occupations and economic sectors.

disadvantaged jobseekers. However, only 1900 people (0.67% of Slovakia's long term unemployed) were covered by the measure as of February 2014. The impact of the measure and its targeting will therefore need to be closely monitored.

Progress with respect to stepping up efforts to address high youth unemployment has been limited. At 34%, youth unemployment remains among the highest in the EU despite targeted programmes to increase labour demand for young people. In 2012, EUR 70 million of unused structural funds were reallocated to two national projects that offered wage subsidises to unemployed people under the age of 29. By December 2013, EUR 62.3 million had already been committed and 11 605 jobs had been created. However, the sustainability of these jobs needs to be monitored, as there is a risk that they will be terminated after the subsidies are phased out. In addition, there are doubts whether the projects target those in actual need. Slovakia has the highest long-term unemployment rate among young people in the EU (19.1% vs. 7.5% EU average in 2012), but there is a tendency for policy to support the short-term unemployed. Given that national projects now provide relatively high wage subsidies for young workers who have been unemployed for only one month, there is a risk of deadweight cost and of leaving the youth furthest from the labour market without the necessary support. In January 2014, Slovakia has also submitted a Youth Guarantee implementation plan (see box below) as youth unemployment remains a particularly significant challenge.

Box 3. The delivery of a Youth Guarantee in Slovakia[34]

The most important challenges to deliver a Youth Guarantee (YG)[35] in Slovakia are:

- Too much emphasis on provision of counselling and advisory services to young people while the YG is about guaranteeing a job offer, training, internship or apprenticeship;
- High reliance on EU funding might compromise sustainability of the delivery of the YG;
- Insufficient capacity of the PES, for early intervention, for adapting services according to jobseeker profiles and for providing a wider range of activation measures;
- Lack of active outreach to young people who are not in education, employment or training (NEETs) and are not registered with PES. In addition, more focus is needed on early intervention measures to ensure outreach to the most vulnerable young people, including young Roma.

Several additional challenges hamper the improvement of the labour market situation. The employment of Roma people is far below the average for non-Roma living in the same regions.[36] Data show that improving educational participation and attainment of younger Roma (when compared with older age groups) does not translate into a rise in employment,

[34] Slovakia presented a Youth Guarantee Implementation Plan in December 2013, updated in April 2014.
[35] Pursuant to the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01): "ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education".
[36] Agency for Fundamental Rights (FRA): *Financial and labour market situation 2012*: The employment rate is 21 % among Roma, 53 % among non-Roma living nearby.

which suggests significant structural barriers, such as discrimination.[37] Despite strong regional differences in unemployment levels, regional labour mobility in Slovakia is relatively low, limiting matching between jobseekers and vacancies. Factors hampering mobility include high housing costs relative to income, an immature housing rental market and high travel costs.[38] Employers report skills shortages, and adult participation in lifelong learning activities (LLL) — especially for low-skilled adults — is among the lowest in the EU and decreasing.[39] Low access to LLL and to good-quality training prevents older workers from easier access to employment. Missing legislation on recognition and validation of learning outcomes gained through non-formal and informal learning, and the lack of incentives for employers or individuals to participate in further learning (envisaged in the 2012 action plan) partly explain the low adult participation in lifelong learning.

Education

The low quality of education and training systems in Slovakia and their limited relevance to the labour market hampers the supply of a suitably skilled labour force to the economy. The school-to-job transition is difficult and anticipation of skills´ needs remains insufficient. Other than that, the public expenditure for education remains largely under the EU average[40] and the 2014 national reform programme announced the intention to increase the funding of education to the OECD average in 2020. However, the 2014-16 budget reflects an intention to raise the funds from the state budget in 2014 only. Funding levels and education models are not appropriate for improving quality, and the funds earmarked for teaching activities remain limited. This reduces the attractiveness of the educational sector for talented young professionals. In turn, this — combined notably with the insufficient capacities of pre-primary education — has a negative impact on outcomes for pupils in primary education. In 2013, the Council Recommendations for Slovakia contained CSRs on education. These advocated Slovakia to encourage young people to join the teaching profession, which would improve educational outcomes. The Council also recommended that Slovakia improve the provision of work-based learning in companies, create more profession-oriented bachelor programmes that are also better focused on meeting workplace needs, and improve access to high-quality and inclusive pre-school and school education. The analysis in this SWD leads to the conclusion that Slovakia has made limited progress to address these recommendations.

Slovakia has made some progress on steps to attract young people to the teaching profession but a considerable challenge remains given the low starting point. Teachers' wages in Slovakia were 45 % of the average wage for university graduates, while the OECD average varied from 82 % to 90 % in 2010 depending on their level of education. Teachers' salaries rose by 5 % in 2014 and a bonus has been introduced for new teachers. To further tackle the shortage of teachers, the possibility for professionals from various backgrounds to qualify as teachers through a supplementary teacher training programme was re-introduced. However, funding for higher education declined in 2014 compared to 2013 and the focus is on reducing inefficiency in expenditure.

The country-specific recommendations in 2013 emphasised the poor educational outcomes in Slovakia. Only limited progress has been made in this regard. The performance of pupils in compulsory education is below the EU average and has decreased

[37] According to the FRA, almost half of Roma people experienced discrimination in the past five years when looking for work. In addition, according to a 2012 survey conducted by the Institute for Public Affairs' Advisory Centre for Civil and Human Rights, 78 % of Roma felt discriminated against.
[38] Partnership Agreement, February 2014.
[39] 3.1 % compared to the EU average of 9 % in 2012 (Eurostat, Labour Force Survey).
[40] Public expenditure on education was 4 % of GDP in Slovakia in 2011, compared to the EU average of 5.3 %.

significantly[41] and the provision of textbooks to schools remains insufficient. Unlike in other countries, PISA and PIAAC results show a narrow and closing proficiency gap between older and younger generations.[42] Initial teacher training is being improved with a greater emphasis on practical experience. New standards for teachers are being tested in pilot programmes, with the support of EU funds. A new national test for pupils in grade 5 (ages 10-11) is being piloted. State curricula will be changed in response to the declining level of educational achievement among Slovak pupils. There is a lack of adequate support for underperforming schools, teachers and pupils, and better support for teachers and high-quality learning material and equipment is missing. In order to be able to provide more focused support, experts and stakeholders are calling for a more precise assessment of schools' results.

As concerns vocational education and training, the 2013 country-specific recommendations recognised the need to improve the provision of work-based learning in companies. Slovakia has made some progress on this**.** Despite Slovakia's efforts, however, school-to-job transition remains difficult, due in particular to skills mismatches and inappropriate anticipation of skills needs.[43] Initiatives for entrepreneurship education are not coordinated and there is a lack of data collection to support appropriate skills anticipation. Reform of vocational education and training, aimed at introducing elements of a dual system, has begun and adoption of a new law on vocational education and training is expected in 2014. However, it is not clear whether sufficient incentives for employers to offer apprenticeships will be provided, or to what extent capacity building for companies will be supported. Cooperation with employers, German, Austrian partners and EU-funded projects are expected to support this ambitious reform. The 2014 national reform programme confirms that funding of vocational education and training will be largely based on an analysis of the labour market needs from 2015 onwards. The comprehensive Youth Guarantee implementation plan also announces new legislative measures to recognise non-formal and informal learning from 2015.

The labour market relevance and efficiency of higher education is low and the country-specific recommendations in 2013 emphasised the need for more profession-oriented bachelor programmes that are also better focused on meeting workplace needs. However, limited progress has been made on this. A relatively low proportion of profession-oriented bachelor programmes[44] and insufficient cooperation with employers reduce the labour market relevance of tertiary education. Skills mismatches are still clear. A project, financed by European structural funds, was launched to enable students to develop practical experience. Work on the new law on higher education is ongoing with the expected entry into force in September 2015 and motivational scholarships are to be introduced in 2014. The new law will aim, in particular, to modify funding based on output. This could encourage the establishment of more profession-oriented bachelor programmes and support the profiling of institutions and programmes (academic, professional, research). Close cooperation between academia and business sector remains a weak point (see section 3.4).

[41] Results in the 2012 PISA survey indicate a significantly higher proportion of low achievers than EU average in all three areas tested, together with a much lower performance compared to earlier results. Source: Programme for International Student Assessment OECD survey 2012.
[42] OECD Programme for International Assessment of Adult Competencies (PIAAC). While the survey shows that skills are highest for the age group 25-34 and decrease for older generations at EU and OECD levels, skills of Slovak younger generations are relatively close to skills of older generations.
[43] This is reflected in a high unemployment rate of students from vocational schools, particularly those without the '*maturita*' (the qualification received on completing secondary school) (16.8 %), and high unemployment levels amongst secondary school leavers (14.6 %), OECD 2011 data.
[44] In 2011, 1.2 % of ISCED 5 students in Slovakia were in such programmes, compared with the EU average of 13.6 %.

