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ECOFIN 444
UEM 209
SOC 371
EMPL 290
COMPET 245
ENV 312
EDUC 231
RECH 211
ENER 183
JAI 443
FSTR 101
REGIO 132
GENDER 81
ANTIDISCRIM 74

NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Slovakia and delivering a Council opinion on the 2020 Convergence Programme of Slovakia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2020) 525 final.

COUNCIL RECOMMENDATION

of ...

on the 2020 National Reform Programme of Slovakia and delivering a Council opinion on the 2020 Stability Programme of Slovakia

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

¹ OJ L 209, 2.8.1997, p. 1.

- (1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council², the Commission also adopted the Alert Mechanism Report, in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.
- (2) The 2020 country report for Slovakia was published on 26 February 2020. It assessed Slovakia's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019³ ('the 2019 country-specific recommendations'), the follow-up given to the country-specific recommendations adopted in previous years and Slovakia's progress towards its national Europe 2020 targets.
- (3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs and incomes as well as companies' business. It has delivered a major economic shock that is already having serious repercussions in the Union. On 13 March 2020, the Commission adopted a communication calling for a coordinated economic response to the crisis, involving all actors at national and Union level.
- (4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

² Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

³ OJ C 301, 5.9.2019, p. 148.

- (5) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97⁴, facilitates the coordination of budgetary policies in times of severe economic downturn. In its communication of 20 March 2020, the Commission considered that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for the activation of the general escape clause had been met and asked the Council to endorse this conclusion. On 23 March 2020, the ministers of finance of the Member States agreed with the assessment of the Commission. They agreed that the severe economic downturn requires a resolute, ambitious and coordinated response. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.
- (6) Continued action is required to limit and control the spread of the COVID-19 pandemic, strengthen the resilience of the national health systems, mitigate the socioeconomic consequences of the pandemic through supportive measures for business and households, and ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to bring about a return to the normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing lessons from the crisis.

⁴ Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

- (7) The COVID-19 crisis has highlighted the flexibility that the internal market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the internal market from functioning normally should be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector. Improved purchasing strategies, diversified supply chains and strategic reserves of essential supplies are among the key elements for developing broader crisis preparedness plans.
- (8) The Union legislator has already amended the relevant legislative frameworks by means of Regulations (EU) 2020/460⁵ and (EU) 2020/558⁶ of the European Parliament and of the Council to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash-flow pressures, Member States can also benefit from a 100 % co-financing rate from the Union budget in the 2020-2021 accounting year. Slovakia is encouraged to make full use of those possibilities to help the individuals and sectors most affected.

⁵ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5).

⁶ Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

- (9) The socioeconomic consequences of the COVID-19 pandemic are likely to be unevenly distributed across regions because of different specialisation patterns and infrastructure gaps. This entails a substantial risk of widening regional disparities within Slovakia, in particular between the capital city and Western Slovakia on the one hand, and Eastern and South-Eastern Slovakia on the other. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.
- (10) On 18 May 2020, Slovakia submitted its 2020 National Reform Programme and its 2020 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (11) Slovakia is currently in the preventive arm of the Stability and Growth Pact.
- (12) On 13 July 2018, the Council recommended Slovakia to ensure that the nominal growth rate of net primary government expenditure⁷ does not exceed 4,1 % in 2019, corresponding to an annual structural adjustment of 0,5 % of gross domestic product (GDP). The Commission's overall assessment confirms a significant deviation from the recommended adjustment path towards the medium-term structural objective in 2019 and over 2018 and 2019 taken together. However, in light of the activation of the general escape clause, further steps under the significant deviation procedure for Slovakia are not warranted.

