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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Slovakia

{SWD(2025) 225 final}

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Slovakia

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to 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[2], and in particular Article 6(1) 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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

legislative term. The net expenditure[3] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[4], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Slovakia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(4) On 29 April 2021, Slovakia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 13 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Slovakia[6], which was amended under Article 18(2) on 14 July 2023 to update the maximum financial contribution for non-repayable financial support, as well as to

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3 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

4 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

5 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa. eu/eli/reg/2023/435/oj).

6 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovakia (ST 10156/2021; ST 10156/2021 ADD 1; ST 10156/2021 COR 1).

include the REPowerEU chapter[7]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Slovakia has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Slovakia[8]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Slovakia. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it identified Slovakia as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[9] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to

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[7] Council Implementing Decision of 14 July 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovakia (ST 11205/2023 INIT, ST 11205 2023 ADD 1).

[8] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Slovakia, OJ C/2025/645, 10.2.2025.

[9] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).

economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Slovakia. It assessed Slovakia's progress in addressing the relevant country-specific recommendations and took stock of Slovakia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Slovakia is facing. It also assessed Slovakia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Slovakia. The main findings of the Commission's assessment of macroeconomic vulnerabilities for Slovakia for the purposes of that Regulation were published on 13 May 2025[10]. On 4 June 2025, the Commission concluded that Slovakia is experiencing macroeconomic imbalances. In particular, despite some improvements, the vulnerabilities related to cost competitiveness, external balance, and housing market persist, while improvements in household indebtedness seem to be stronger, and policy action has been limited. Inflation and unit labour costs growth decreased significantly but differentials, including of core inflation, with the rest of the euro area and the EU persist. After the marked improvement of 2023 due to lower energy prices, the current account deficit worsened somewhat in 2024 on account of sluggish exports and rising imports amid a re-surgent domestic demand. The current account deficit is expected to further increase this year. In parallel, the high government deficit is not declining. Additionally, house prices accelerated again in the course of 2024, while the decline of residential construction exacerbates an already tight housing supply. After several years of strong rises in household debt, higher interest rates slowed down the demand for mortgages in the past two years and household debt ratios decreased in recent years. However, as financial conditions have eased in the course of 2024 and early 2025, household borrowing has been rebounding lately and has been further supported by increasing real disposable income in a context of a tight labour market. Denominator effects are becoming less significant, such that household debt ratios may stabilise or fall less in the near term than before, while remaining still below the EU average in a context of a sound banking sector. Policy progress has been limited. In order to curb inflation, energy support measures for

[10] SWD(2025) 125 final.

households have been prolonged. Yet this untargeted measure became one of the drivers of the sizeable government and current account deficits. Adoption of measures to improve labour productivity and the business environment remain limited. An amendment to the Construction Act, aimed at streamlining construction procedures, became effective this April.

Assessment of the Annual Progress Report

(12) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Slovakia: 3.8% in 2025, 0.9% in 2026, 1.6% in 2027, and 1.5% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 10.3% in 2025, 11.2% in 2026, 13.0% in 2027, and 14.8% in 2028. In 2025-2027, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 21 January 2025 with a view to bringing an end to the situation of an excessive deficit[11]. On 30 April 2025 Slovakia submitted its Annual Progress Report[12], on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Slovakia's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(13) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Slovakia on 30 April 2025, on [date] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Slovakia to deviate from, and exceed, the recommended maximum growth rates of net expenditure[13].

(14) Based on data validated by Eurostat[14], Slovakia's general government deficit increased from a deficit of 5.2% of GDP in 2023 to a deficit of 5.3% in 2024, while the general government debt rose from 55.6% of GDP at the end of 2023 to 59.3% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 5.4% in 2024. In the Annual Progress Report, Slovakia estimates the net expenditure growth in 2024 at 3.0%. The Commission estimates that the net expenditure growth was higher than in the Annual Progress Report. The difference between the Commission's calculations and the estimates of national authorities is due to lower expenditure funded from the EU in 2023 used in the assumptions underlying the Annual Progress Report. Based on the Commission's

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11 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Slovakia, C/2025/5039.

12 The 2025 Annual Progress Reports are available on: [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en)

13 Council Recommendation allowing Slovakia to deviate from, and exceed, the recommended net expenditure path (Activation of the national escape clause), [Please Complete: OJ C/2025/xxx, x.x.2025].