The 2013 recommendations recognised that the low provision of good quality early childhood education (ECE) and care has a negative impact on educational achievements, in particular for Roma. Limited progress has been made on improving access to high-quality, inclusive pre-school and school education for marginalised communities. Capacity in services for ECE and care is insufficient, and quality and inclusiveness is poor, especially in light of the need to reduce inequalities and raise overall educational outcomes. Participation in ECE and care in Slovakia is among the lowest in the EU.[45] The rate is much lower for children from marginalised Roma communities (24 % in 2011).[46] Compulsory enrolment in ECE and care for children from socially disadvantaged environment is being discussed, as well as free participation in ECE for socially disadvantaged pupils from the age of 3. The announced increase in ECE capacities does not seem to be linked to the local needs and anticipated demographic evolution. The proportion of Roma pupils in special schools with limited curricula is also disproportionally high, reducing their future educational and professional prospects. In 2010, only 0.3% of Roma population (27-64) in Slovakia attained higher education degree. Initiatives to improve educational outcomes for Roma pupils are overly reliant on EU co-financed projects.

Social policies

Although the number of people at risk of poverty or social exclusion is relatively low, the deprived living conditions in marginalised Roma communities and the risk of poverty or social exclusion for children remain key challenges. The income support scheme to alleviate poverty, in particularly among households with more children and low work intensity, is inadequate and coverage is insufficient, with the non-coverage rate of social assistance around 30 %. A sustainable financing system for long-term care services has also not yet been created. The insufficient availability of social housing, the provision of which is among the lowest in the EU, continues affecting negatively social inclusion and labour mobility[47]

The national action plan for children does not sufficiently address child poverty and does not include methods to ensure access to appropriate resources. The 2013 amendment of the law on social services introduced new types of services (e.g. support for home care, shelters and families with children), but it does not sufficiently facilitate deinstitutionalisation. Funding for care services remains an issue for municipalities. The risk of poverty for those aged over 65 slightly increased in 2012, but remains below the EU average. Slovakia introduced a reform in 2013, which could mitigate this risk by strengthening the redistribution within the pension system through temporary indexation of pensions by a fixed nominal amount until 2017 and introducing adjusted ‘solidarity’ coefficients as of 2018.

3.4. Structural measures promoting sustainable growth and competitiveness

Increasing productivity on the back of the cyclical recovery and subdued labour costs have led to an improvement in Slovakia’s competitive position. Export market shares continue to rise and Slovakia is now running a vigorous trade balance surplus, which it expects to maintain in the forthcoming years. Slovakia’s growth model relies strongly on foreign direct investment, the stock of which amounts to 60 % of GDP. However, the flow of

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[45] 76.9 % in 2011 compared to the EU average of 93.2%, source Eurostat (UOE). Low ECE and care participation appears to be a strong predictive factor of success in later educational attainment.

[46] Brüggeman, C. (2012), *Roma Education in Comparative Perspective. Analysis of the UNDP/World Bank/EC Regional Roma Survey*, Roma Inclusion Working Papers, Bratislava, United Nations Development Programme.

[47] European Parliament, *Social Housing in the EU*, 2013. Slovakia has one of the lowest levels of available housing in the EU. In 2011, there were 329 inhabited dwellings per 1 000 inhabitants. Slovakia also has one of the highest household overcrowdings rates in the EU (38.4% in 2012, compared to the EU average of 17.2%).

foreign direct investment to Slovakia has fallen since the crisis. This could have a negative impact on long-term growth, especially given that domestic investment in research and development (R&D) is low and companies depend largely on imported technology. There is also potential for more targeted, stronger cooperation among academia, businesses and higher education to bolster the application of research and, as a result, the innovation capacity of companies. The 2013 country-specific recommendations to Slovakia addressed the need for structural measures promoting growth and competitiveness, particularly in the areas of R&D and energy. The CSR on R&D recommended supporting and encouraging the transfer of knowledge between academia, research and the business sector. The CSR on energy recommended improving energy market functioning, strengthening interconnections with neighbouring countries and increasing energy efficiency. The analysis in this SWD leads to the conclusion that Slovakia has made limited progress on addressing these recommendations.

Research, development and innovation policies

The main challenge facing the Slovak research and innovation system remains the lack of cooperation between public sector research institutions and businesses, which was also referred to in the 2013 country-specific recommendations. Only limited progress has been made in this respect. The level of business expenditure on R&D is low, as is the quality of public research, mainly due to inefficiency in public spending. Despite this, the recent adoption (in November 2013) of the national research and innovation strategy for smart specialisation offers better prospects for encouraging effective cooperation between academia and businesses. In particular, the strategy identifies key areas of specialisation on which to concentrate resources, proposes an improved governance structure for the research and innovation system[48] and sets out objectives and measures to stimulate structural change in the Slovak economy. Most of the proposed measures are expected to be funded by EU funds, under the new research and innovation operational programme. The strategy has the potential to encourage growth, subject to effective implementation with proper action plans, by increasing Slovakia's innovation ability and excellence in research and innovation. However, there is a risk that implementing the strategy will only attract a low level of private investment and that the conditions in which domestic innovators, mostly SMEs, operate will continue to be poor. Some measures have been recently adopted or are in the pipeline, including revised R&D tax incentives, support for innovation clusters and innovation vouchers, but the effectiveness of these measures has not yet been proven.

Box 4. Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition in the economy or labour market participation. Improvements on these indicators could raise Slovakia's GDP by about 6.4% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon.

The model simulations corroborate the analysis of Section 3.4, according to which the largest gains would likely stem from a reduction in final goods mark-ups, in particular in the energy sector. The simulation also supports the analysis in the Section 3.3 and highlights the fact

[48] This includes the reorganisation of the Slovak Academy of Science and of the higher education institutions, the introduction of common research agendas, shared between public research institutions and the business sector, and the reform of project-based and institutional funding systems.

that substantial gains could be made by addressing the challenge of long-term unemployment and increasing labour market participation by women.

Table: Structural indicators, targets and potential GDP effects[49]

Reform areas		SK	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.20	0.13	2.4	3.2
Market regulation	Entry costs	1.80	0.13	0.0	0.1
Tax reform	Implicit consumption tax rate	18.7	28.6	0.4	0.5
Skill enhancing reforms*	Share of high-skilled	5.3	10.7	0.0	0.1
	Share of low-skilled	8.3	7.5	0.0	0.0
Labour market reforms	Female non-participation rate (25-54ys):			0.6	1.1
	- low-skilled	38.8	26.4		
	- medium-skilled	18.9	10.5		
	- high-skilled	16.0	4.3		
	Low-skilled male non-participation rate (25-54ys)	25.2	7.7	0.0	0.0
	Elderly non-participation rate (55-64ys):			0.4	1.0
	- low-skilled	27.5	13.4		
	- medium-skilled	11.5	4.8		
	- high-skilled	5.3	3.3		
	ALMP (% of GDP over unemployment share)	3.3	37.4	0.3	0.3
	Benefit replacement rate**	38.9	52.6	0.0	0.0
Total				4.2	6.4

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[50] *The long-run effect of increasing the share of high-skilled labour in the population could be 2.8% of GDP and of decreasing the share of low-skilled labour could be 0.7%. **EU average is set as the benchmark.

Business environment

The quality of the business environment in Slovakia has deteriorated and support for fast-growing firms has stagnated. Slovakia's overall 'Ease of Doing Business' ranking fell from 43 in 2013 to 49 in 2014.[51] Similar international surveys confirm this result.[52] National surveys among entrepreneurs also show a substantial increase in companies' negative opinion of the Slovak business environment, especially among SMEs.[53] The following weaknesses of the business environment are the most cited: rule of law issues and weak law enforcement, frequently changing legislation and the low quality of the legislative process, perceived corruption and clienteles in particular in public procurement, excessive bureaucracy, high social contributions and taxes, lack of a skilled workforce, and high electricity prices.

Starting a business has become more difficult due to the introduction of a requirement for a financial guarantee in order to set up a limited liability company. E-government services for companies remain underdeveloped. The Points of Single Contact, currently

[49] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[50] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREANo. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

[51] World Bank *Doing Business 2014.*

[52] In 2014, Slovakia dropped 15 positions in the Heritage Foundation's Index of Economic Freedom and in Forbes' Best Countries for Business ranking, and 7 positions in the World Economic Forum's *Global Competitiveness Report*.