⁷ Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

- (13) In its 2020 Stability Programme, the government plans the headline balance to deteriorate from a deficit of 1,3 % of GDP in 2019 to a deficit of 8,4 % of GDP in 2020. The deficit is projected to decline to 4,9 % of GDP in 2021, to 3,7 % of GDP in 2022 and to reach 2,9 % of GDP by 2023. After decreasing to 48 % of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 61,2 % in 2020 according to the 2020 Stability Programme. The macroeconomic and fiscal outlook is affected by high uncertainty because of the COVID-19 pandemic.
- (14) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Slovakia has adopted timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 2,6 % of GDP. The measures include wage compensation for employees, subsidies for the self-employed, sickness and nursing schemes and purchases of medical goods linked to the COVID-19 pandemic. In addition, Slovakia has announced measures that, while not having a direct budgetary impact, will contribute to providing liquidity support to businesses, which the 2020 Stability Programme estimates at 3 % of GDP. Those measures include tax deferrals for income taxes and social contributions when revenue decreased by more than 40 % (1,4 % of GDP) and loan guarantees (1,6 % of GDP). Overall, the measures taken by Slovakia are in line with the guidelines set out in the Commission communication of 13 March 2020. The full implementation of the emergency measures and of supportive fiscal measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions, when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.
- (15) Based on the Commission 2020 spring forecast under unchanged policies, Slovakia's general government balance is forecast at -8,5 % of GDP in 2020 and -4,2 % of GDP in 2021. The general government debt ratio is projected to remain below 60 % of GDP in 2020 and 2021.

- (16) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty because of Slovakia's planned breach of the 3 %-of-GDP deficit threshold in 2020. Overall, the Commission's analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/97 has not been fulfilled.
- (17) Following the COVID-19 outbreak, Slovakia has taken quick and unprecedented measures to halt and prevent further spread of the virus. After a first case was registered on 6 March 2020, it declared a state of emergency as of 12 March 2020, and introduced strict social distancing, quarantine and sanitary rules, as well as travel restrictions. Shops and production in important economic sectors closed for several weeks, until the government started gradually loosening restrictions from late April 2020. As a consequence, Slovakia's economy is expected to enter into a deep recession in 2020 as private consumption, investment and trade suffer. It is projected to contract sharply by 6,7 % in 2020 and the unemployment rate is expected to reach 8,8 % in 2020, up from 5,8 % in 2019. Slovakia has responded with several sets of measures to mitigate the adverse effects of the crisis, including by re-allocating EUR 1,2 billion of unused cohesion policy funds. The measures includes short-time work schemes with wage compensation, supporting the income of employees through sickness and nursing benefits, and providing subsidies to the self-employed to compensate for their loss of income. Further measures to support liquidity of companies and the self-employed include bank loans, tax deferrals and the postponement of social security contributions, as well as the provision of bank guarantees and favourable interest schemes. A loan scheme for small and medium-sized enterprises ('SMEs') with original allocation of EUR 38 million will be extended by EUR 330 million from unused Union funds and a national scheme amounting to EUR 500 million. Other measures include the interruption of tax audits and obligations for tax advance payments and the deferral of paying rent for companies and individuals.

- (18) The COVID-19 pandemic has increased the importance for Slovakia to continue addressing structural challenges in its health system. Additional investments are needed to increase its resilience, alleviate health workforce shortages, and to ensure appropriate supply of critical medical products and infrastructure. In parallel with efforts to secure adequate supply of health workers in the future, effective policies could reduce geographic disparities in the availability of doctors and ensure access to care for the entire population. Modernising the hospital network and addressing the structural underfunding of public hospitals are key in increasing the quality and cost-effectiveness of health services. Primary care provision needs to be strengthened to reduce pressure on hospitals and improve chronic disease management, together with increased coordination across different levels and types of care. A particular concern is the insufficient access to quality and affordable long-term care, due to general underfunding of community and home-based care services, fragmented governance, and the lack of systemic coordination of social and healthcare services.
- (19) The COVID-19 crisis has highlighted pre-existing social challenges in Slovakia. It has created an urgent need to provide adequate income replacement for workers, in close cooperation with social partners. In order to mitigate the employment impact of the crisis, short-time work schemes have been activated, with the contribution of Union funds. According to the Commission 2020 spring forecast, unemployment is expected to rise to 8,8 % in 2020 and recover to 7,1 % in 2021. Despite some loosening in 2018, the unemployment benefit system in Slovakia is characterised by strict eligibility requirements, a relatively short duration of benefits (six months as a general rule, with small extensions during the crisis) and low replacement rates for beneficiaries. Some groups are particularly vulnerable to the crisis and may experience limited access to social protection and care services, including marginalised Roma communities, who often also lack access to essential services, the elderly and the low-skilled.