14 Eurostat-Euro Indicators, 22.4.2025.

estimates, the fiscal stance[15], which includes both nationally and EU financed expenditure, was contractionary, by 2.2% of GDP, in 2024.

(15) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Slovakia expects real GDP growth at 1.9% in both 2025 and 2026, while HICP inflation is projected at 3.9% in 2025 and 3.7% in 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 1.5% in 2025 and 1.4% in 2026, and HICP inflation to stand at 4.0% in 2025 and 2.9% in 2026.

(16) In the Annual Progress Report, the general government deficit is expected to decrease to 4.9% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 61.1% by the end of 2025. These developments correspond to net expenditure growth of 3.6% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 4.9% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects the revenue-increasing consolidation measures adopted by Slovak government for 2025. According to the Commission's calculations, these developments correspond to net expenditure growth of 3.8% in 2025. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral at 0.2% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 60.9% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the high primary deficit.

(17) General government expenditure amounting to 1.4% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.7% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovakia.

(18) General government defence expenditure in Slovakia amounted to 1.4% of GDP in 2021, 1.0% of GDP in 2022 and 1.2% of GDP in 2023[16]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.3% of GDP in 2024 and 2.3% of GDP in 2025. This corresponds to an increase of 0.9 percentage points of GDP compared to 2021. The period when the national escape clause is activated (2025-2028) allows Slovakia to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(19) According to the Commission Spring 2025 Forecast, net expenditure in Slovakia is projected to grow by 3.8% in 2025 and 9.3% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Slovakia in 2025 is projected to be below the recommended maximum growth rate established by the corrective path, both annually and when considering 2024 and 2025 together. Therefore, the excessive deficit procedure for Slovakia is held in abeyance.

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15 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

16 Eurostat, government expenditure by classification of functions of government (COFOG).

(20) In the Annual Progress Report, the general government deficit is projected to decrease to 4.5% of GDP in 2026, while the general government debt-to-GDP ratio is projected to increase to 63.3% by the end of 2026. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 5.1% of GDP in 2026. The increase of the deficit in 2026 mainly reflects a worsening of the macroeconomic outlook combined with persisting expenditure-increasing discretionary measures, notably a permanent 13th pension payment, or an increase in healthcare spending. These developments correspond to net expenditure growth of 3.9% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be neutral in 2026. Fiscal consolidation could also contribute to improving the external position. The general government debt-to-GDP ratio is projected by the Commission to increase to 63.0% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the high primary deficit.

Key policy challenges

(21) In 2024, Slovakia's tax wedge (the taxation of earnings from labour) surpassed the EU average for low-income earners, with a rate of 38.2% for individuals earning 50% of the average wage, compared to the EU average of 31.8%. However, the wedge was closer to the EU average at higher income levels, indicating that the tax burden is relatively more substantial for lower income earners. Property tax revenues in 2023 were low at 0.4% of GDP, compared to the EU average of 1.9%, primarily due to the area-based property taxation system in Slovakia, which does not factor in aspects like location or market value in the fiscal computation. This results in stagnant tax revenues, against the backdrop of rising house prices in recent years and issues concerning fairness and equity. Furthermore, revenues from Slovakia's environmental taxation, especially in areas like transport, pollution, and natural resources, are consistently below the EU average. The effective carbon rate in Slovakia is EUR 64.1 per tonne of CO_2, which is significantly lower than the EU average of EUR 84.8, suggesting weaker economic incentives for reducing emissions. Slovakia is taking measures to boost the efficiency of its tax collection system by investing in IT infrastructure and implementing a comprehensive digital transformation strategy. Although the VAT gap has narrowed significantly in recent years, the VAT compliance gap still remains substantially higher than the EU average. To address high government deficits, Slovakia has introduced measures that aim to increase government revenues, which negatively affect price competitiveness and result in uneven resource distribution. Specifically, the recently implemented tax on financial transactions hampers the business environment, contributes to higher prices and encourages the use of cash payments, raising concerns about potential tax evasion. In addition, the government has extended measures that aim to mitigate the social impacts of high energy prices. However, these measures are not targeted to vulnerable people and distort the price signals from energy markets. Furthermore, the insufficient implementation of existing spending reviews in the budgetary process hinders the achievement of potential savings that could improve public finances. Advancing the digitalisation of tax administration, particularly in electronic invoicing and pre-filled tax returns, could help reduce tax system leaks, simplify compliance and lower associated costs.