[53] 2013 SME survey done by the American Chamber of Commerce in Slovakia.

located in the Ministry of Interior[54], offer limited services and there are no plans to integrate them with the tax administration or with the e-government platforms that are being developed separately. New reporting obligations for businesses, introduced as part of the action plan to combat tax fraud (see Section 3.1), have only partly been balanced by lighter regulation in other areas, and there is scope to make tax compliance easier for businesses.[55] There is no SME test yet and impact assessments for new regulatory and legislative initiatives are not done systematically. The number of SMEs accessing e-commerce and foreign markets continues to be low. Insolvency cases remain lengthy, and alternative dispute resolution mechanisms are barely used.[56]

In spite of the overall deterioration in the business environment, some measures taken have proven effective. The most important of these are: setting fixed transfer fees, which has made it easier to register property; introducing electronic-only communication with the authorities by companies; and combining registers to avoid duplication of information. Protection for investors has also improved, by allowing access to all corporate documents during trial. A few initiatives supporting start-ups – 'a helping hand for the young', organised by the National Agency for Development of Small and Medium Enterprises (NADSME), 'start-up weekends' and 'start-up awards' – have led to innovative companies with high growth potential. However, most of the measures supporting entrepreneurship and innovative activities in companies have been fragmented and thus ineffective: firm-level technology absorption, business and technology incubators, cluster development, government procurement of advanced technology, and technology transfer measures have failed to create real eco-systems for innovation. The authorities intend to prepare a medium-term strategy to develop and support SMEs, but the timetable for adoption and implementation is unclear.

Energy market and renewables

The market functioning of network industries, in particular for energy, remains a weak point. Slovakia is also one of the most energy-intensive Member States, partly due to its large proportion of industry. Relatively high electricity prices, in particular for small and medium-sized industrial customers, hamper the competitiveness of Slovak industry. Despite recent efforts to liberalise the energy market, it still needs to improve further. In particular, this could be facilitated through greater transparency and accountability of regulatory decisions. There is also scope to improve energy security and energy efficiency.

Given the deficiencies in energy market functioning, the 2013 country-specific recommendations called for more efforts to make the energy market function better. However, Slovakia has made no progress on improving the transparency of the method by which tariffs are set or on increasing the accountability of the Regulator of network industries (RONI). The switching rates for retail and wholesale electricity customers remain low and prices for industrial consumers are very high compared to the EU average and its European peers. Furthermore, price regulation for SMEs was reintroduced in 2012. However, RONI does not only impose regulatory obligations on operators having a significant degree of market power but also on new entrants. By doing so, RONI unnecessarily impedes the development of new entrants and ultimately harms consumers. In addition, RONI increased the tariffs for access to the Slovak gas transmission system in 2013. Compared to previous

[54] Various state administration offices at the local level were merged in unified offices and pilot client centres were launched under the ongoing reform of state administration (ESO).
[55] For example, VAT taxpayers have to file statements, companies will have to pay a minimum tax (which will be tax deductible) even during periods when they make losses, etc. Measures that simplify doing business include abolishing the obligation to report cash payments to physical persons exceeding EUR 5 000 per year and reducing the obligation to keep price records for the purposes of price regulation.
[56] Data on the number of cases of mediation or arbitration is not collected.

tariffs, the tariff for the gas imported from the Czech Republic increased by 350 % and from Austria by 50 %, respectively. RONI provided no justification for the increase. If economic assessments of regulatory decisions are made, they are usually not made public, nor are objections raised by those affected by the regulatory decision, owing to a commercial confidentiality policy. The most recent national report of RONI to the European Commission offers scant information on levels of competition or on the methodology for calculating the network tariffs and their determinants. In order to address the lacking public transparency of the regulatory policy, the 2014 national reform programme announced relevant measures including setting-up a data centre to enhance the transparency of regulatory information, a thorough assessment of the need for further price regulation and publishing of the underpinning economic analysis for regulatory decisions. Although, the measures are promising, their adoption is at an initial stage and subject to implementation risks.

High network charges are one of several indicators of poor regulator transparency and accountability. According to Eurostat data, the network charges were the highest in the EU in absolute terms in 2011 and the second highest in terms of the proportion of the final electricity price (49 %). Slovakia is one of only three Member States for which network charges for industrial consumers are higher than energy supply costs.[57] Although energy costs fell, network costs increased between 2009 and 2012.[58]The network costs include transmission and distribution tariffs. A comparison of transmission tariffs done regularly by ENTSO-E[59] indicate that Slovak transmission tariffs for electricity are among the highest in the EU and no analysis examining the level of those tariffs is available. The drivers of the high distribution tariffs are also unclear, as a result of the lack of disclosure of the method and mechanism by which tariffs are set. The high level of transmission and distribution tariffs may reflect many determinants such as size of the country, its topography and amount of electricity transported. The increase in network charges has also been affected by increasing support for renewable energies and for combined heat and power generation, and by environmentally harmful subsidies for domestically produced lignite. The high network charges are translated into electricity prices. End-user prices for medium-sized industrial consumers in Slovakia were among the highest in the EU in 2012.[60] Over the past five years, prices were around 21 % higher than in the Czech Republic.

While Slovakia has reached its interim Europe 2020 renewable energy target, the growth of the renewable energy sector is stagnating. This is due to the frequent changes to the feed-in-tariff support framework, complicated administrative procedures and an electricity infrastructure that does not support the decentralised production of renewable energy. While the renewable energy development is staggering, the effectiveness and stability of the RES promotion mechanism is weak and more market-based instruments are missing (e.g. feed-in premiums).

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[57] In 2012, Slovakia's network charges for industry were 40 % higher than in the Czech Republic in a consumption band IC and significantly higher also for bands ID and IE while the energy supply costs were lower. In a difference to industry, the charges for households in bands DC, DD and DE were comparable to the Czech Republic while they were significantly lower in other bands. Source: Eurostat.

[58] Network costs between 2009 and 2012 increased by around 18 %. Energy and supply costs decreased by around 28 % between 2009 and 2012. Source: Eurostat.

[59] Slovakia has the highest tariff for "infrastructure" and second highest for "system services". Overall, Slovakia has the third highest transmission tariff. When correcting for "other regulatory charges", Slovakia has the highest transmission tariffs. Source: European Network of Transmission System Operators for Electricity: https://www.entsoe.eu/about-entso-e/market/transmission-tariffs/.

[60] Excluding VAT, final electricity prices in Slovakia in 2012 were the fourth highest for industry (consumption band IC 500-2000MWh) and the 15th highest for households (consumption band DC). Source: Eurostat.

As noted in the 2013 country-specific recommendations, energy infrastructure challenges in Slovakia extend to investments, particularly in gas and electricity grids, to strengthen interconnections with neighbours. Overall, Slovakia has made some progress on improving interconnections with neighbouring countries. Several projects have been selected as projects of common interest and are currently being implemented.[61] Gas interconnections that would diversify Slovak sources of gas suppliers and routes have gained on importance. In this context, the Slovakia-Hungary gas interconnection project is expected to operate commercially from 1 January 2015. Electricity projects within Hungary will alleviate the bottleneck on the Slovak-Hungarian section of the network by increasing cross-border capacity. An intergovernmental agreement was signed in November 2013, supporting the implementation of improvements to Slovak-Polish gas interconnections. Given the need to improve energy security, building a North-South gas axis in Central Europe has gained importance but its further development is proceeding only at a moderate pace.

Energy and resource efficiency

Slovakia has made some progress in addressing the 2013 CSR on energy efficiency. A pilot project on the use of financial instruments in housing (JESSICA) from the European regional development fund is being run, although greater use of financial instruments and energy performance contracting is limited. A national plan for increasing the number of ‘nearly zero energy’ buildings, which requires gradual increases in energy performance levels for refurbished and newly built buildings, has also been produced. A package of measures in line with the 2013 CSR, including energy audits and their implementation in enterprises, renovation of buildings, reduction of energy losses in heat distribution networks and setting up a robust monitoring system for energy savings, have been proposed for EU financing in the next programming period under the relevant operational programmes (the "Quality of Environment" programme and the "Integrated Regional Programme"). Low energy efficiency impacts negatively also on Slovakia's high energy dependency (the energy trade balance amounted to -6.5 % of GDP in 2011).

However, resource efficiency issues have not been comprehensively tackled in Slovakia. The structural transformation of the Slovak economy over the previous decade, in particular the move away from heavy industry, has helped to decrease negative impacts on the environment. Recycling rates are low, however, and the main treatment option for municipal waste is disposal in landfills. Improving and extending water supply and waste-water infrastructure is a challenge and connection rates are among the lowest in the OECD (58 %). Slovakia has suffered from several severe floods in the previous decade but has failed to reduce the risk of them re-occurring by taking cost-effective measures not detrimental to nature. Air pollution also remains a significant issue, as Slovakia does not currently comply with EU standards regarding air quality.