- (20) The COVID-19 crisis has increased the need to develop the population's digital skills, including those of teachers, as well as the need to expand broadband connectivity, as many pupils are still without connection to internet or lack other pre-conditions to learn at home, in particular in marginalised Roma communities. Challenges concerning equal access to quality and inclusive education remain, as basic skills levels and general performance of students are strongly affected by their socioeconomic background. There are pronounced performance differences between schools and regions, reflected also in the high rates of early leavers from education and training in some of them, in particular in Eastern Slovakia. The attractiveness of the teaching profession and the quality of initial teacher education remain low. In addition, the national enrolment rate of children in early childhood education and care, in particular of children below three, is the lowest in the Union, which has a further negative impact on educational outcomes, particularly for disadvantaged children.
- (21) The COVID-19 crisis has made swift deployment of liquidity support to businesses an urgent priority for Slovakia through well-targeted loans and guarantees, with a focus on SMEs, making use of the new flexibility given by the temporary framework on State aid to support the economy and reallocating cohesion policy funds. Adequate risk guarantees combined with low interest rates and long maturities can help ensure the swift provision of loans by intermediaries and uptake by firms. In the process of designing and implementing those measures, the resilience of the banking sector needs to be taken into account. Allowing deferred payments of taxes and social contributions can further help alleviate short-term liquidity constraints for SMEs and the self-employed. Fighting against tax evasion and improving tax compliance remain priorities for Slovakia in the medium term, as a means to ensure the sustainability of public finances and promote a fair level playing field, facilitating the economic recovery. To ensure viable cash-flow balances for SMEs, it is important that public authorities at all levels and companies are instructed to speed up payment of invoices to their suppliers.

- (22) Fostering a favourable business environment and improving the quality of public services are crucial for the recovery and for creating a more supportive investment climate. To ensure the effectiveness of the recovery measures, it is important to reduce unnecessary administrative burden and simplify procedures, including through effective use of ‘one-stop shops’ for businesses. The overall effectiveness of Slovakia’s public institutions and administration remains low. It can be improved by further digitalisation, better coordination and planning of the digital infrastructure and software development. Further reform efforts could improve the coordination of policy-making, drafting regulations, and ensure high performance of the civil service and human resource management. To strengthen the economy’s resilience, Slovakia would benefit from increasing the innovation capacity of businesses, particularly SMEs, by tackling the fragmented governance of the research and innovation ecosystem. Better cooperation between business, research, academia and the public sector can support the sharing of knowledge and skills and help companies innovate and develop new working and production abilities.
- (23) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. Allowing less developed regions to catch up and become more knowledge-based, competitive, and productive will require more strategic investment in Slovakia, particularly to develop infrastructure, including digital and other key services, and to improve transport networks. The COVID-19 outbreak has highlighted pre-existing digital infrastructure gaps. Expanding broadband coverage and speed will allow for more equal and improved access to the internet. Slovakia’s education system and labour market could be improved with efforts to equip the population with better sets of skills for a changing economy and society, including through lifelong learning, stronger cooperation between business and education at all levels, and better linking of training and requalification programmes to the current and future labour market needs.