(22) Slovakia continues to face a significant housing shortage, with the number of houses per thousand inhabitants among the lowest across OECD countries. Residential construction is below the EU average and has been declining since the end of 2023.

There has also been a similar downward trend in the number of building permits issued as of the end of 2023. This is the result of Slovakia's inefficient permitting procedures, driven by high administrative fragmentation and inadequate resources at the municipal level. Supporting housing supply is also conducive to containing risks related to the household debt. In addition, the rental market is underdeveloped, due to the legislative framework not being conducive to favouring rentals over homeownership. Homeownership remains the preferred option of most households in Slovakia, as rents are high, and the availability of rental accommodation is low. At the same time, the very limited supply of social housing – only 1.6% of the housing stock – presents a hurdle to accessing housing for the most vulnerable people. Rising house prices and declining residential construction further constrain housing accessibility and affordability.

(23) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan is essential to boost Slovakia's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Slovakia to accelerate the implementation of reforms and investments by addressing relevant challenges. In particular, an unpredictable regulatory environment, administrative burdens and a fragmented governance structure, as well as inefficient public procurement processes and insufficient preparation of investment projects impact Slovakia's capacity to effectively implement investment projects and absorb EU funding, significantly hindering Slovakia's potential for innovation and economic diversification. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) The implementation of the cohesion policy programme, which encompasses support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Slovakia. It is important to continue efforts to ensure the swift implementation of this programme, while maximising its impact on the ground. Slovakia is already taking action under its cohesion policy programme to boost competitiveness and growth. At the same time, Slovakia continues to face challenges, including those relating to enhancing competitiveness in the context of industrial transition, boosting innovation capacity, including for developing and manufacturing critical technologies, increasing water resilience and housing, as well as the accessibility of early childhood education and care and labour market participation of disadvantaged groups. In accordance with Article 18 of Regulation (EU) 2021/1060, Slovakia is required – as part of the mid-term review of the cohesion policy funds – to review its programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals

adopted on 1 April 2025[17] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(25) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Slovakia could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Slovakia faces several additional challenges related to decarbonisation and the transformation of industry, the development of zero-emission mobility, the business environment and public administration, digitalisation, research and innovation, the justice system, the labour market, education and healthcare.

(27) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Slovakia also needs to take action. 78% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Slovakia[18]. Long and complex administrative procedures, an unpredictable regulatory environment, fast-changing legislation and insufficient investment planning make Slovakia's business environment one of the least favourable in the EU. In Slovakia, legislation tends to change rapidly and fast-track legislative procedures have become common when adopting new laws. Between October 2023 and February 2025, 37% of all adopted laws bypassed standard impact assessments and stakeholder consultations. The current better regulation framework in Slovakia lacks clear and transparent rules and is not implemented effectively. Despite the introduction of measures to improve the business environment, including in Slovakia's recovery and resilience plan, the overall improvements have been marginal.

(28) Slovakia's competitiveness is hindered by a fragmented public administration, limited transparency in public procurement, and weak investment planning. Local governance suffers from large disparities in municipality size, underfunded additional responsibilities, and a lack of strategic planning. Investment planning is still tied to EU funding cycles and lacks a long-term vision, which creates uncertainty for businesses and local authorities. Small municipalities, in particular, need more training and capacity to manage investments and access EU funds. Despite recent reforms in the assessment, selection and budgeting of public investment, the monitoring and *ex post*

17 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

18 Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024).

assessment of projects remain weak. As Slovakia develops a national investment strategy until 2050, it is essential that the strategy secures broad political support and is adopted in good time. Reforming the local governance structure and ensuring adequate funding for the various responsibilities could significantly advance Slovakia's structural capacity for investment planning and implementation. Further to this, Slovakia also needs to improve the provision of quality public services at local level and strengthen the financial independence and management capacity of local and regional governments.