Transport

Slovakia’s specialisation in export-oriented manufacturing places increasing demands on the quality of transport infrastructure. The relatively underdeveloped rail and road transport infrastructure, however, continues to be detrimental to economic growth. The unit costs of new and renovated transport infrastructure are high, reflecting poor planning and design, and public procurement weaknesses. A recent reduction of infrastructure charges for

[61] Projects of common interest include (i) a North-South priority corridor for gas interconnections in Central Eastern and South Eastern Europe (‘NSI East Gas’); (ii) a North-South priority corridor for electricity interconnections in Central Eastern and South Eastern Europe (‘NSI East Electricity’), and (iii) a priority corridor for oil supply connections in Central Eastern Europe.

rail transport has had a positive impact on competition, but administrative burdens remain high, creating barriers for new entrants to the market. There has been progress on preparing a transport plan to identify key priorities consistent with EU transport policy, in particular the trans-European transport network. These will provide a strong basis for structural funds financing.

The proportion of total energy consumption used by transport increased by 5 pps between 2005 and 2012. The main reasons for this trend are the insufficient development of public transport and the low excise duties on motor fuel. As a consequence, the transport sector is now second only to industry in terms of energy consumption. In 2012, the Slovak authorities introduced a tax on motor vehicles that, over time, is expected to improve the energy efficiency of cars. However, no significant action has been taken to develop public transport or the rail sector.

Digital infrastructure

Slovakia has the third lowest coverage of fixed broadband in the EU (75.2% of households in 2012). This figure lags significantly behind the EU average (95.5%) and Slovakia's own Europe 2020 goal of "100% broadband coverage for all". Coverage growth has been negligible (0.2 % between 2011 and 2012), mainly due to the failure to use most of the structural funding dedicated to the development of broadband infrastructure from the Operational Programme "Informatisation of Society" in the previous programme period. The lack of broadband infrastructure has negative effects in areas, such as employment, entrepreneurship, ICT skills and digital literacy, eGovernment, eHealth, and social inclusion. For example, although the frequency of individuals with medium and high computer skills in the Slovak adult population (57.2 %) were above the EU average (50.9 %) in 2012, the portion of the adult population that interacts online with public authorities dropped to 32.7 % in 2013, significantly below the EU average (41.4 %). The target value of the E-Government Index for 2020 – the only Digital Agenda related index included in the 2014 national reform programme – can therefore be considered overly ambitious and unlikely to be achieved.

3.5. Modernisation of public administration

The Slovak public administration continues to underperform in terms of both quality and efficiency. High staff turnover linked to the political cycle and poor human resource management persist, and poor analytical capacities impair evidence-based policy-making. Addressing governance weaknesses related to the EU funding has been slow. Public procurement and transparency in judicial proceedings remain serious challenges. Slovakia continues to score poorly on international indicators of perceived corruption. In 2013, Slovakia received a country-specific recommendation on public administration and the judiciary. The analysis in this SWD leads to the conclusion that Slovakia has made limited progress on measures taken to address this recommendation.

The Council noted weaknesses in the Slovak public administration in 2013 and recommended that the authorities address these. Slovakia was recommended to strengthen the independence of the public sector, improve human resources management and strengthen analytical capacities. Progress on addressing these areas has so far been limited. Analytical capacity was developed at only seven ministries, but these analytical units have been actively involved in policy making only to a very limited extent. This is seen in weak or non-existent impact assessments for new legislation (e.g. on businesses). Under ongoing reforms of state administration, various state administration offices at local level were merged into unified offices, and pilot client centres for citizens were launched. But no significant change to improve human resources management has been implemented. The Civil Service Act has not been amended to strengthen the independence of the public sector, but the national reform programme envisages a draft of a new Act in 2014. In December 2013, the government took note of a strategic framework for public administration reform and created a steering committee to oversee the reform. The framework recognises some of the points recommended in 2013. However, it reiterates goals from other strategies and lacks an action plan with concrete measures, together with a timetable and a budget. The government has tentatively committed to adopting an action plan for public administration reform by July 2014.

Progress on increasing use of EU funds has been limited, notwithstanding the 2013 country-specific recommendations. Procurement procedures, management verifications and project selection remain the main areas of weakness. The high turnover of staff managing cohesion policy funds, due *inter alia* to the political cycle, has not yet been addressed. Shortcomings continue in practical implementation of financial management and audit procedures. The risk of corruption in allocating EU funds threatens their efficient and effective use.[62] All of this may have a negative impact on the prompt and efficient implementation of the current and upcoming operational programmes between 2014 and 2020. There are also issues with customs. The country has significant potential to improve its performance in terms of time taken to process imports and exports in order to reduce business costs and facilitate trade.[63]

To address issues within the justice system, Slovakia received a country-specific recommendation in 2013 to improve the efficiency of the judicial system and promote alternative dispute resolution procedures. Measures adopted and planned suggest only limited progress and are expected to have a minor impact on the systemic problem of length of proceedings.[64] Planned improvements to ICT tools, especially for electronic communications between courts and parties, could help shorten the length of procedures and improve the quality of justice. A new law on arbitration, expected to come into force in summer 2014, separates commercial and consumer arbitration, without further promoting alternative dispute mechanisms. Reform of the Code of Civil Procedures is ongoing, but the amended law is not expected to come into force before 2016.

Public confidence in the functioning of the justice system is low. According to a recent Eurobarometer on Justice in the EU, only 25% of the Slovak respondents tend to trust the justice system, the second lowest figure in the EU. Perceived independence of judiciary from influences of the government, citizens or firms has worsened during 2012-13 and is the lowest in the EU.[65] The capacity of judicial authorities to investigate and prosecute alleged corruption is weak.[66] Concerns have also been raised regarding lack of individual independence of judges in relation to the hierarchical judicial organisation.[67] Several actions of the executive also raised questions in relation to the independence of the justice system

[62] Allegations of bribery and conflicts of interest in rail projects are currently investigated as part of the operational programme on transport.
[63] World Bank (2013). Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group.
[64] The length of judicial proceedings in Slovakia, particularly for litigious civil and commercial cases and for administrative cases, is above the EU average and has deteriorated. Thus despite increases in productivity, courts generally are not able to keep up with their workload. Sources: 2014 EU Justice Scoreboard and the Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, COM(2014) 155 final.
[65] World Economic Forum, *The Global Competitiveness Report; 2013-2014.*
[66] *OECD Report on implementing the OECD Anti-Bribery Convention in SK,* June 2012.
[67] There are allegations of arbitrariness of disciplinary proceedings due to the influence of the head of the judiciary over judicial panels, and the overrepresentation of politically elected panel members in such panels at second instance.

from political influences.[68] The national reform programme announces a proposal of a constitutional law by summer 2014, which aims at limiting criminal immunity of judges and separating roles of President of the Supreme Court and the Judicial Council.

Widely perceived corruption remains a general issue within the Slovak public administration. According to the EU anti-corruption report, 90 % of Slovaks perceive corruption to be widespread and 21 % have personally experienced it in the past year.[69] Based on the 2013 global corruption barometer, people in Slovakia most often deal with corruption in healthcare.[70] According to the global competitiveness index, Slovakia ranks last in the EU in terms of irregular payments and bribes, and the situation has deteriorated.[71] Slovakia also stagnates in the ranking by Transparency International at a very low level compared to its European peers.[72] Widely perceived corruption prevents faster progress on building a high-quality, client-oriented public administration and the efficient allocation of public resources. Corruption is a cross-cutting issue in Slovakia, present at all levels of government. The 2014 national reform programme recognises this issue and proposes measures to improve perception of corruption.

Slovakia recently reformed its public-procurement rules, but experience shows that application of these rules remains problematic. The impact of the 2013 public procurement reform seems to be limited, so far. Amendments to the Public Procurement Act aimed to increase the independence of the Public Procurement Office, streamline lengthy tender procedures, improve transparency requirements and improve competition. The results, however, suggest that public procurement has become lengthier, savings are lower and use of e-procurement has declined.[73] The reform does not appear to have substantially increased the transparency of public procurement procedures or to have led to a reduction in the number of complaints about decisions by the contracting authorities. Experience in using EU structural funds supports these conclusions.

[68] For example, a considerable number of court presidents were removed by two consecutive Ministers of Justice over a relatively short period of time, suggesting politicisation.
[69] EU anti-corruption report and the Report from the Commission to the Council and the European Parliament, COM(2014) 38 final.
[70] Global corruption barometer 2013, Transparency International.
[71] WEF Global Competitiveness Report indicator ‘irregular payments and bribes’.
[72] The 2013 edition of the corruption perception index by Transparency International ranked Slovakia as the fifth worst in the EU, followed by Italy, Romania, Bulgaria and Greece.
[73] *A study of public procurement tenders in 2009-2013*, Transparency International Slovakia, January 2014.

