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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2015 National Reform Programme of Slovakia and delivering a Council opinion on the 2015 Stability Programme of Slovakia

Delegations will find attached document COM(2015) 274 final.

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Slovakia

and delivering a Council opinion on the 2015 Stability Programme of Slovakia

Recommendation for a

COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2015) 274.
3 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. These together form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a recommendation on Slovakia's National Reform Programme for 2014 and delivered its opinion on Slovakia's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[4], the Commission presented its opinion on Slovakia's draft budgetary plan for 2015[5].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[6], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[7], in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Slovakia[8]. This assessed Slovakia's progress in addressing the country-specific recommendations adopted on 8 July 2014.

(7) On 29 April 2015, Slovakia submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Slovakia is currently in the preventive arm of the Stability and Growth Pact. In its 2015 Stability Programme, the government plans to gradually improve the headline deficit to 2.5% of GDP in 2015 and further to 0.5% of GDP in 2018. According to the Stability Programme, the medium-term objective – a structural deficit of 0.5% of GDP – would be reached as of 2017. The government debt-to-GDP ratio is expected to decline marginally in 2015 to 53.4% and to continue declining to 50.3% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, the net expenditure growth is below the benchmark in both 2015 and 2016, therefore meeting the requirements of the Stability and Growth Pact. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that Slovakia is expected to comply with the provisions of the Stability and Growth Pact.

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4 OJ L 140, 27.5.2013, p. 11.
5 C(2014) 8814 final.
6 COM(2014) 902.
7 COM(2014) 904.
8 SWD(2015) 44 final/2.

(9) The labour market showed signs of recovery in 2014, but unemployment remains high. Disincentives in the social security system have been reduced and some progress has been made towards reducing youth unemployment, but long-term unemployment remains a major challenge and employment among Roma and the low-skilled is low. Although some initial steps have been taken to improve public employment services, they have limited capacity to provide personalised services, in particular to those furthest from the labour market. The employment rate for women remains well below the EU average, reflecting the insufficient provision of good quality and affordable childcare services and the relatively long duration of parental leave.

(10) Slovakia made some progress in relation to work-based learning, with a new Act on vocational education and training to enter into force in 2015. Limited progress has, however, been made in improving teaching conditions, in encouraging the creation of more career-oriented bachelor programmes, and in increasing the proportion of Roma children attending early childhood education and care facilities. No measures have been taken to ensure a wider participation of Roma in vocational training and higher education. Only limited progress has been made in addressing the gaps in the Slovak research and innovation system, the main needs being namely to improve the quality and relevance of the science base and to promote cooperation between academia, research and business.

(11) The poor quality of Slovakia's business environment reduces the attractiveness of the country for both foreign and domestic investment. The inadequate efficiency and quality of the public administration and of the justice system are particularly detrimental to the business environment. The civil service suffers from high staff turnover and inefficient management of human resources. Efforts to tackle corruption have, to date, been limited. More particularly, the need to strengthen the analytical and audit capacity of the tax administration has not been addressed. Public procurement suffers from engrained deficiencies, which affect the allocation of public resources.

(12) While the recent changes to the taxation system have contributed to an improvement in public finances, the costs associated with an ageing population will weigh on Slovakia's currently relatively sound debt position in the future. The long-term sustainability of public finances depends on the government's ability to increase the cost-effectiveness of the healthcare sector. The overall level of efficiency of the Slovak health system is weak, and it performs poorly when compared with the rest of the EU. The government adopted a new strategy for health for 2014-2020, in order to try to address the shortcomings of the national healthcare system. The strategy is being implemented, but most measures are not yet in force. There also continue to be inefficiencies in tax collection and administration.

(13) The weak performance of investment in recent years may dent Slovakia's long-term growth prospects. The decline in private investment between 2008 and 2013 was particularly strong, with non-financial corporations accounting for around 90 % of the fall in total investment due to the decrease in FDI inflows. In 2013, investment in capital goods was still around 13 % lower in real terms than it had been in 2008. Yet although public investment contracted much less, the decline still has significant consequences, in view of the large-scale transport infrastructure projects which are essential in order to be able to benefit from the growth potential of Slovakia's central

and eastern regions. Both the administrative and regulatory barriers related to investment planning, and the lack of transparency and long duration of the procedures for obtaining building and land-use permits hold back public investment. EU funds represent a very high proportion of total public investment in Slovakia, compared to the levels seen in other Member States in its region. Furthermore, the absorption of EU funds is hindered by weak governance of planning procedures, poor project design and selection, and failure to comply with the requirements relating to the environmental impact assessment. The use of tailor made specifications in public procurement limits competition, and results in high final prices. Improved oversight and greater expertise within the public entities involved in procurement could help to overcome these problems. The inadequate efficiency and quality of the public administration and of the justice system are particularly detrimental to the business environment, and issues such as the reform of the civil procedure and uneven distribution of workload in courts have not yet been addressed.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Slovakia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(15) In the light of this assessment, the Council has examined Slovakia's Stability Programme, and is of the opinion[9] that Slovakia complies with the Stability and Growth Pact.

(16) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Slovakia should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Slovakia take action in 2015 and 2016 to:

1. Improve the cost-effectiveness of the healthcare sector, including by improving the management of hospital care and strengthening primary healthcare. Take measures to increase tax collection.

2. Take additional measures to address long term unemployment by introducing activation measures, second chance education and high-quality training tailored to individuals' needs. Improve the incentives for women to remain in or return to employment by improving the provision of childcare facilities.

3. Improve teacher training and the attractiveness of teaching as a profession to stem the decline in educational outcomes. Increase the participation of Roma children in mainstream education and in high-quality early childhood education.

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[9] Under Article 5(2) of Council Regulation (EC) No 1466/97.

4. To boost investment in infrastructure, improve and streamline the administrative procedures for obtaining land-use and construction permits. Increase competition in public tenders and improve supervisory mechanisms in public procurement.

Done at Brussels,

For the Council
The President