(29) Although recent reforms aim to simplify public procurement procedures, there are still concerns about insufficient transparency and competition, as the percentage of public contracts awarded in procedures with one single bidder amounted to 33% in 2023. Transparency and competition in public procurement processes are necessary to promote good governance and improve the effectiveness of public spending. Moreover, despite the adoption of the Public Procurement Procedures Act, which aims to strengthen the rules for green public procurement and improve the use of quality criteria and life cycle costing, the majority of contracts in Slovakia are still awarded on the basis of the lowest price.

(30) There are concerns over the Slovak judicial system. In particular, sufficient guarantees as regards the dismissal of the members of the Judicial Council are still not in place. Several developments, such as the dismantling of specialised anti-corruption agencies (the Special Prosecution Office and the National Crime Agency), as well as the impact of certain amendments to the criminal code raise serious concerns about the robustness of Slovakia's anti-corruption framework as well as the degree of specialisation and institutional capacity built over time. As a consequence, the efforts of the police force and prosecution to investigate and prosecute complex and high-level corruption were seriously disrupted, with impact on the effective follow-up of ongoing and future cases. These developments risk hampering Slovakia's business and regulatory environment, and hence its competitiveness.

(31) Slovakia's digital infrastructure presents a barrier to its competitiveness, with only 69.12% of households covered by very high-capacity networks in 2023, compared to the EU average of 78.81%. The estimated investment gap of over EUR 500 million for gigabit connectivity needs to be addressed to provide businesses and the public with faster, more reliable, and more widespread digital connectivity. To facilitate the roll-out of new digital infrastructure, it is essential to streamline the regulatory framework, creating a favourable business environment for investors and reducing the time and cost associated with rolling out digital infrastructure.

(32) The slow adoption of digital technologies in Slovakia presents a further challenge to competitiveness and growth, with only 62% of small to medium-sized enterprises (SMEs) reaching basic digital intensity, compared to the EU average of 72.9%. The limited collaboration between the business and research sectors is a further significant obstacle to economic growth and competitiveness. Opportunities for SMEs to invest in R&D are limited, as the current R&D tax incentive scheme is biased towards larger companies. Improving R&D incentive schemes and gearing R&D policies more towards SMEs could foster Slovakia's growth potential.

(33) Slovakia's economy, including the large and labour-intensive industrial sector, faces challenges in modernising, meeting climate objectives, and remaining competitive. The domestic manufacturing capacity remains particularly limited in the net-zero technologies sector. By shifting towards a more diversified and innovation-driven

economy, including towards green technologies and automated processes, Slovakia could boost its long-term economic sustainability and resilience against external shocks. To this end, investments need to be clearly prioritised. The existing legislative framework facilitating the transformation of Slovak industry could be complemented by a mechanism that would regularly review and encourage the priority actions for the industrial sector, further supporting its transition particularly towards net-zero and innovative technologies. As the Slovak economic model is predominantly relying on downstream assembly of imported intermediate goods, this limits domestic value added and spillovers of expertise to local firms. Further efforts are needed to strengthen the integration of the manufacturing and emerging industrial sectors into EU-wide supply chains.

(34) Slovakia continues to heavily rely on Russia for fossil fuels. In 2024, around 70% of natural gas and more than 80% of crude oil consumed was of Russian origin. Slovakia's efforts to shift away from Russian dependence are slow.

(35) The high energy costs for businesses remain one of the main competitiveness bottlenecks in Slovakia, while regulated energy prices for households continue to hinder the incentives to invest in energy efficiency. In 2024, renewables contributed to only 24% of gross final energy consumption, well below the EU average of 47%. Although Slovakia has recently adopted reforms supporting the deployment of investments in line with REPowerEU objectives, further efforts are needed to accelerate the roll-out of renewable energy sources, including wind, solar, geothermal and renewable gases. At the same time, the connection of renewables to the grid should be made more efficient and less burdensome, including by prioritising investments facilitating grid connection and flexibility. Decarbonising the domestic heating sector remains crucial for reducing the economy's reliance on fossil fuels and meeting the country's climate goals. Geothermal and heat pump technologies are particularly underused in the large district heating networks. Further efforts improving energy efficiency are needed, for example, in the buildings, transport and industry sectors, as challenges in terms of timely implementation and scale-up of investments persist both in the public and private sectors.