4. CONCLUSIONS

Ten years after joining the EU and five years after the Euro adoption, the initial economic stimuli from these accessions seem to have faded and Slovakia requires undertaking necessary structural reforms to sustain its growth. In the past, Slovakia's robust growth was driven by strong domestic and foreign demand for Slovak products, high investments and setting up of new industrial production capacities. Nonetheless, foreign capital inflows and the overall accumulation of production factors seem to run into limits and structural measures identified in this staff working document are essential to buttress economic prosperity and growth for the years to come keeping in mind the fiscal and long-term sustainability challenges which need to be pursued in parallel.

The analysis in this SWD leads to the conclusion that Slovakia has made limited progress in addressing the 2013 country-specific recommendations. Starting with the fiscal field, the general government deficit was sustainably corrected under the 3% threshold in 2013. Nevertheless, there is a risk of deviation from the adjustment path towards the medium-term objective in 2014 whereas an appropriate correction is expected in 2015. Sustainable progress towards the medium-term budgetary objective hinges on substituting one-off and transitory measures by structural ones. The long-term sustainability of public finances remains a challenge due to limited progress in this area, mainly owing to a projected large increase in healthcare expenditure. Concerning taxation, while Slovakia has made some progress on improving tax collection and tax compliance, in particular by implementing the action plan to combat tax fraud, the substantial gap in the effective tax rates between employees and self-employed persists and no progress has been made on real estate taxation. As regards the labour market**,** although the tax wedge for low-paid long-term unemployed has been reduced, the long-term and youth unemployment remains rising. Further substantial effort is needed to tackle also other challenges in this area as recommended, including providing more childcare facilities and Roma integration. In the area of education, a reform of vocational education and training is now underway. Still, owing to little progress and a low starting point, all measures recommended in this field including the attractiveness of the teaching profession, deserve more attention going forward. Despite the recent adoption of the national research and innovation strategy, the effective transfer of knowledge between academia, research and the business sector can be still substantially improved. On the side of the energy market and efficiency, the measures to improve transparency of the regulatory policy have been only announced and need to be followed while some progress has been made on improving interconnections for both gas and electricity and on improving energy efficiency. As regards public administration and the judiciary substantial improvements are still required, although the law on the civil service is currently being amended. This concerns also managing EU funds, improving the efficiency of the judicial system and promoting alternative dispute resolution procedures.

Over and above the assessment of progress in the areas addressed by the 2013 country-specific recommendations, there are further challenges ahead. The analysis in this SWD leads to the conclusion that the arduous public procurement and widely perceived corruption remain serious bottleneck to growth, as both prevent the efficient allocation of public resources and hamper the development of a level playing field. A deterioration of the business environment has put the overall competitiveness of the Slovak economy at risk.

Apart from the bottlenecks newly identified in this staff working document, the challenges reported last year and reiterated in the Annual Growth Survey remain broadly unchanged. The policy plans submitted by Slovakia address these challenges, and there is broad coherence between both the national reform programme and the stability programme. The national reform programme rightly recognises the shortcomings and commits to relevant measures, particularly in areas such as public finances, employment, education, business environment and innovation, energy and public administration. The stability programme shows the ambitious commitment to comply with the recommendations of the Excessive Deficit Procedure and to reach the medium-term objective within the programme´s horizon.

Overview table

2013 commitments	Summary assessment[74]
Country-specific recommendations (CSRs)	
CSR 1: Implement as envisaged the budget for the year 2013, so as to correct the excessive deficit in a sustainable manner and achieve the fiscal effort specified in the Council recommendations under EDP. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Slovakia to reach the medium-term objective by 2017. Avoid cuts in growth enhancing expenditure and step up efforts to improve the efficiency of public spending. Building on the pension reform already adopted, further improve the long term sustainability of public finance by reducing the financing gap in the public pension system and increasing the cost-effectiveness of the health-care sector.	SK has made **some progress** on addressing the CSR. • The recommendation with regards to the correction of the excessive deficit was fully addressed. Slovakia sustainably brought the general government deficit below 3% of GDP treshold. • No progress on reducing the financing gap in the public pension system. No measures have been taken to improve the long-term sustainability of public pensions. • Limited progress on increasing cost-effectiveness of health care. The government has adopted a Strategic Framework for Health 2014-2030, which aims to increase cost-effectiveness. Implementation strategies to reach its objectives will be elaborated between 2014 and 2016.
CSR 2: Speed up the implementation of the action plan to combat tax fraud and continue efforts to improve VAT collection, in particular by strengthening the analytical and audit capacity of the tax administration. Improve tax compliance. Link real-estate taxation to the market value of property.	SK has made **some progress** on addressing the CSR. • Some progress on combating tax fraud, implementing the action plan, and improving tax collection and tax compliance. The legislative framework to curb tax evasion has been enhanced markedly, notably in the area of VAT, and the efficiency of the Slovak tax system seems to have improved. • No progress on real-estate taxation. No measures have been taken to link real-estate taxation to the market value of underlying property.

[74] The following categories are used to assess progress in implementing the 2013 country-specific recommendations: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

CSR 3: Take measures to enhance the capacity of public employment services to provide personalised services to jobseekers and strengthen the link between activation measures and social assistance. More effectively address long-term unemployment through activation measures and tailored training. Improve incentives for women employment, by enhancing the provision of child-care facilities, in particular for children below three years of age. Reduce the tax wedge for low-paid workers and adapt the benefit system.	SK has made **limited progress** on addressing the CSR. •Limited progres on strengthening the capacity of public employment services and linking activation policies and social benefits. Despite legislative amendments, progress in strengthening the capacity of public employment services and the links between activation policies and social benefits remains limited and hampered by lack of resources. •Limited progress on addressing long-term unemployment through activation measures and tailored training. While some meassures have been taken to reform ALMP, there is still a lack of good quality training matching local labour market needs. •No progress on ensuring provision of good quality childcare services. The government plans to increase public funds allocated to childcare in 2014, but there is no strategy or legislative and budgetary framework for the provision of childcare for children under three years of age. •Some progress on reducing tax wedge for the low-paid: the long-term unemployed, which represent around 70% of the total unemployed, and their employers benefit from lower social contributions during the first year of employment.

CSR 4: Step up efforts to address high youth unemployment, for example through a Youth Guarantee. Take steps to attract young people to the teaching profession and raise educational outcomes. In vocational education and training, reinforce the provision of work-based learning in companies. In higher education, create more job-oriented bachelor programmes. Foster effective knowledge transfer by promoting cooperation between academia, research and the business sector. Step up efforts to improve access to high-quality and inclusive pre-school and school education for marginalised communities, including Roma.	SK has made **limited progress** on addressing the CSR. •Limited progress on addressing high youth unemployment. Slovakia has submitted a Youth Guarantee Implementation Plan, but its feasibility depends on the allocation of sufficient resources. •Some progress was achieved on attracting young people to the teaching profession. Teachers´ salaries were increased in 2014 and a bonus has been introduced for new teachers. •Limited progress on raising educational outcomes. While some measures aimed at improving educational outcomes have been introduced, they lack focus. Adequate support to underperforming schools, teachers and pupils is still missing. •Limited progress on reinforcing the provision of work-based learning. A reform of vocational education and training (VET) towards a dual system is ongoing, with a new Act on VET announced for 2014. •Limited progress on the creation of more job-oriented bachelor programmes. Work is on-going on a new Act on Higher Education, which aims to allocate funding according to more output-based criteria. • Limited progress on the effective transfer of knowledge between academia, research and the business sector. The National Research and Innovation Strategy for Smart Specialisation, approved in 2013, seeks to encourage more effective cooperation between academia and businesses. • Limited progress on improving access to high-quality and inclusive pre-school and school education. Compulsory enrolment in early childhood education and care for children from socially disadvantaged environment is currently being discussed.
CSR 5: Step up efforts to make the energy market function better; in particular, to increase the transparency of the tariff-setting mechanism, enhance the accountability of the regulator. Strengthen interconnections with neighbouring countries. Improve energy efficiency in particular in buildings and industry.	SK has made **limited progress** on addressing the CSR. •No progress on improving energy market functioning. No meassures have been taken to increase the transparency of the tariff-setting mechanism and enhance the accountability of the regulator. •Some progress on strengthening interconnections with neighbouring countries. Several projects aimed at improving gas, oil, and electricity interconnections have been selected as projects of common interest and are currently being implemented. • Some progress made on energy efficiency. A National plan for increasing energy efficiency in buildings has been developed and a more general package of energy efficiency measures is proposed for EU financing in the next programming period.