- (24) Recovering economic growth will require policy efforts and targeted investments in the coming years to allow Slovakia to seize opportunities for creating a more sustainable and higher value added economy. These efforts should take regional disparities into account. Priority areas for additional efforts identified in Slovakia's National Energy and Climate Plan include reducing the energy intensity of industry, supporting energy efficiency solutions, in particular for households, and investing into renewable energy. A more enabling regulatory environment could help increase the proportion of renewable energy sources in the energy supply. Slovakia would benefit from speeding up the implementation of the action plan for the transformation of Horná Nitra, reorienting funds towards solutions for the entire region, and seizing the opportunity to advance the coal phase-out. Reducing air pollution caused by solid fuel burning and rising transport emissions, improving the waste management system with innovative collection and treatment solutions, completing drinking water and sewage networks to address sanitary problems, supporting smart grids projects, and moving industry towards the climate neutral and circular economy can help put Slovakia on a path to sustainable economic growth. The programming of the Just Transition Fund, which is the subject of a Commission proposal, for the period 2021-2027 could help Slovakia to address some of the challenges posed by the transition to a climate-neutral economy, in particular in the territories covered by Annex D to the 2020 country report. This would allow Slovakia to make the best use of that Fund.
- (25) New trends in international organised crime, including misuse of legal entities for money laundering purposes, are putting pressure on Slovakia to upgrade its anti-money-laundering framework in order to prevent and combat economic crime. The understanding of risk exposure remains low, despite ambitious government plans to strengthen prevention, investigation and prosecution of money laundering. Limited human resources and training hamper effective supervision of professionals involved in company formation. Steps taken under the government action plan have not yet provided the tools to effectively identify and prosecute money laundering offences and to confiscate assets.

- (26) While the country-specific recommendations set out in this Recommendation ('the 2020 country-specific recommendations') focus on tackling the socioeconomic impacts of the COVID-19 pandemic and facilitating the economic recovery, the 2019 country-specific recommendations also covered reforms that are essential to address medium- to long-term structural challenges. The 2019 country-specific recommendations remain pertinent and will continue to be monitored throughout next year's European Semester. That includes the 2019 country-specific recommendations regarding investment-related economic policies. All of the 2019 country-specific recommendations should be taken into account for the strategic programming of post-2020 cohesion policy funding, including for mitigating measures and exit strategies with regard to the current crisis.
- (27) Slovakia should continue working on its commitment to address specific concerns with regard to the overall integrity of its justice system, as they are likely to undermine trust in its effective functioning. Progress in implementing reforms to fight corruption remains limited in Slovakia. A number of prevention-related reforms or their implementation are still pending, including rules on lobbying, gifts, incompatibilities and contacts with third parties in decision-making, and whistleblower protection. Although criminal statistics fluctuate, the number of high-level corruption-related cases under investigation remains low, while efforts to sanction legal persons show some impact.
- (28) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. In their 2020 National Reform Programmes, Member States have taken stock of progress made in the implementation of the United Nations' Sustainable Development Goals (SDGs). By ensuring the full implementation of the 2020 country-specific recommendations, Slovakia will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.
- (29) Close coordination between economies in the economic and monetary union is key in achieving a swift recovery from the economic impact of the COVID-19 pandemic. As a Member State whose currency is the euro, Slovakia should ensure that its policies remain consistent with the 2020 euro-area recommendations and coordinated with those of the other Member States whose currency is the euro, while taking into account political guidance from the Eurogroup.

- (30) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Slovakia's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme, the 2020 National Reform Programme and the follow-up given to the country-specific recommendations addressed to Slovakia in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (31) In the light of this assessment, the Council has examined the 2020 Stability Programme and its opinion⁸ is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Slovakia take action in 2020 and 2021 to:

1. Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system in the areas of health workforce, critical medical products and infrastructure. Improve primary care provision and coordination between types of care.
2. Provide adequate income replacement, and ensure access to social protection and essential services for all. Strengthen digital skills. Ensure equal access to quality education.
3. Effectively implement measures to ensure liquidity for SMEs and self-employed. Close digital infrastructure gaps. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy and resources, sustainable public transport, and waste management.

⁸ Under Article 5(2) of Regulation (EC) No 1466/97.

4. Ensure effective supervision and enforcement of the anti-money-laundering framework. Ensure a favourable business environment and quality public services through enhanced coordination and policy-making. Address concerns with regard to the integrity of the justice system.

Done at Brussels,

For the Council

The President