(36) The very low penetration of zero-emission mobility in Slovakia limits the domestic competitiveness of the country's large automotive industry. This is exemplified by one of the lowest percentages for new registrations of zero-emission vehicles in the EU (only 2.9% of new car registrations), but also by the lagging roll-out of zero-emission charging and refuelling infrastructure. Although Slovakia has adopted some reforms under its recovery and resilience plan (e.g. electromobility action plan), incentives to support the roll-out of zero-emission vehicles and infrastructure have not yet materialised. The roll-out of incentives outlined in the electromobility action plan is crucial in order to allow the private sector to make significant further investments. Similarly, Slovak railway transport infrastructure is only being slowly modernised, limiting its attractiveness for both passenger and commercial use. Furthermore, Slovakia lacks a centralised approach for long-term funding for strategic renovations of the national transport infrastructure, for example, through a dedicated centralised fund for transport infrastructure to accelerate national medium and long-term funding. Also, the governance of the national rail infrastructure does not incentivise rapid upgrades of the existing network.

(37) Slovakia is far from reaching the 2035 landfilling of municipal waste target. Improved resource waste management to curb landfilling and increased use of circular materials is needed. The quality of Slovak surface water bodies is deteriorating due to

inadequate water management measures. These water bodies have been put under pressure due to an increased number of extreme weather events, excessive amounts of pollutants and frequent changes to the shape and flow of water bodies. However, the water body status could be improved and water resilience against droughts and floods strengthened by means of introducing better sustainable water management. In addition, prioritising nature-based solutions and river restorations over the construction of new water dams and other ‘grey infrastructure’ is critical, while also translating these actions into relevant national policies. Slovakia’s carbon removals fall short of the level of ambition needed to meet its 2030 targets for land use, land-use change and forestry. Increasing the capacity of carbon removals and the resilience of Slovak forests requires better protection of biodiversity, in particular through finalising the zonation of national parks, the planting of multispecies and multigenerational forests, and the conservation of natural resources.

(38) Slovakia has a relatively low unemployment rate, but long-term and youth unemployment remain high, as well as unemployment among disadvantaged groups such as Roma and people with lower levels of skills. At the same time, while the gender employment gap in Slovakia is relatively low compared to the EU average, women are largely underrepresented in the job market. Efforts to increase the participation of women in the labour market could help address the increasing labour shortages. Investment in policies to help vulnerable groups of people find or stay in work in order to maintain their participation in the job market remains low. Participation in the job market, especially for women, is also hindered due to insufficient availability and use of affordable high-quality early childhood education and care services, especially for children under the age of 3. Opportunities for flexible work arrangements are also limited, whereas, for example, supporting part-time employment could increase the participation of parents of young children in the labour market.

(39) Slovakia faces significant skills mismatches, due to, among other things, the lack of workers with green and digital skills. This calls for significant and targeted upskilling and reskilling efforts. The country has a low number of ICT specialists and a low share of students who are enrolled in STEM programmes. At the same time, the Slovak education system faces multiple challenges including teacher shortages and a need for teacher training programmes, long-term underfunding, low basic skills performance among students and adults. Since 2020, the risk of poverty and social exclusion has been rising. Slovakia’s child poverty rate surpassed the EU average in 2023 and while the child poverty rate improved in 2024, it remains high and significant regional disparities persist, particularly in the country’s eastern region. While measures supported by the recovery and resilience plan, the European Social Fund Plus and the European Regional Development Fund aim to reduce the segregation of Roma in education and ensure equal and inclusive access to quality education at all levels, capacity at local level for implementation is lagging behind, in particular regarding infrastructure projects.

(40) The resilience of Slovakia’s healthcare system is under pressure due to a shortage and ageing of healthcare professionals. Staffing levels are below the EU average and nearly a quarter of nurses are nearing retirement. The limited efforts to boost enrolment in medical studies, improve working conditions, and modernise infrastructure put further strain on the system’s capacity. Structural inefficiencies in hospitals and persistent underfunding, particularly in preventive care, which received only 2.0% of total health expenditure in 2022, exacerbate the situation. Financial

difficulties have led to significant debt and long payment delays in major state hospitals, undermining efforts to improve efficiency. The recovery and resilience plan has contributed to some improvements in access to healthcare services and better coordination across care levels. However, further efforts are needed to strengthen primary care provision and to ensure an adequate supply of critical medical products and infrastructure. In addition, long-term care services continue to be underfunded and remain rather limited, especially for vulnerable groups. Due to the ageing population, the healthcare and long-term care systems face fiscal sustainability challenges in the medium and long term.