CSR 6: Take measures, including by amending the Act on Civil Service, to strengthen the independence of the public service. Improve the management of human resources in public administration. Step up efforts to strengthen analytical capacities in key ministries, also with a view to improving the absorption of EU funds. Implement measures to improve the efficiency of the judicial system. Promote alternative dispute resolution procedures and encourage their greater use.	SK has made **limited progress** on addressing the CSR. •Limited progress on strengthening the independence of the public service, improve the human resources management and strengthen the analytical capacities. A reform of state administration (ESO) is ongoing but it does not include major changes concerning human resources management. Analytical units were created in some ministries but their influence on policy is limited. •Limited progress on improving the absorption of EU funds. Procurement procedures, management verifications and project selection remain significant weaknesses. •Limited progress on implementing measures to improve the efficiency of the judicial system and in promoting alternative dispute resolution procedures. A new act on arbitration is envisaged to come into force in 2014. A reform of the Code of Civil Procedure is ongoing, although the actual Act is not expected before 2016.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Employment rate target: 72%	In 2012 the employment rate (15-64 years) remained at a comparable level to the previous year (59.7%). However, the gap to reach the national target by 2020 increased to 6.9% and an average annual employment growth of 1.3% is now needed. Women and the low-slilled have especially low employment rates.
R&D intensity target: 1.2%	Slovakia may still achieve its R&D intensity target for 2020, provided that R&D intensity continues to increase both in the public and business sectors. Business R&D intensity has recently increased (from 0.18% of GDP in 2007 to 0.34% in 2012). Likewise, public sector R&D intensity has increased from 0.28% in 2007 to 0.48% in 2012, but both remain quite low.
Greenhouse gas (GHG) emissions target: +13 % (compared to 2005 emissions); ETS emissions are not covered by this national target	The change in non-ETS greenhouse gas emissions between 2005 and 2012 was -10%.According to the latest national projections with existing measures taken into account, the target is expected to be reached: -24 % in 2020 compared to 2005 (with a margin of 37 percentage points).
Renewable energy target: 14% Share of renewable energy in all modes of transport: 10%	The share of renewable energy sources in Slovakia reached 10.4% in 2012. Renewalbe energy sources (RES) share in transport in 2012: 4.8%.
Indicative national energy efficiency target for 2020: 3.12 Mtoe, which implies reaching a 2020 level of 16.2 Mtoe primary consumption and 10.4 Mtoe final energy consumption.	Some progress. The transposition of the Energy Performance Buildings Directive (EPBD) has been notified and the conformity is being assessed by the EC. In 2013, SK notified its national indicative energy target (Article 3, Energy Efficiency Directive - EED). Measures planned to implement the Article 7 of EED were notified in time and are being assessed by the EC. Further, a Financial Instrument is under consideration to address energy efficiency investments.

Early school leaving target: 6%	The rate increased from 5.3% in 2012 to 6.4% in 2013. The national target is 6%; this takes into account the increasing proportion of Roma children, which have a high drop-out risk of . Further measures to support their educational achievements are needed to stop the negative trend in early school leaving and to respect the national target.
Tertiary education target: 40%	In 2013 educational attainment increased to 26.9% compared with 23.7% in 2012, an increase of around 60% increase since 2006. Measures aimed at ensuring quality and labour market relevance, such as creation of more job-oriented Bachelor programmes, are lacking..
Risk of poverty or social exclusion target: 17.2%	No major progress was achieved in reducing the number of people at risk of poverty or social exclusion which stood at 1,109,000 in 2012 (a decrease by 2,000 persons since 2008). The persistently high unemployment in and modest minimum income support for people who cannot find employment make the achievement of the 170,000 objective highly improbable.

ANNEX
Standard Tables

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	3.4	4.9	4.8	3.0	1.8	0.9	2.2	3.1
Output gap [1]	0.5	-1.5	3.4	-1.1	-2.1	-3.4	-3.6	-3.1
HICP (annual % change)	8.2	5.9	2.3	4.1	3.7	1.5	0.4	1.6
Domestic demand (annual % change) [2]	4.4	5.2	3.0	1.0	-4.1	-0.8	1.7	2.5
Unemployment rate (% of labour force) [3]	14.4	18.2	12.2	13.7	14.0	14.2	13.6	12.9
Gross fixed capital formation (% of GDP)	31.3	26.2	23.9	23.1	20.1	19.1	19.1	19.4
Gross national saving (% of GDP)	24.2	20.4	19.8	21.3	21.1	20.8	20.7	21.1
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-8.2**	**-4.5**	**-4.5**	**-4.8**	**-4.5**	**-2.8**	**-2.9**	**-2.8**
Gross debt	**39.5**	**42.1**	**32.9**	**43.6**	**52.7**	**55.4**	**56.3**	**57.8**
Net financial assets	**3.9**	**-4.5**	**-12.5**	**-26.5**	**-25.5**	**n.a**	**n.a**	**n.a**
Total revenue	41.5	36.5	32.9	34.1	33.7	35.9	35.0	34.7
Total expenditure	49.7	41.1	37.4	38.9	38.2	38.7	38.0	37.5
of which: Interest	3.0	2.8	1.4	1.6	1.8	2.0	1.9	1.9
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.1**	**-2.2**	**0.6**	**2.8**	**6.8**	**5.6**	**5.5**	**5.2**
Net financial assets; non-financial corporations	**-74.0**	**-62.8**	**-69.8**	**-68.9**	**-72.1**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-14.3**	**-4.5**	**-2.7**	**0.9**	**3.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	22.2	19.2	17.5	16.7	13.0	12.0	12.4	12.8
Gross operating surplus	25.0	25.3	27.0	26.5	27.0	26.2	26.4	26.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.2**	**-1.0**	**-0.5**	**1.4**	**0.9**	**0.4**	**0.3**	**0.4**
Net financial assets	**54.4**	**36.9**	**33.6**	**37.9**	**37.7**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	32.8	31.3	31.0	30.9	31.0	30.9	31.0	30.9
Net property income	5.3	2.6	1.5	1.8	1.3	1.1	0.8	1.0
Current transfers received	16.9	16.9	17.0	18.3	18.3	18.4	18.1	17.9
Gross saving	7.7	4.6	4.5	6.0	5.2	4.5	4.5	4.5
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.2**	**-7.8**	**-4.4**	**-0.9**	**3.1**	**3.9**	**3.4**	**3.3**
Net financial assets	**30.0**	**34.9**	**51.4**	**56.6**	**56.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-7.7	-4.9	-1.6	0.5	5.2	6.3	6.7	6.7
Net primary income from the rest of the world	0.0	-2.4	-2.3	-2.2	-2.4	-2.4	-2.4	-2.3
Net capital transactions	-0.2	-0.5	0.8	1.7	1.5	1.4	1.1	0.9
Tradable sector	54.0	53.5	52.6	51.1	51.9	51.8	n.a	n.a
Non tradable sector	35.8	36.2	38.0	39.4	39.5	39.3	n.a	n.a
of which: Building and construction sector	6.4	6.0	8.2	8.1	7.5	6.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	78.3	88.9	121.7	131.0	128.5	127.0	127.9	126.6
Terms of trade goods and services (index, 2000=100)	100.6	100.4	96.3	93.2	92.1	91.7	91.8	91.3
Market performance of exports (index, 2000=100)	80.6	94.1	113.7	122.6	134.6	139.2	141.2	142.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
Commission 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.9	0.9	2.2	2.3	3.1	3.0	3.2	3.4
Private consumption (% change)	-0.1	-0.1	1.3	1.2	2.3	2.2	2.4	2.9
Gross fixed capital formation (% change)	-4.3	-4.3	2.3	1.8	3.5	2.4	0.8	2.1
Exports of goods and services (% change)	4.5	4.5	5.6	4.0	6.4	4.5	4.8	4.8
Imports of goods and services (% change)	2.9	2.9	5.4	3.6	6.1	3.6	3.7	4.1
Contributions to real GDP growth:								
- Final domestic demand	-0.7	-0.7	1.6	1.3	2.3	1.3	1.3	2.0
- Change in inventories	-0.1	-0.3	0.0	0.1	0.0	0.1	0.1	0.0
- Net exports	1.7	1.9	0.6	0.9	0.7	1.5	1.8	1.5
Output gap[1]	-3.4	-3.5	-3.6	-3.3	-3.1	-2.5	-1.2	0.4
Employment (% change)	-0.8	-0.8	0.5	0.7	0.6	0.6	0.7	0.9
Unemployment rate (%)	14.2	14.2	13.6	14.0	12.9	13.2	12.3	11.3
Labour productivity (% change)	1.7	1.7	1.7	1.6	2.5	2.3	2.4	2.5
HICP inflation (%)	1.5	1.5	0.4	0.8	1.6	2.1	2.3	2.4
GDP deflator (% change)	0.5	0.5	0.5	0.9	0.9	1.4	1.8	2.0
Comp. of employees (per head, % change)	0.8	3.7	2.4	1.8	2.7	2.9	3.3	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.9	4.2	3.4	6.0	3.3	6.7	7.7	8.4