(41) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Slovakia, the recommendations (2), (3), (4), (5) and (6) help implement the first euro-area recommendation on competitiveness, while recommendations (1), (5) and (6) help implement the second euro-area recommendation on resilience, and recommendation (1), (3) and (6) helps implement the third euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

(42) In light of the Commission's in-depth review and its conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3) and (5) below. Policies referred to in recommendation (1) help to address vulnerabilities linked to the housing market and household debt. Policies referred to in recommendation (1), (2) and (5) help to address vulnerabilities linked to external balances. Policies referred to in recommendation (1), (3) and (5) help to address vulnerabilities linked to competitiveness. Recommendations (1), (2), (3) and (5) contribute to both addressing imbalances and implementing the Recommendation on the economic policy of the euro area, in line with recital 41.

HEREBY RECOMMENDS that Slovakia take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit while making use of the allowance under the national escape clause for higher defence expenditure. Make the tax mix more efficient, including by reducing disincentives in the labour market, and making stronger use of taxes less detrimental to growth such as environmental and recurrent property taxation. Improve spending efficiency by, for example, implementing spending reviews. Continue to strengthen tax compliance, including by further digitalising the tax administration. Wind down the emergency energy support measures in force and ensure that these are targeted at protecting vulnerable households and firms, and are fiscally affordable, and preserve incentives for energy savings. Support housing supply and expand the rental market by accelerating residential construction and by promoting social housing, taking into account regional disparities.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the

implementation of the cohesion policy programme (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Ensure a favourable business environment by creating a more predictable regulatory environment, through improving the better regulation framework, ensuring that impact assessment and stakeholder consultations are integrated into the legislative process. Address the fragmentation of governance structures, including by preparing a reform of the local governance. Ensure quality public services through better coordination and policymaking. Ensure transparency and competition in public procurement processes to promote good governance and improve the effectiveness of public spending, and increase the use of quality-related and life cycle cost criteria in public procurement operations. Strengthen the judicial system and enhance the effectiveness of the anti-corruption system, including by ensuring adequate, autonomous and effective investigations and prosecutions of high-level corruption cases and sufficient, specialised capacity at police and prosecution level.

4. Bolster digital infrastructure by closing the investment gap for gigabit connectivity and streamlining regulation for infrastructure roll-out. Increase the adoption of digital technologies, particularly among SMEs, by removing bottlenecks in their roll-out. Improve research and innovation policy by incentivising collaboration between business and the research sector and by revising the R&D tax incentive scheme to provide greater support to SMEs.

5. Prioritise investments in clean and efficient production and in the use of energy and resources. Strengthen the legislative framework to support green technologies and products, and promote investments to advance industrial competitiveness and economic diversification. Accelerate the diversification of fossil fuel supply to phase out dependence on Russian sources. Accelerate the roll-out of renewables, while making the procedures for connecting renewables to the grid more efficient and less burdensome. Support further investments in grids, in particular electricity networks, as well as in decarbonisation of the heating sector. Support further roll-out of zero-emission mobility and modernisation of the rail network, by reforming the national railway infrastructure governance and creating a dedicated investment framework. Strengthen resource waste management and reuse of municipal and packaging waste, the conservation of natural resources, and increase water resilience by mainstreaming nature-based solutions and finalising the zonation of nature-protected areas.

6. Strengthen the labour market participation of underrepresented groups, and introduce more flexible work arrangements for parents with children. Increase the availability and use of affordable high-quality early childhood education and care for children under the age of 3. Strengthen the teaching of basic skills, including for children from disadvantaged backgrounds notably in marginalised Roma communities, while ensuring equal and inclusive access to quality education at all levels. Step up policy efforts aimed at the provision and acquisition of skills and competences, by providing reskilling and upskilling opportunities for adults, investing in teacher training, and increasing enrolment in STEM education programmes. Improve primary care provision, especially for vulnerable people, and expand preventive healthcare measures. Strengthen the resilience of the health system in the areas of critical medical products, infrastructure, and healthcare workforce by retaining and attracting skilled workers, while ensuring the fiscal sustainability of the healthcare system. Ensure affordable and quality long-term care.

Done at Brussels,

For the Council
The President