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	**COM**	**SP**	**COM**[1]	**SP**	**SP**	**SP**	**SP**
Revenue[6]	**35.9**	**35.0**	**35.2**	**34.7**	**33.7**	**32.9**	**32.8**	**-3.1**
of which:								
- Taxes on production and imports	10.4	10.3	10.1	10.3	9.9	9.7	9.5	-0.9
- Current taxes on income, wealth, etc.	5.9	5.9	6.1	6.0	5.9	6.0	5.9	0.0
- Social contributions	13.8	13.4	13.3	13.3	13.1	13.1	13.0	-0.8
- Other (residual)	5.9	5.4	5.7	5.0	4.8	4.1	4.4	-1.5
Expenditure[6]	**38.7**	**38.0**	**38.0**	**37.5**	**36.5**	**34.9**	**34.0**	**-4.7**
of which:								
- Primary expenditure	36.7	36.1	36.2	35.7	34.7	33.1	32.3	-4.4
of which:								
Compensation of employees	7.6	7.4	7.0	7.2	6.7	6.4	6.2	-1.4
Intermediate consumption	4.6	4.5	4.6	4.4	4.3	4.0	3.9	-0.7
Social payments	18.9	18.5	18.4	18.2	17.9	17.7	17.4	-1.5
Subsidies	1.1	1.0	1.0	1.0	0.9	0.8	0.8	-0.3
Gross fixed capital formation	2.1	1.9	2.1	1.8	2.1	1.9	2.1	0.0
Other (residual)	2.4	2.8	3.0	3.1	2.9	2.2	2.1	-0.3
- Interest expenditure	2.0	1.9	1.8	1.9	1.8	1.8	1.7	-0.3
General government balance (GGB)	**-2.8**	**-2.9**	**-2.6**	**-2.8**	**-2.5**	**-1.6**	**-0.5**	**1.5**
Primary balance	**-0.8**	**-1.1**	**-1.0**	**-0.9**	**-1.0**	**-0.2**	**0.5**	**1.3**
One-off and other temporary measures	0.3	0.5	0.6	0.0	0.0	0.0	0.0	-0.3
GGB excl. one-offs	**-3.1**	**-3.4**	**-3.4**	**-2.8**	**-2.8**	**-2.0**	**-1.3**	**1.8**
Output gap[2]	-3.4	-3.6	-3.3	-3.1	-2.5	-1.2	0.4	3.8
Cyclically-adjusted balance[2]	-1.6	-1.7	-1.7	-1.8	-2.0	-1.6	-1.4	0.2
Structural balance (SB)[3]	**-2.0**	**-2.2**	**-2.3**	**-1.8**	**-2.0**	**-1.6**	**-1.4**	**0.5**
Change in SB	*2.0*	*-0.2*	*-0.4*	*0.4*	*0.3*	*0.4*	*0.2*	-
Two year average change in SB	*1.4*	*0.9*	*0.8*	*0.1*	*0.0*	*0.4*	*0.3*	-
Structural primary balance[3]	0.0	-0.4	-0.5	0.1	-0.2	0.2	0.3	0.3
Change in structural primary balance		*-0.4*	*-0.5*	*0.4*	*0.3*	*0.4*	*0.1*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	2.6	2.6	2.6	2.6	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	1.2	2.4	0.0	1.2	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	1.5	1.8	0.6	1.8	n.a.	n.a.	-

Notes*:*

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

[6] The revenue and expenditure figures presented in the Stability Programme assume some expenditure-reducing measures (e.g. savings in the context of the state admnistration ESO) and revenue-increasing measures (e.g. one-off revenue from a levy on regulated industries) for 2014-2017. These measures, however, do not ensure achievement of the general government balance targets envisaged by the Stability Programme and presented in this table.

Source :

SCP: Stability programme (SP); Commission services' 2014 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**40.1**	**55.4**	**56.3**	**55.2**	**57.8**	**56.2**	**54.9**	**53.4**
Change in the ratio	4.6	2.8	0.9	-0.2	1.5	1.0	-1.3	-1.5
Contributions [2] *:*								
1. Primary balance	**3.9**	**0.8**	**1.1**	**1.0**	**0.9**	**1.0**	**0.2**	**-0.5**
2. "Snow-ball" effect	**0.4**	**1.2**	**0.4**	**0.1**	**-0.3**	**-0.5**	**-0.8**	**-1.0**
Of which:								
Interest expenditure	1.5	2.0	1.9	1.8	1.9	1.8	1.8	1.8
Growth effect	-0.7	-0.5	-1.2	-1.2	-1.7	-1.6	-1.7	-1.8
Inflation effect	-0.4	-0.3	-0.3	-0.5	-0.5	-0.7	-0.9	-1.1
3. Stock-flow	**0.3**	**0.8**	**-0.6**	**-1.3**	**0.8**	**0.5**	**-0.6**	**0.1**
Of which:								
Cash/accruals diff.				0.3		0.2	0.3	0.3
Acc. financial assets				-1.3		0.7	-0.5	0.2
Privatisation				0.0		-1.3	0.0	0.0
Val. effect & residual				-0.2		-0.1	-0.1	0.3

	2013	2014		2015		2016	2017
		COM	SP	COM	SP	SP	SP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	Slovak Republic			European Union		
	2013 scenario	**No-policy-change scenario**	**Stability programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Stability programme scenario**
S2*	4.4	4.3	4.1	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	0.9	0.9	0.6	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	3.5	3.4	3.5	1.9	2.0	2.0
of which:						
pensions	1.5	1.4	1.6	0.7	0.8	0.9
healthcare	2.1	2.0	2.0	0.9	0.9	0.8
long-term care	0.2	0.2	0.2	0.6	0.6	0.6
others	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3
S1**	0.2	-0.1	-0.8	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.0	-0.3	-0.7	-0.2	-0.4	-2.0
Debt requirement (DR)	-0.3	-0.2	-0.5	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.5	0.3	0.4	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.20	:		:		
Debt as % of GDP (2013)	55.4			88.9		
Age-related expenditure as % of GDP (2013)	17.8			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

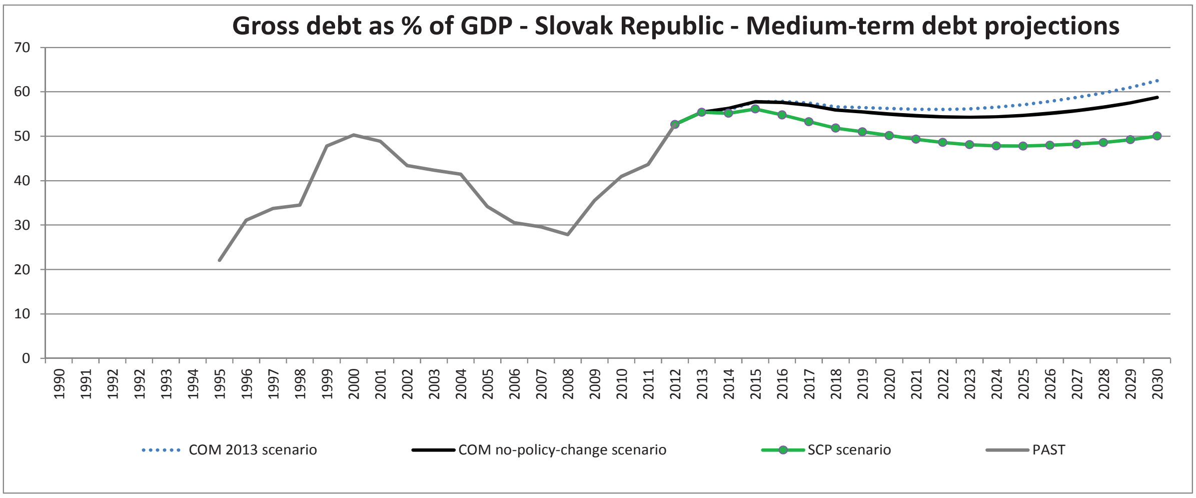
Gross debt as % of GDP - Slovak Republic - Medium-term debt projections
70
60
50
40
30
20
10
0
1990 1991 1992 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030
COM 2013 scenario
COM no-policy-change scenario
SCP scenario
PAST

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	33.0	29.3	29.1	28.1	28.6	28.3
Breakdown by economic function (% of GDP)[1]						
Consumption	10.8	11.0	10.3	9.9	10.4	9.5
of which:						
- VAT	7.0	7.5	6.9	6.3	6.8	6.1
- excise duties on tobacco and alcohol	1.1	0.9	0.9	1.3	1.3	1.3
- energy	1.9	2.0	1.8	1.6	1.6	1.5
- other (residual)	0.8	0.6	0.7	0.7	0.6	0.6
Labour employed	14.6	11.2	11.9	12.2	11.9	12.2
Labour non-employed	0.6	0.8	0.7	0.5	0.7	0.6
Capital and business income	6.1	5.5	5.5	4.6	4.8	4.9
Stocks of capital/wealth	1.0	0.8	0.8	0.8	0.8	1.1
p.m. Environmental taxes[2]	2.2	2.3	2.0	1.9	1.9	1.8
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	42.8	57.3	53.7	46.8	49.6	44.0

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	89.6	88.2	84.1	84.0	84.7
Share of assets of the five largest banks (% of total assets)	72.1	72.0	72.2	70.7	-
Foreign ownership of banking system (% of total assets)	93.1	92.9	94.9	95.8	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	5.3	5.8	5.6	5.2	5.3
- capital adequacy ratio (%) [1)]	12.6	12.7	13.4	15.7	16.6
- return on equity (%) [1), 2)]	6.7	12.6	6.9	9.1	11.3
Bank loans to the private sector (year-on-year % change)	1.1	5.3	9.3	3.8	6.4
Lending for house purchase (year-on-year % change)	10.9	14.8	13.7	11.1	11.9
Loan to deposit ratio	87.2	86.9	90.3	87.2	87.9
CB liquidity as % of liabilities	4.6	2.2	3.1	4.0	0.7
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	71.6	70.1	73.2	73.1	-
Gross external debt (% of GDP)[1)]					
- Public	12.4	15.0	17.0	24.8	29.2
- Private	27.3	27.7	28.0	28.8	30.6
Long term interest rates spread versus Bund (basis points)*	148.3	112.8	183.9	305.8	161.8
Credit default swap spreads for sovereign securities (5-year)*	105.9	77.7	135.2	191.5	83.7

Notes:

1) Latest data 2013Q3.

2) Excludes foreign branches.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	68.8	66.4	64.6	65.0	65.1	65.0
Employment growth (% change from previous year)	3.2	-2.0	-1.5	1.8	0.1	-0.8
Employment rate of women (% of female population aged 20-64)	60.3	58.2	57.4	57.4	57.3	57.8
Employment rate of men (% of male population aged 20-64)	77.4	74.6	71.9	72.5	72.8	72.2
Employment rate of older workers (% of population aged 55-64)	39.2	39.5	40.5	41.3	43.1	44.0
Part-time employment (% of total employment, 15 years and more)	2.7	3.6	3.9	4.2	4.1	4.8
Part-time employment of women (% of women employment, 15 years and more)	4.2	4.7	5.4	5.9	5.7	6.4
Part-time employment of men (% of men employment, 15 years and more)	1.4	2.7	2.8	2.8	2.9	3.4
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	4.7	4.4	5.8	6.7	6.8	7.0
Transitions from temporary to permanent employment	57.5	44.5	39.9	40.7	:	:
Unemployment rate[1] (% of labour force, age group 15-74)	9.6	12.1	14.5	13.7	14.0	14.2
Long-term unemployment rate[2] (% of labour force)	6.7	6.5	9.3	9.3	9.4	10.0
Youth unemployment rate (% of youth labour force aged 15-24)	19.3	27.6	33.9	33.7	34.0	33.7
Youth NEET rate (% of population aged 15-24)	11.1	12.5	14.1	13.8	13.8	13.7
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	6.0	4.9	4.7	5.1	5.3	6.4
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	15.8	17.6	22.1	23.2	23.7	26.9
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	:	1.0	0.0	1.0	1.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	2.0	2.0	3.0	3.0	4.0	:
Labour productivity per person employed (annual % change)	2.4	-3.0	6.0	1.2	1.7	1.7
Hours worked per person employed (annual % change)	0.1	-0.7	1.5	-0.8	-0.2	0.0
Labour productivity per hour worked (annual % change; constant prices)	2.3	-2.3	4.4	2.0	2.0	1.7
Compensation per employee (annual % change; constant prices)	4.0	3.7	4.6	0.3	1.5	0.3
Nominal unit labour cost growth (annual % change)	4.4	5.7	-0.9	0.8	1.0	:
Real unit labour cost growth (annual % change)	1.5	7.0	-1.4	-0.8	-0.2	:

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	**2007**	**2008**	**2009**	**2010**	**2011**
Sickness/Health care	4.7	5.1	5.8	5.5	5.4
Invalidity	1.3	1.4	1.5	1.6	1.6
Old age and survivors	6.8	6.6	7.8	7.8	7.7
Family/Children	1.5	1.5	1.7	1.8	1.8
Unemployment	0.6	0.6	1.0	1.0	0.8
Housing and Social exclusion n.e.c.	:	:	:	:	:
Total	15.4	15.5	18.2	18.1	17.7
of which: means tested benefits	1.0	0.8	0.9	0.9	0.9
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	20.6	19.6	20.6	20.6	20.5
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	24.3	23.7	25.3	26.0	26.6
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	21.9	19.7	16.7	14.5	16.3
At-Risk-of-Poverty rate[2] (% of total population)	10.9	11.0	12.0	13.0	13.2
Severe Material Deprivation[3] (% of total population)	11.8	11.1	11.4	10.6	10.5
Share of people living in low work intensity households[4] (% of people aged 0-59)	5.2	5.6	7.9	7.7	7.2
In-work at-risk-of poverty rate (% of persons employed)	5.8	5.2	5.7	6.3	6.2
Impact of social transfers (excluding pensions) on reducing poverty	40.8	35.7	39.4	33.3	34.0
Poverty thresholds, expressed in national currency at constant prices[5]	2 822	3 213	3 434	3 516	3 710
Gross disponsable income (households)	39 755	40 283	41 954	42 966	43 702
Relative median poverty risk gap (60% of median equivalised income, age: total)	18.1	23.2	25.7	22.8	20.5

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot 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: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Labour productivity[1] total economy (annual growth in %)	5.8	-2.9	6.1	0.6	2.8	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	8.8	-4.5	31.1	1.4	3.9	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	10.9	-19.8	-0.8	11.8	-3.8	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	8.2	-10.8	-4.9	7.3	0.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	12.5	10.7	10.0	8.8	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	565.0	565	565	565	545	545
Time to start a business[3] (days)	30.1	18	18	18	14	19
R&D expenditure (% of GDP)	0.5	0.5	0.6	0.7	0.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	14.4	17.6	22.1	23.2	23.7	26.9
Total public expenditure on education (% of GDP)	3.8	4.1	4.2	4.1	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.6	n.a.	n.a.	n.a.	n.a.	1.3
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	2.3
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.2	n.a.	n.a.	n.a.	n.a.	1.8

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.66	0.52	0.50	0.51	0.48	0.45
Carbon intensity	kg / €	1.79	1.38	1.30	1.30	1.25	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.46	2.34	2.17	2.04	2.05	n.a.
Waste intensity	kg / €	n.a.	0.32	n.a.	0.27	n.a.	n.a.
Energy balance of trade	% GDP	-5.3%	-6.0%	-4.4%	-5.8%	-6.5%	-6%
Energy weight in HICP	%	17	17	16	16	15	19
Difference between change energy price and inflation	%	7.98	0.2	2.7	-4	4.7	1.8
Environmental taxes over labour taxes	ratio	18.2%	16.1%	15.2%	14.7%	14.6%	n.a.
Environmental taxes over total taxes	ratio	7.6%	7.0%	6.8%	6.6%	6.5%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.46	0.32	0.35	0.37	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	16.5	15.1	13.3	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.12	0.14	0.12	0.12	0.13
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.04	0.03	0.04	0.04
Public R&D for energy	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.00%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.01%
Recycling rate of municipal waste	ratio	8.9%	15.8%	18.1%	18.1%	20.4%	22.3%
Share of GHG emissions covered by ETS*	%	n.a.	51.7%	48.3%	47.8%	49.7%	49.0%
Transport energy intensity	kgoe / €	0.76	0.79	0.73	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.94	1.94	1.90	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	65.9%	64.3%	66.3%	62.9%	64.1%	60.0%
Diversification of oil import sources	HHI	n.a.	0.67	0.68	0.66	0.69	n.a.
Diversification of energy mix	HHI	0.24	0.23	0.22	0.22	0.22	0.22
Share renewable energy in energy mix	%	4.3%	5.1%	6.7%	7.4%	7.4%	8.1%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 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

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD'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)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas 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. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

* Commission and EEA.

** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 4 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[75]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.

[75] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.